Annual Report 2016

Fred. Olsen Energy ASA

Contents

A Brief Presentation 3
Contract Overview 4
Financial Summary 2012-2016 6
Board of Director's Report 2016 7
Directors' Responsibility Statement 12

Accounts Fred. Olsen Energy Group 13
- Consolidated Statement of Income 13
- Consolidated Statement of Comprehensive Income 14
- Consolidated Statement of Financial Position 15
- Consolidated Statement of Changes in Equity 17
- Consolidated Statement of Cash Flows 18

- Notes to the Consolidated Financial Statements 19
  - Note 1 - Principal accounting policies and key accounting estimates 19
  - Note 2 - Revenues 21
  - Note 3 - Segment reporting 22
  - Note 4 - Salaries and other personnel costs 23
  - Note 5 - Other operating expenses 24
  - Note 6 - Net financial expenses 25
  - Note 7 - Income tax expenses 26
  - Note 8 - Property, plant and equipment 27
  - Note 9 - Intangible assets 31
  - Note 10 - Deferred tax assets and liabilities 32
  - Note 11 - Cash and cash equivalents 32
  - Note 13 - Interest-bearing loans and borrowings 33
  - Note 14 - Financial risk management 34
  - Note 15 - Mortgages and guarantees 38
  - Note 16 - Employee benefits 39
  - Note 17 - Rental & Leases 43
  - Note 18 - Related parties 44
  - Note 19 - Contingencies 46
  - Note 20 - Shareholder information 46
  - Note 21 - Earnings per share 47
  - Note 22 - Subsidiaries 48
  - Note 23 - Subsequent events 48

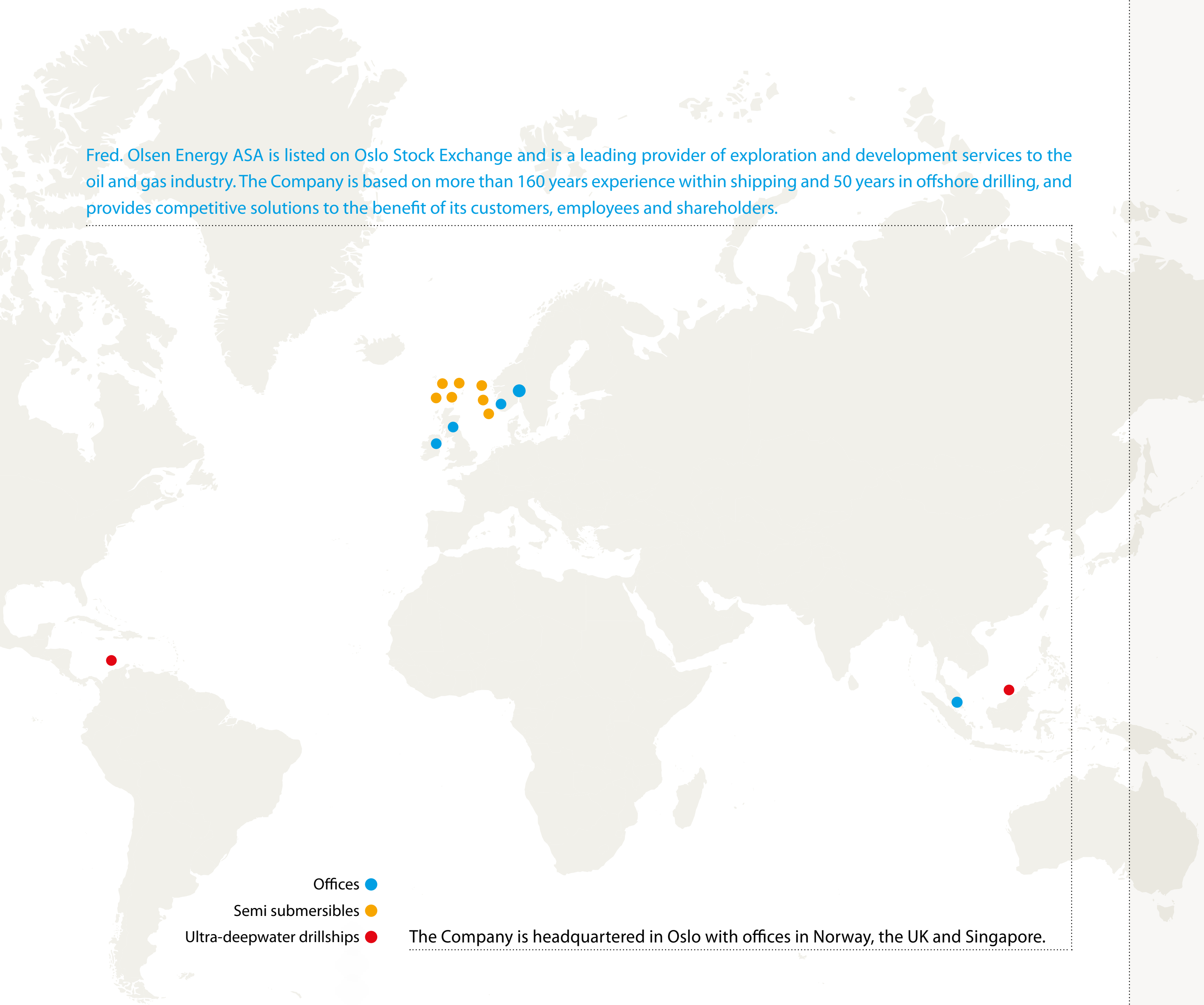
Accounts Fred. Olsen Energy ASA 49
- Income Statement 49
- Balance Sheet 50
- Statement of Cash Flows 51

- Notes to the Financial Statements 52
  - Note 1 - Basis of presentation 52
  - Note 2 - Summary of significant accounting policies 52
  - Note 3 - Salaries and other personnel costs 53
  - Note 4 - Other operating expenses 55
  - Note 5 - Financial income and expenses 55
  - Note 6 - Taxes 56
  - Note 7 - Property, plant and equipment 56
  - Note 8 - Other non-current assets 57
  - Note 9 - Trade and other receivables 57
  - Note 10 - Cash and cash equivalents 57
  - Note 11 - Capital and reserves 57
  - Note 12 - Interest-bearing loans and borrowings / Mortgages 58
  - Note 13 - Trade and other payables 58
  - Note 14 - Other accrued expenses 58
  - Note 15 - Related parties 59
  - Note 16 - Investments in subsidiary companies 60
  - Note 17 - Financial instruments 61

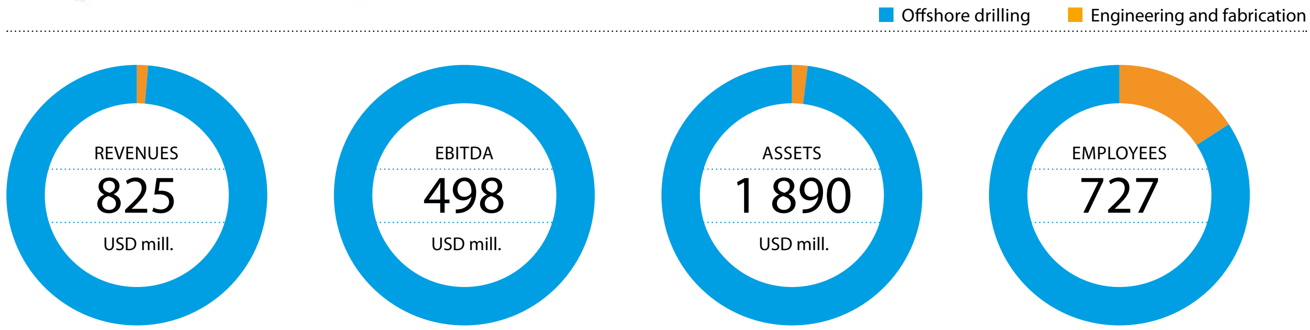
Auditor's Report 62
Corporate Governance 67
Corporate Social Responsibility Reporting 72
Addresses 76

A Brief Presentation

Fred. Olsen Energy ASA is listed on Oslo Stock Exchange and is a leading provider of exploration and development services to the oil and gas industry. The Company is based on more than 160 years experience within shipping and 50 years in offshore drilling, and provides competitive solutions to the benefit of its customers, employees and shareholders.



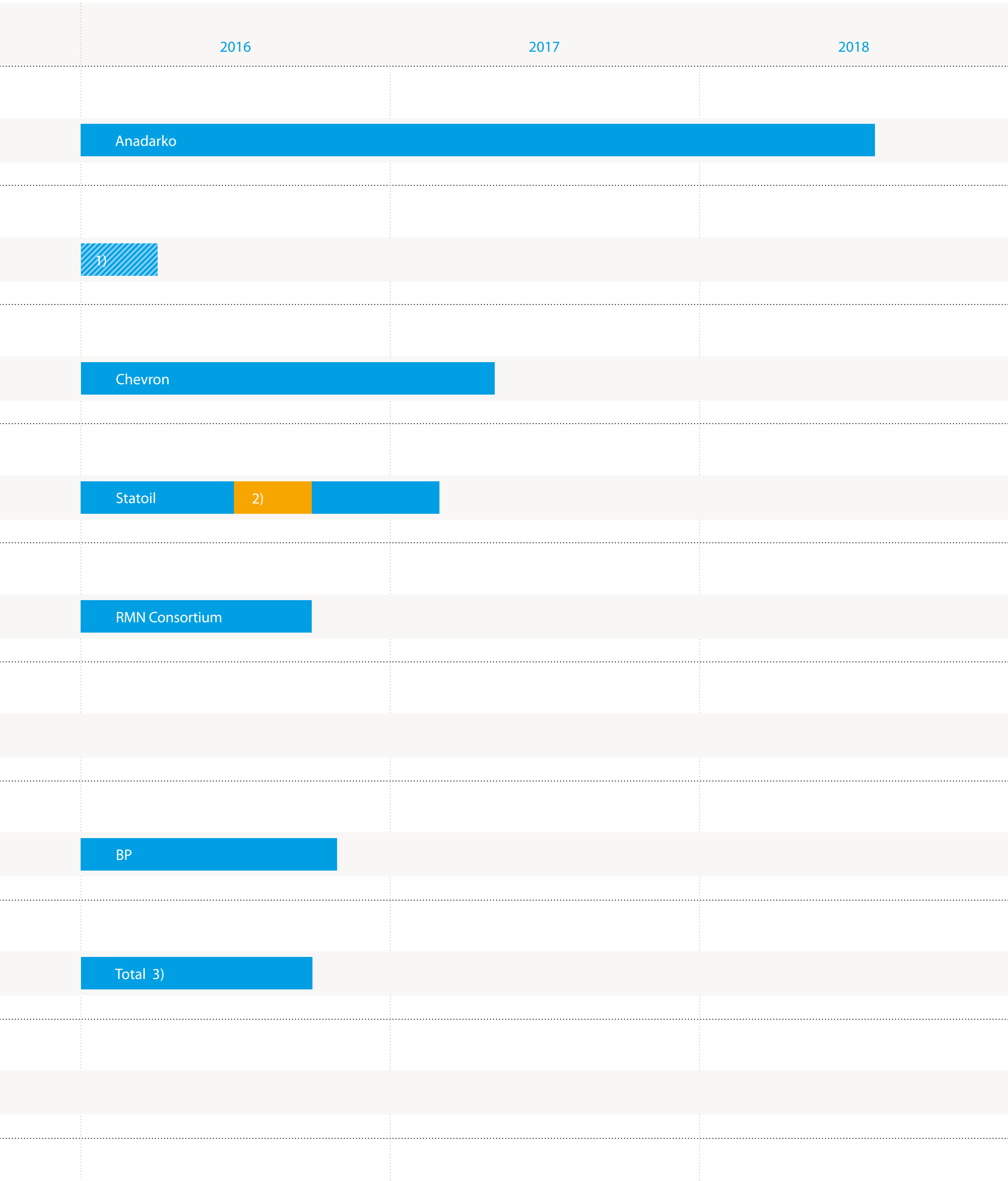
The Company is headquartered in Oslo with offices in Norway, the UK and Singapore.



Contract Overview

	Name/ (Ownership)	Type	Location	Built year/ last upgrade	Water depth	Features
	Bolette Dolphin (100%)	Gusto P 10 000	Colombia/ Ivory Coast	2014	12 000 ft	2*85 t, 1*100 t and 1*165 t deck cranes, 15 000 psi
	Belford Dolphin (100%)	LMG Marin Sea Prince	In lay up, Malaysia	2000	10 000 ft	80 000 barrels storage 2*80 t deck cranes, 15 000 psi
	Blackford Dolphin (100%)	Aker H-3 Enhanced	UK, North Sea	1974/2008	7 000 ft	2*85 t deck cranes 15 000 psi
	Bideford Dolphin (100%)	Aker H-3 Enhanced	Norway, North Sea	1975/1999	1 500 ft	1*45 t + 1*50 t deck cranes 10 000 psi
	Borgland Dolphin (100%)	Aker H-3 Enhanced	Smart stacked *), Norway	1976/1999/2015	1 500 ft	1*45 t + 1*70 t deck cranes 15 000 psi
	Bredford Dolphin (100%)	Aker H-3	In lay up, Norway	1976/2007	1 500 ft	2*50 t deck cranes 10 000 psi
	Byford Dolphin (100%)	Aker H-3	Smart stacked *), Norway	1973/2010	1 500 ft	1*42 t + 1*53 t deck cranes 15 000 psi
	Borgsten Dolphin (100%)	Aker H-3 Tender support vessel	In lay up, UK	1975/2013	1 500 ft	1*55 t +1*50 t deck cranes
	Borgholm Dolphin (100%)	Aker H-3 Accommodation	In lay up, UK	1975/2002		1*37.5 t deck crane 314 beds in double cabins

*) Smart stacking: Smart Stacked rigs are preserved, maintained and kept warm by regular integrated testing. Under the DNV GL regime of prolonged survey intervals the validity of Class and Statutory certificates are extended equal to the smart stacking period.



1) Terminated for convenience 2) Suspended 3) Termination right exercised with a termination fee of USD 22 million

Fred. Olsen Energy – Group

Financial Summary 2012-2016

Income Statement Data	All amounts in USD million	2016	2015	2014	2013	2012
Revenues		825.0	1 116.4	1 184.1	1 194.4	1 228.0
Operating profit before depreciation (EBITDA)		498.4	637.0	516.2	572.6	631.0
Net result after tax		- 105.4	- 350.6	117.3	300.8	325.4
Minority interests		- 0.8	0.3	1.0	- 0.7	0.3
Assets						
Current assets		511.7	676.9	522.3	546.4	533.4
Long term assets		1 378.3	1 896.5	2 946.3	2 519.4	2 323.4
Total assets		1 890.0	2 573.4	3 468.6	3 065.8	2 856.8
Liabilities and equity						
Interest-bearing debt		879.6	1 327.7	1 455.4	793.4	884.6
Total liabilities		1 036.8	1 607.9	2 160.7	1 628.9	1 491.4
Equity of majority		853.2	965.5	1 307.9	1 436.9	1 365.4
Minority interests		-	-	-	-	-
Total liabilities and equity		1 890.0	2 573.4	3 468.6	3 065.8	2 856.8

Key Figures	Definitions	2016	2015	2014	2013	2012
Market capitalization	1	245.3	260.4	611.5	2 706.7	2 895.3
Net interest-bearing debt	2	589.2	1 113.7	1 252.0	571.3	635.5
Enterprise value	3	834.5	1 374.1	1 863.5	3 278.0	3 530.8
Debt/Book equity ratio		1.03	1.38	1.11	0.55	0.65
Debt/Market capital ratio		3.59	5.10	2.38	0.29	0.31
Current ratio	4	7.0	1.3	0.79	0.65	0.88
EBITDA margin	5	60.4 %	57.1 %	43.6 %	47.8 %	51.3 %
Average number of shares outstanding		66.7 mill	66.7 mill	66.7 mill	66.7 mill	66.7 mill
Share price at year end in NOK	6	31.7	34.4	68.2	246.9	241.8
Earnings per share (EPS) in USD	7	- 1.58	- 5.30	1.77	4.54	4.88
Diluted earnings per share in USD		- 1.58	- 5.30	1.77	4.54	4.88
Capital expenditures per share		- 0.2	- 6.0	- 12.0	- 6.61	-11.50
Price/Earnings	8	- 2.3	- 0.7	5.2	9.4	8.9
Price/Book	9	0.3	0.3	0.5	1.9	2.1
EV/EBITDA		1.7	2.2	3.6	5.9	5.6

1 Closing price * number of shares at year-end
2 Short-term debt + long-term debt - cash and cash equivalents
3 Market capitalisation + net interest-bearing debt
4 Current assets / current liabilities
5 EBITDA / revenue
6 Last trade on last trading day of the year
7 Net profit / average number of shares outstanding
8 Closing price / EPS
For 2014; closing price converted to USD at the rate per 31.12.14
9 Closing price / book value per share

Fred. Olsen Energy Group and Fred. Olsen Energy ASA

Board of Director's Report 2016

The operating activities of Fred. Olsen Energy ASA and its subsidiaries (the Group) consist of offshore drilling and engineering and fabrication services. The parent company of the Group is Fred. Olsen Energy ASA (the Company), with its corporate headquarters located in Oslo, Norway. The Group manages its activities from offices in Norway, UK and Singapore. Operation of the Group's offshore units is managed through Dolphin Drilling AS (100% owned) in Stavanger and Dolphin Drilling Ltd. (100% owned) in Aberdeen. The Harland & Wolff (H&W) shipyard (92.2% indirectly owned), located in Belfast, Northern Ireland, and related activities form the Group's engineering and fabrication division.

Gross revenues in 2016 were USD 825 million, a decrease of USD 291 million from the previous year. The Group achieved Earnings Before Interest, Taxes, Depreciation, Amortisation and Impairment (EBITDA) of USD 498 million compared to EBITDA of USD 637 million in 2015. The cash flow from operations amounted to USD 447 million compared to USD 647 million for 2015. The difference between EBITDA and cash flow from operation is mainly due to changes in working capital and realized losses on currency contracts. Net interest-bearing debt at 31 December 2016 for the Group was USD 589 million.

Markets and prospects

The negative market development has continued through 2016, with the number of active rig contracts reaching another low point in 2016. It is expected that the market will reach the bottom in 2017, nevertheless there will still be a continued pressure on the dayrates and utilization due to overcapacity. However, there has been a positive development on several leading indicators for the drilling industry during the recent months. On the back of increasing oil demand the oil price has been on an increasing trend since early 2016. Following two consecutive years of reduced Exploration and Production (E&P) spending, the investments in 2017 are expected to be at the same gross level as in 2016. The E&P companies are now directing more of their spending to less capital intensive and short cycle higher-return projects. This has led to an increased spending in the onshore segment, both towards conventional and shale activities, offshore brownfield projects and projects close to existing infrastructure. Furthermore, several new development projects are being progressed for sanctioning and development over the coming years, particularly in the midwater areas. In addition, we have seen increased activity in the asset trading between oil companies which indicates that they are re-focusing their portfolios. This combined with a falling reserve replacing ration (RRR) for the oil industry points towards a recovery in the offshore activities from 2018 and onwards.

Decommissioning and cold stacking of units in the midwater segment have continued during 2016, with more than half of the purpose built midwater fleet decommissioned since mid-2014. In addition there are cold stacked units where the five-year class certificates have lapsed or will expire over the next two years, which could lead to additional units being effectively out of the market. Based on the fleet composition in the midwater segment we see the possibility for the market to re-balance with a recovering market in 2018 and 2019.

In the ultra-deepwater segment the situation is more challenging, with units still coming off contracts in 2017 combined with additional newbuilds entering the market leading to a further oversupply. For the ultra-deepwater projects we still see a reluctant attitude to make large investments and commitments to new projects with long payback time, hence the indications are a slower recovery than in the midwater and mature areas.

During the current downcycle the Company has had and continue to have strong focus on the liquidity of the Group. The Company has reduced cost and increased efficiencies, in combined with cash preservation and cash management. In addition, the Group has been reorganized to meet the current difficult market situation and future challenges. In the reorganisation, there has been a focus on keeping the core competence in the Group and maintain organisational capacity to act on an increased market activity and reactivation of the rigs.

By year-end, the average fleet contract backlog for the Group was 2 months (12 months in 2015). The firm contract value for the fleet as per 31 December 2016 was approximately USD 305 million (USD 1 200 million in 2015).

The Group owns and operates three deepwater units, and four midwater semi-submersible drilling rigs in addition to one tender support vessel and one accommodation unit.

Offshore Drilling

The drilling activities generated revenues of USD 815 million compared to USD 1 104 million in 2015. Within the drilling segment, the Group achieved EBITDA of USD 506 million. In 2015, the corresponding result was USD 634 million.

Bideford Dolphin continued operations under a three-year drilling contract for Statoil ASA. The contract expired in early February 2017. In January the contract with Statoil was extended with one well, the contract was completed end of March 2017. The unit, which completed its five-year Class Renewal Survey (CRS) in 2014 is preserved and maintained in Flekkefjord, Norway, ready for new contracts.

Borgland Dolphin completed the 18-well drilling contract, with a Rig Management Norway AS (RMN) managed consortium of four oil companies, in September 2016. The unit, which completed its five-year CRS in 2015, is preserved and maintained in Lyngdal, Norway, ready for new contracts.

Bredford Dolphin is currently cold stacked in Kvinesdal, Norway. The unit completed its five-year CRS in August 2012. A renewal of the class certificates will not be carried out in 2017 in the current market conditions.

Bolette Dolphin, which commenced its first contract in May 2014, continued operations under its four-year drilling contract with Anadarko Petroleum Corporation in 2015. The unit has operated in Ivory Coast and Colombia during 2016. The contract expires in July 2018.

Belford Dolphin is preserved and maintained in Labuan, Malaysia, ready for new contracts. The unit completed its five-year CRS in 2015.

Blackford Dolphin continued under a 572 days contract for Chevron, for operations in UK. The contract was expected to expire early February 2017. In January 2017, the contract with Chevron was extended and was completed end April 2017. The unit completed its five-year CRS in 2014.

Byford Dolphin continued under a three-year drilling contract with BP, which expired in October 2016. The unit, which completed its five-year CRS in 2015, is preserved and maintained in Lyngdal, Norway, ready for new contracts.

Borgsten Dolphin completed the operations as a Tender Support Vessel (TSV) at the Dunbar platform with Total E&P UK Ltd. in fourth quarter 2016. The unit is cold stacked off Invergordon, Scotland. The unit completed its five-year CRS and upgrades to a TSV in February 2013.

Borgholm Dolphin is cold stacked at Harland & Wolff shipyard. The unit completed its five-year CRS in March 2013.

Borgny Dolphin left the Harland & Wolff shipyard in Belfast early October 2016 to be decommissioned in Turkey.

The construction contract for Bollsta Dolphin with Hyundai Heavy Industries Co. Ltd. was cancelled in October 2015 due to delayed delivery from the yard. The drilling contract, which was entered into between Dolphin Drilling Ltd. and Chevron North Sea Ltd., was correspondingly terminated on amicable terms. In August 2016 it was announced that Bollsta Dolphin Pte. Ltd., Fred. Olsen Energy ASA and Hyundai Heavy Industries Co. Ltd. had agreed on a full and final settlement where Bollsta Dolphin Pte. Ltd. received USD 176.4 million.

Engineering and Fabrication

Total revenues within the engineering and fabrication division amounted to USD 11 million and EBITDA was negative USD 8 million. In 2015, total revenues were USD 102 million and EBITDA was USD 6 million including inter-segment activities. The H&W yard continued its operations in engineering, ship repair and shipbuilding. The yard has provided services to some 24 vessels ranging from short duration emergency repairs to normal maintenance repair dockings.

The core workforce decreased to 115 employees in 2016 (2015: 172). The company will continue to seek to secure contracts within renewable energy and offshore projects, shipbuilding, ship repair and engineering in the years to come.

Financial result and balance sheet at year end

Consolidated revenues were USD 825 million compared to USD 1 116 million in 2015. EBITDA for the Group was USD 498 million, a decrease of USD 139 million compared to 2015. After depreciation, amortisation and impairment of USD 521 million including a non-cash impairment of USD 231 million, the operating profit before net financial expenses amounted to negative USD 23 million, compared to negative USD 325 million in 2015. Net financial items were negative USD 57 million, an increase of USD 34 million from the previous year. Profit before taxes was negative USD 79 million compared to negative USD 348 million in 2015. The net profit for the year was negative USD 105 million against negative USD 351 million in 2015. At year-end, the Group had consolidated assets of USD 1 890 million. The ratio of net interest-bearing debt to total assets was 44% compared to 43% at the beginning of the year. The book value of the equity was USD 853 million. Net cash from operating activities was USD 393 million against USD 580 million in 2015. Cash and cash equivalents increased by USD 76 million during the year, from USD 214 million to USD 290 million at the end of the year.

Due to the weak offshore drilling market the Company seeked approval for potential breach of covenants towards the end of 2017. The waiver request for temporarily waiving the minimum market value covenant, the net debt/EBITDA and the EBITDA/net interest expenses covenants was approved by the syndicate banks in December 2016. Two instalments of USD 95.5 million for 2017 were prepaid in December 2016 and USD 105 million of the undrawn facility was cancelled. The remaining USD 105 million of the undrawn facility was temporarily suspended during the waiver period. In January 2017, the Bondholders in FOE05 also approved a temporary waiver for the net debt/EBITDA and the EBITDA/net interest expenses covenants. As a consequence, a partial redemption of NOK 75 million took place in February 2017.

Impairment tests have been undertaken for all the units in the fleet. Estimating the fair value of the fleet is a complex process involving a number of key judgements and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs. As a result of the current market situation and because the uncertainty is higher than usual for when new contracts will be entered into and the related future dayrate levels, fair value of the offshore units is exposed to high estimation uncertainty.

In order to position the Group in the current weak market, an arrangement for prolongation of the survey intervals for class renewal is being implemented for the laid-up units Borgland Dolphin and Byford Dolphin. The arrangement is established based on the Classification Society, DNV GL's, recommended practice for prolonged survey intervals for laid-up units. The arrangement implies that adequate preservation, inspection, maintenance and testing activities are carried out during the lay-up period. When the unit is brought back to operation, a defined reactivation scope will be carried out monitored by DNV GL through inspections. When the reactivation scope is completed the validity of Class Certificates is extended by a period equal to the time spent in lay-up. By implementing this arrangement we can reduce reactivation risk and maximize the available operational time up to the next class renewal survey.

Fred. Olsen Energy ASA is a holding company and provides management services to the subsidiaries within the Group. The Company had revenues of USD 0.6 million in 2016, compared to USD 0.8 million in 2015. EBITDA for the year was negative USD 7 million compared with negative USD 7 million in 2015. Net profit was negative USD 0.2 million compared to USD 134 million in 2015. The annual accounts of the Company and the consolidated accounts are based on the assumption of continued operation and going concern.

Going concern assumption

The Company still expects a challenging 2017 in terms of dayrates and utilization. However, the Company has obtained waiver approval from banks and bondholders, has an adequate liquidity position and expects the midwater offshore drilling market to recover from 2018 and onwards.

On this basis and in accordance with §3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the going concern assumption, on which the financial statements have been prepared, is considered to be appropriate.

International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by EU and interpretations adopted by the International Accounting Standards Board (IASB). The accounts for the parent company have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards.

Investment and capital resources

Capital expenditures amounted to USD 10 million in the year compared to USD 403 million in 2015. The capital expenditures were mainly related to regular investments in the active fleet.

Per 31 December 2016, the Group's debt consisted of one credit facility with a consortium of banks and one bond loan. The facility was refinanced in July 2014 and is a combined term loan and revolving credit facility of originally USD 1 450 million, with final maturity in 2020. The outstanding amount under the credit facility at year-end was USD 763 million. The bond loan FOE05 of NOK 1 100 million was raised in the Norwegian market in February 2014 and has final maturity in February 2019. The bond loan FOE04 of NOK 1 400 million was raised in the Norwegian bond market in May 2011 and was repaid in May 2016. See also note 13 on page 33.

Research and development activities

The Group's research and development activities are an integrated part of operations carried out both internally and through cooperation with various design houses and equipment suppliers. The Group monitors and evaluates new drilling related technology and arrangements on a continuous basis, including those materializing through operations and projects. Expenditures on research activities, undertaken with the prospect of gaining technical know-how and understanding, are recognized in the income statement as incurred expenses.

Financial risks

The Group is exposed to certain financial risks related to its activities. These are mainly foreign exchange risks, interest rate risks and credit risks. The Group continuously monitors and manages its financial risks by partly hedging its exposure. See also page 34 to 38.

Liquidity risk

The outstanding amount under the bank facility at year-end was USD 763 million. A waiver approval has been obtained from the syndicate banks and the following covenants will be temporarily waived until 30 June 2018; minimum value ratio, leverage ratio and interest cover ratio.

The minimum cash covenant is USD 80 million. Furthermore, the scheduled amortizations of USD 95.5 million in January 2017 and July 2017, in total USD 191 million, was prepaid before end of 2016. Other amortizations of the facility are unaffected by the agreement, hence the original amortization schedule will be restored from 2018. The available amount under the revolving credit facility of USD 210 million was cancelled by 50% and the remaining 50% will be temporarily suspended during the waiver period. The interest margin under the facility will increase from 2.3% to 2.7% until 30 June 2018.

A waiver was obtained also from bondholders in FOE05 in January 2017, waiving the leverage ratio and the interest cover ratio until 30 June 2018. Subsequently, a partial redemption of the bond loan of NOK 75 million was completed in February 2017.

Foreign exchange

From 2014, the Group's financial statements are presented in USD. The Group's revenues consist primarily of USD, NOK and GBP with USD as the most dominant currency. The Group's expenses are primarily in NOK, GBP and USD. The Group's earnings are exposed to fluctuations in the currency market. The Group's future foreign exchange exposure is dependent upon the currency denomination of revenues and expenses.

Interest rate

The Group is exposed to fluctuations in interest rates for USD and NOK. At 31 December 2016 approximately 6% (2015: 4%) of the Group's interest expenses was based on fixed interest rate swap agreements. The remaining portion of the debt was based on floating interest rates (USD LIBOR and NIBOR) plus a margin.

Credit risk

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base, including national oil companies, supermajors, majors and independent oil companies. The Group continuously evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees. The Group's short-term investments are limited to cash deposits in the Group's relationship banks and derivative financial instruments are normally entered into with the Group's main relationship banks. As such, the Group considers its exposure to credit risk to be moderate.

At 31 December 2016, the main customer is Anadarko Petroleum Corporation Ltd. due to a longer term contract. The remaining contracts are of shorter term duration. Hence the concentration of credit risk resides on fewer customers than the previous years due to lower contract coverage

Corporate Governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Code of Practice for Corporate Governance. A description of the Company's compliance with the above recommended Corporate Governance principles is presented on pages 67 to 71.

The Board of Directors consists of five board members who are elected for a two-year period. All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholder Bonheur ASA. 40% of the Board of Directors are women. During 2016 the Board of Directors had 13 meetings.

The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main shareholder of the Company. The charter of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities concerning the financial reporting process, internal control, management of financial risks, the audit process and the Group's process for monitoring compliance with applicable laws and regulations. Due to changes in the Board of Directors in 2016, the committee consisted of one member from May to October 2016.

The Board of Directors has appointed a Compensation Committee comprising four Directors, including the Chairman of the Board.

The Compensation Committee discusses and recommends to the Board of Directors salary and benefits for the Chief Executive Officer and Senior Management, as well as the management incentive schemes for the Group. The compensation to the Chief Executive Officer comprises salary, pension scheme and performance bonus.

Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy, market conditions and approval by the shareholders. In addition, the Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting. Due to the challenging offshore market the Board of Directors will not propose dividend at the Annual General Meeting in May 2017. During the waiver period, no dividend payments or buy back of shares shall be undertaken.

Share Capital Issues

The Annual General Meeting in May 2016 authorized the Board of Directors to issue up to 6 669 422 new shares in the Company through an equity issue and to issue up to 6 669 422 new shares by raising loans with the right to subscribe for new shares for a period of up to one year. At the time of approving final accounts, these authorizations have not been used. At year-end the Company owned 430 100 own shares (2015: 430 100). At 31 December 2016 the Company's share capital amounted to NOK 1 334 million, corresponding to 66 694 229 shares at par value NOK 20 each.

Safety, work environment, organization and equal opportunities

The Group has a strong focus on health, safety and environment (HSE) for its employees, subcontractors and customers. Continuous efforts involve planning, training of personnel and careful selection of subcontractors. The Group maintains a zero accident objective and is closely monitoring its established procedures for operations, projects and work sites both onshore and offshore. The Total Recordable Incident (TRI) rate for offshore drilling and related services in 2016 was 3.34 per one million working hours, compared to 5.95 per one million working hours in 2015. The TRI rate includes personnel injuries of the categories lost time incidents and medical treatment incidents.

Sickleave was 8.73% (2015: 5.03%) for the Group and 1.70% (2015: 2.40%) for the Company. The Group continues to focus on reducing sickleave. The Group strives to be a workplace with equal opportunities, offering challenging and motivating jobs to all personnel, regardless of nationality, culture, religion or gender. The composition of genders within the Group reflects the available recruitment base for offshore work, which traditionally has a higher proportion of men, being the nature of the offshore industry worldwide. However, the Group's policy is to offer equal opportunities for male and female. Two out of five members of the Board of Directors are women, including the Chairman of the Board. At year-end 2016 the Group had 727 employees, including 14 in the parent company. 78 of the employees were women and 8 percent of leading onshore personnel within the Group are women. A description of the Company's Corporate Social Responsibility is presented on pages 72 to 74.

Significant legal matters

During 2016 the Group had two legal dispute with business counterparts. See note 19 for further information.

External Environment

The Group's operations involve activities that entail potential risks to the external environment. The Group is careful in its approach to the environment and continuously strives to reduce the use of hazardous chemicals and materials to minimize negative effects and seeks alternative products to safeguard the environment. The Company is a holding company and as such has no activities that entail potential significant risks to the external environment.

Coverage of loss

Net loss after tax for the parent company was USD 0.2 million, which is proposed covered as follows:

From retained earnings	0.2 million
Total covered	0.2 million

Annual General Meeting

The date of the Annual General Meeting is scheduled for 22 May 2017.

Oslo, 31 December 2016 / 4 April 2017
Fred. Olsen Energy ASA

Anette S. Olsen *Chairman*	Jan Peter Valheim	Cecilie B. Heuch	Richard Olav Aa	Agnar Gravdal	Ivar Brandvold *Chief Executive Officer*

Fred. Olsen Energy – Group

Directors' Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Fred. Olsen Energy ASA, for the year ending and as of 31 December 2016 (annual report 2016). Fred. Olsen Energy ASA's consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, applicable as of 31 December 2016. The separate financial statements for Fred. Olsen Energy ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2016. The Board of Directors' Report for the Group and the Company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16, as of 31 December 2016.

To the best of our knowledge:

- the consolidated and separate annual financial statements for 2016 have been prepared in accordance with applicable accounting standards
- the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and loss as a whole as of 31 December 2016 for the Group and the Company.
- the Board of Directors' report for the Group and the Company includes a true and fair review of
  - the development and performance of the business and the position of the Group and the Company.
  - the principal risks and uncertainties the Group and the Company face.

Oslo, 31 December 2016 / 4 April 2017
Fred. Olsen Energy ASA

Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Richard Olav Aa	Agnar Gravdal	Ivar Brandvold
Chairman					*Chief Executive Officer*

Fred. Olsen Energy – Group

Consolidated Statement of Income

For the year ended 31 December

Amounts in USD 000's	Note	2016	2015
Revenues	2, 3, 18	825 031	1 116 445
Materials		-2 558	-2 188
Salaries and other personnel costs	4, 18	-152 846	-254 767
Other operating expenses	5, 18	-171 235	-222 475
Operating profit before depreciation, amortisation and net financial expenses		498 392	637 015
Depreciation and amortisation	8	-290 403	-354 108
Impairment	8, 9	-230 782	-607 940
Operating loss before net financial expense		-22 793	-325 033
Financial income		46 617	92 158
Financial expenses		-103 259	-115 151
Net financial expenses	6, 14,18	-56 642	-22 993
Loss before tax		-79 435	-348 026
Income tax expenses	7	-25 973	-2 602
Loss for the year		-105 408	-350 628
Attributable to:			
Equity holders of the parent		-104 651	-350 881
Non-controlling interest		-757	253
Loss for the year	12	-105 408	-350 628
Basic earnings per share	22	-1.58	-5.30
Diluted earnings per share	22	-1.58	-5.30

The notes represent an integral part of the consolidated financial statements.

Fred. Olsen Energy – Group

Consolidated Statement of Comprehensive Income

For the year ended 31 December

Amounts in USD 000's	Note	2016	2015
Loss for the year		-105 408	-350 628
Items that will never be reclassified to statement of separate income			
Actuarial gains/(losses) on defined benefit pension plans	16	-8 239	20 799
Income tax relating to components of other comprehensive income		741	-7 209
Items that are or may be reclassified to statement of separate income			
Exchange differences on translation of foreign operations		621	-5 363
Total comprehensive loss for the year		-112 285	-342 401

Attributable to:			
Equity holders of the parent		-111 006	-342 764
Non-controlling interests		-1 279	363
Total comprehensive loss for the year	12	-112 285	-342 401

The notes represent an integral part of the consolidated financial statements.

Fred. Olsen Energy – Group

Consolidated Statement of Financial Position

For the year ended 31 December

Amounts in USD 000's	Note	2016	2015
Assets			
Property, plant and equipment	8, 15	1 360 951	1 862 393
Intangible assets	9	0	11 190
Other non-current assets	16, 18	673	197
Deferred tax assets	10	16 686	22 712
Total non-current assets		1 378 310	1 896 492
Consumable spare parts		113 126	120 030
Prepayments, tax refunds and other current assets	8	13 642	207 712
Trade and other receivables	14, 18	94 590	135 097
Cash and cash equivalents	11	290 362	214 098
Total current assets		511 720	676 937
Total assets		1 890 030	2 573 429

The notes represent an integral part of the consolidated financial statements.

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Fred. Olsen Energy – Group

Consolidated Statement of Financial Position

For the year ended 31 December

Amounts in USD 000's	Note	2016	2015
Equity			
Share capital		193 290	193 290
Share premium		83 549	83 549
Translation reserves		2 133	1 512
Reserve for own shares		-1 215	-1 215
Retained earnings		575 486	688 392
Share of equity attributable to shareholders of the parent	12	853 243	965 528
Non-controlling interests		0	0
Total equity		853 243	965 528
Liabilities			
Interest-bearing loans and borrowings	13, 14, 15, 18, 23	879 611	1 002 088
Employee benefits	16	88 919	97 463
Financial instruments	14	1 921	2 833
Total non-current liabilities		970 451	1 102 384
Interest-bearing loans and borrowings	13, 14, 15, 18, 23	0	325 658
Trade and other payables	18	16 683	31 825
Financial instruments	14	396	17 826
Tax payable		13 486	6 597
Other accrued expenses and deferred revenue	8	35 771	123 611
Total current liabilities		66 336	505 517
Total liabilities		1 036 787	1 607 901
Total equity and liabilities		1 890 030	2 573 429

The notes represent an integral part of the consolidated financial statements.

Oslo, 31 December 2016 / 4 April 2017
Fred. Olsen Energy ASA

Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Richard Olav Aa	Agnar Gravdal	Ivar Brandvold
Chairman					*Chief Executive Officer*

Fred. Olsen Energy – Group

Consolidated Statement of Changes in Equity

Amounts in USD 000's	Share capital	Share premium	Translation reserves	Reserve for own shares	Retained earnings	Total	Non-controll. interests	Total equity
Balance at 1 January 2015	193 290	83 549	6 875	-1 215	1 025 430	1 307 929	0	1 307 929
Loss for the year	0	0	0	0	-350 628	-350 628	0	-350 628
Other comprehensive income/(loss) for the period	0	0	-5 363	0	13 590	8 227	0	8 227
Balance at 31 December 2015	193 290	83 549	1 512	-1 215	688 392	965 528	0	965 528
Balance at 1 January 2016	193 290	83 549	1 512	-1 215	688 392	965 528	0	965 528
Loss for the year	0	0	0	0	-105 408	-105 408		-105 408
Other comprehensive income/(loss) for the period	0	0	621	0	-7 498	-6 877	0	-6 877
Balance at 31 December 2016	193 290	83 549	2 133	-1 215	575 486	853 243	0	853 243

See also note 12.

The notes represent an integral part of the consolidated financial statements.

Fred. Olsen Energy – Group

Consolidated Statement of Cash Flows

For the year ended 31 December

Amounts in USD 000's	Note	2016	2015
Cash flows from operating activities			
Loss before income tax		-79 435	-348 026
Adjustment for:			
Depreciation and amortisation	8	290 403	354 108
Impairment	8, 9	230 782	607 940
Interest expense	6	43 016	55 072
Gain on sale of property, plant and equipment		0	-61
Unrealised gain on financial instruments/debt		-7 263	-44 237
Changes in trade and other receivables		57 047	5 619
Changes in trade and other payables		-76 996	16 317
Changes in other balance sheet items		-10 178	-116
Cash generated from operations		447 376	646 616
Interest paid		-37 965	-46 860
Income taxes paid		-16 173	-19 468
Net cash from operating activities		393 238	580 288
Cash flows from investing activities			
Purchases of property, plant and equipment		-23 903	-474 259
Settlement for Bollsta Dolphin Pte. Ltd.		176 390	0
Proceeds from sale of equipment		105	184
Net cash from/(used) in investing activities		152 592	-474 075
Cash flows from financing activities			
Proceeds from interest-bearing loans		195 000	130 000
Repayments of interest-bearing loans		-659 882	-219 864
Net cash used in financing activities		-464 882	-89 864
Net increase in cash and cash equivalents		80 948	16 349
Cash and cash equivalents at 1 January		214 098	203 425
Effect of exchange rate fluctuations on cash held		-4 684	-5 676
Cash and cash equivalents at 31 December	11	290 362	214 098

The notes represent an integral part of the consolidated financial statements.

Fred. Olsen Energy – Group

Notes to the Consolidated Financial Statements

Note 1 - Principal accounting policies and key accounting estimates

Fred. Olsen Energy ASA (the "Company") is a company domiciled in Norway.

The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the Board of Directors on 4 April 2017.

Basis of accounting

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis of preparation

The financial statements are presented in US Dollar (USD), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed regularly. Actual results may differ from these estimates.

Judgements and estimates made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the specific notes.

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements. The relevant financial reporting principles are described in each note to the consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

The consolidated financial statements include the Company and its subsidiaries (the Group of companies). Subsidiaries are entities controlled by the Group. See note 22 for details of the subsidiaries.

Transactions eliminated in consolidation

All material intra-group transactions, balances, income and expenses are eliminated in full when consolidated.

Foreign currency

Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in USD, which is the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign subsidiaries are translated into USD at the foreign exchange rate at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated using average monthly foreign exchange rate, which approximates the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are recognized in Other Comprehensive Income.

Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Principal accounting policies

The Group's accounting policies are described in the individual notes to the Consolidated Financial Statements. Considering all the accounting policies applied, Management regards the ones listed in the table below as the most significant accounting policies for the recognition and measurement of reported amounts.

Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that Management considers reasonable and appropriate under the circumstances. The resulting accounting estimates may differ from the eventual outcome, but the Group regard this as the best estimate at the balance sheet date. Please refer to the specific notes for further information on the key accounting estimates and judgments, see table below.

Principal accounting policies	Key accounting estimates and judgements	Note
Revenues		2
Income tax/ deferred tax	Provision for uncertain tax positions, accrual for income taxes	7, 10
Pension obligations	Present value of the pension obligation	16
Fair values for rigs and drill ship	Impairment tests	8
Fair values of cash-generating unit	Impairment tests of goodwill	9

Notes

Forthcoming requirements

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted new or amended standards in preparing these consolidated financial statements.

Fred. Olsen Energy ASA is running a Group wide project to analyze the effects of the new IFRS standards:

IFRS 9 Financial Instruments
Replaces the existing guidance in IAS 39 and is effective for annual reporting on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
Replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs and is effective for annual reporting on or after 1 January 2018.

IFRS 16 Leases
Replaces existing guidance in IAS 17 Leases. IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model for lessees that is similar to the current finance lease accounting under IAS 17.

During the work with the new standards the Group has found reasons to clarify the application of the principles under existing rules and as a consequence the Group has split revenue from charter rate contracts into two elements, income from rentals and income from rendering of services. The clarification has been implemented and presented in the annual report for 2016 with updated comparable information for 2015. Income from rentals is regulated under IAS 17, while income from rendering of services is recognized in accordance with IAS 18. The clarification would technically be deemed as a correction of an error in prior periods. The assessment shows no effect on reported amounts. The new principles for recognizing revenue in accordance with IAS 17 and IAS 18 is described below.

The Group's preliminary assessment of the implementation of IFRS 9, IFRS 15 and IFRS 16 is that the financial impact is not material. Leased assets will be recognized as a "right to use" asset and the new standards will increase the scope of disclosures. Operating lease commitments as of the end of 2016 are given in note 17. Based on the assessments made to date, the Group plans to adopt IFRS 16 simultaneously with IFRS 9 and IFRS 15 on 1 January 2018 without changing the comparatives.

Definitions of Non-IFRS financial measures

EBITDA: Profit or loss before income tax, net financial items, depreciation and impairment

EBIT: Profit or loss before net financial items and income tax

Net financial expenses: Interest income and expenses, exchange gain or losses, gain or losses on financial instruments and other financial expenses

Net debt: Interest-bearing loans and borrowings less cash and cash equivalents.

Capital expenditures: Acquisitions of property, plant or equipment

Note 2 - Revenues

Accounting policies
The Group has four revenue streams.

Revenue from lease rentals
The Group recognize revenue from lease on a systematic basis based on the benefits received from the leased assets. In cases where the consideration covers a general upgrade of a unit or equipment which increases the value of the unit or equipment beyond the contract period, the consideration is recognized as revenue over the contract period whereas the investment is depreciated over the remaining lifetime of the asset. In cases where the consideration covers specific upgrades or equipment specific to the contract, the consideration is recognized as revenue over the estimated contract period. The related investment is depreciated over the estimated contract period.

Revenue from rendering of services
The Group recognize revenue from rendering of services at fair value when the service is delivered.

Revenue from reimbursables
Revenue for the purchases of certain supplies, personnel services and other services provided on behalf of and at the request of our customers in accordance with a contract or agreement are recorded as revenue.

Long-term engineering and fabrication contracts
Revenues on long-term contracts are recognized using the percentage of completion method throughout the performance period of the contract when the outcome can be measured reliably. The percentage of completion is typically calculated based on the ratio of contract costs incurred to date to total estimated contract costs after providing for all known or anticipated costs. On certain contracts the Group may use the ratio of incurred to total estimated direct labour hours to determine the percentage of completion. Costs include material, direct labour and engineering. Selling, general and administrative expenses are charged to operations as incurred. The effect of changes in estimates of contract costs is recorded subsequently. An expected loss on a contract is recognized immediately in the income statement.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues earned under the percentage of completion method but not yet billable under the terms of the contract. Amounts billed in advance of satisfying revenue recognition criteria on long term contracts are classified as billings in excess of costs and estimated earnings on uncompleted contracts.

Generally, contract revenues become billable upon the Group attaining certain contract milestones. The Group typically does not require collateral from customers except in situations where warranted due to assessments of risk factors.

Revenue split
Revenues from charter rate contracts contain two elements, income from rentals and income from services. Other income consists mainly of reimbursable to customers.

Amounts in USD 000's	2016	2015
Lease revenue	479 393	601 354
Service revenue	316 990	471 456
Other income	18 692	31 021
Engineering and fabrication	9 956	12 614
Total	825 031	1 116 445

Note 3 - Segment reporting

Accounting policies

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the other of the Group's component. The Group provides services and operates within the two operating segments; offshore drilling and engineering and fabrication. The operating segments' results are reviewed regularly by the Group's management to make decisions and assess its performance, and for which discrete financial information is available. Segment information is based on the Group's management and internal reporting structure. For each of the strategic business units, internal management reports are reviewed on a monthly basis.

Operating segments

The Group comprises the following operating segments:

- Offshore drilling provides services and lease of drilling units to the offshore oil and gas industry. Fred. Olsen Energy ASA is included within the offshore drilling segment.
- Harland & Wolff, which forms the engineering and fabrication segment, provides engineering, fabrication, ship building and repair services for various offshore and onshore industries. In addition, the yard holds a waste management license and can be used as logistics and assembly base for offshore wind farms.

Inter-segment pricing is determined on an arm's length basis. The inter-segment revenues in 2015 in Engineering and fabrication are mainly related to the Class Renewal Survey for Byford Dolphin.

Amounts in USD 000's	Offshore drilling		Engineering and fabrication		Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues from external customers [1]	815 075	1 103 831	9 956	12 614	0	0	825 031	1 116 445
Inter-segment revenues	0	0	1 398	89 081	-1 398	-89 081	0	0
Total revenues	815 075	1 103 831	11 354	101 695	-1 398	-89 081	825 031	1 116 445
							0	0
Operating expenses	-308 899	-470 203	-19 138	-95 423	1 398	86 196	-326 639	-479 430
Segment result before depreciation, amortisation and impairment	506 176	633 628	-7 784	6 272	0	-2 885	498 392	637 015
Depreciation and amortisation	-288 334	-350 866	-2 069	-3 242	0	0	-290 403	-354 108
Impairment	-230 782	-607 940	0	0	0	0	-230 782	-607 940
Segment result	-12 940	-325 178	-9 853	3 030	0	-2 885	-22 793	-325 033
Net financing costs	-56 791	-23 173	149	180	0	0	-56 642	-22 993
Income tax expenses	-25 973	-2 602	0	0	0	0	-25 973	-2 602
Profit/(loss) for the period	-95 704	-350 953	-9 704	3 210	0	-2 885	-105 408	-350 628
Segments assets	1 855 729	2 520 242	35 554	53 522	-1 253	-335	1 890 030	2 573 429
Segments liabilities	985 758	1 554 411	52 282	53 825	-1 253	-335	1 036 787	1 607 901
Capital expenditures	9 927	400 883	476	2 076	0	0	10 403	402 959
Net cash from operating activities	403 037	582 032	-9 799	1 141	0	-2 885	393 238	580 288
Net cash from/(used) in investing activities	153 068	-474 884	-476	-2 076	0	2 885	152 592	-474 075
Net cash from/(used) financing activities	-464 882	-89 864	1 056	0	-1 056	0	-464 882	-89 864

[1] See note 2.

Geographical information

	Europe		Asia		Americas		Africa		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues from external customers [2]	614 993	804 601	35	665	21 150	172 126	188 853	139 053	825 031	1 116 445
Capital expenditure	5 671	231 402	4 732	171 557	0	0	0	0	10 403	402 959

Of the total revenue in 2016, Norway and UK contributed each 37% (2015: 43% and 29% respectively). Revenues from the Ivory Coast constituted 23% in 2016. [1]

In 2016, revenues from Statoil constituted 18% (2015: 15%), revenues from Anadarko constituted 25% (2015: 28%) and revenues from Chevron constituted 16% (2015: 7%).

Based on location of the entities Norway contributed 33% (2015: 42%), UK 57% (2015: 39%) and Singapore 6% (2015: 12%) of the total revenue.

[1] See note 2.
[2] Based on location of units. Revenues in Asia are of administrative nature.

Note 4 - Salaries and other personnel costs

"Other" includes insurance expenses for offshore and onshore personnel, health plan and other personnel expenses.

The costs of employee benefits that are incurred for employees working directly on the construction of assets have been capitalized and are included as part of the rig costs. See note 8.

Amounts in USD 000's	2016	2015
Salaries	123 528	202 096
Social security costs and employee taxes	12 196	34 317
Pension costs	2 146	22 963
Training	3 755	8 982
Temporary staff	3 961	59 800
Other	7 402	11 567
Capitalised personnel expenses	-142	-84 958
Total	152 846	254 767
Average number of employees	1 014	1 512
Number of employees at year end	727	1 335
Average man-labour year	1 041	1 856

Note 5 - Other operating expenses

Accounting policies

Repairs and maintenance

Costs for class renewal surveys on offshore units required by classification societies, are capitalised and depreciated over the anticipated period between surveys, generally five years. Other repair and maintenance costs are expensed as incurred.

Consumable spare parts

The Group categorizes spare parts into two groups, spare parts and spare equipment. A spare part is a consumable that is not depreciated, but expensed when used against repair and maintenance cost. A spare equipment is larger spare item that is recorded as a rig component and depreciated. Consumables are recorded at cost and expensed when used.

Research and development

Expenditures on research and development activities, undertaken with the prospect of gaining technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Amounts in USD 000's	2016	2015
Repairs and maintenance on offshore units	63 107	88 814
Recharged expenses	15 646	30 427
Rig overheads	21 005	26 116
Travel	10 196	23 625
General operating expenses	7 741	7 283
Insurance	7 769	10 789
Provision for bad debt	164	632
Professional and operational fees	31 634	13 834
Catering costs	10 532	17 303
Property rental expenses	2 980	3 652
Loss on sale of assets	461	0
Total	171 235	222 475

Fees for audit and other services provided by the Group's auditor are as follows:

Amounts in USD 000's	2016	2015
Audit	657	618
Tax advisory services	124	84
Other assurance services	3	12
Other non-audit services	21	49
Total	805	763

Note 6 - Net financial expenses

Accounting policies

Net financing expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest received, foreign exchange gains and losses, and gains and losses on financial instruments.

Amounts in USD 000's	2016	2015
Financial income		
Interest income	2 005	1 401
Other financial income	403	494
Gain on financial instruments	18 458	510
Foreign exchange gain	25 751	89 753
Total	46 617	92 158
Financial expenses		
Interest expenses	37 324	40 554
Amortised borrowing cost	5 692	14 518
Loss on financial instruments	17 284	16 298
Other financial expenses	4 644	8 243
Foreign exchange loss	38 315	35 538
Total	103 259	115 151
Net financial expense	-56 642	-22 993

In 2016 gain on financial instruments includes unrealised gain related to currency contracts of USD 17.4 million and USD 0.9 million related to interest contract (2015: unrealised gain related to interest contract).

In 2016, loss on financial instruments relates to realised loss on fixed interest contracts of USD 1.3 million (2015: USD 1.5 million) and realised loss on currency contracts of USD 16 million (2015: USD 14.8 million whereof USD 8.5 million were unrealised).

The interest expenses is net of capitalised interest costs of USD 5.6 million in 2015. The Group's weighted average interest rate on current borrowings of 3% was applied for the calculation.

In 2015 amortized borrowing costs included the borrowing cost of USD 8 million related to the funding of Bollsta Dolphin.

Note 7 - Income tax expenses

Accounting policies

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized in OCI, in which case it is recognized in OCI.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Key accounting estimate – income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues based on best estimate of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Amounts in USD 000's	2016	2015
Current tax expenses	20 396	4 414
Deferred tax expenses/(benefits)	5 577	-1 812
Total income tax expenses in income statement	25 973	2 602
Income tax relating to components of other comprehensive income	-741	7 209

Reconciliation of effective tax rate	2016	
Profit before tax		-79 435
Income tax using the domestic corporation tax rate	25.0 %	-19 859
Permanent differences	-2.3 %	1 853
Permanent differences due to currency effect in tax filings	-44.8 %	35 596
Effect of foreign subsidiaries	-40.4 %	32 115
Tax losses utilized/changes in temporary differences not recognized	20.9 %	-23 733
Effective tax rate	-32.7 %	25 973

Reconciliation of effective tax rate	2015	
Profit before tax		-348 026
Income tax using the domestic corporation tax rate	27.0 %	-93 967
Permanent differences	-0.9 %	3 148
Permanent differences due to currency effect in tax filings	3.3 %	-11 393
Effect of foreign subsidiaries	-34.2 %	119 053
Tax losses utilized/changes in temporary differences not recognized	4.1 %	-14 239
Effective tax rate	-0.7 %	2 602

Note 8 - Property, plant and equipment

Accounting policies

Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets and modifications includes the cost of material, direct labour and other direct attributable cost to bring the asset to a working condition for its intended use.

Components of property, plant and equipment with different useful lives are accounted for separately.

Subsequent expenditures are capitalized when it is probable that they will give rise to future economic benefits. Other costs are recognized in the income statement as incurred.

Borrowing costs are capitalized as part of the cost on certain qualifying assets in accordance to IAS 23. A qualifying asset is one which necessarily takes a substantial period of time to be made ready for its intended use, which are generally assets that are subject to major development or construction projects.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each component of property, plant and equipment. The estimated useful lives, residual values and decommissioning costs are reviewed at each financial year end. Any changes are accounted for prospectively as a change in accounting estimate. No decommissioning costs have been recorded to date, and the presence of any obligations is reviewed at each financial year end.

The estimated useful lives are as follows:

Rigs	20 to 25 years
Ultradeepwater drillships	25 years
Major components	5 to 15 years
Plant and Buildings	5 to 50 years
Machinery and Equipment	3 to 10 years

Key accounting estimate – fair value of the units

At each balance sheet date, judgement is used to determine whether there is any indication of impairment of the Group fleet of rigs and drillships. If any such indication exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analysed by reviewing day rates and broker valuations. Another indicator is if the carrying amount of net assets of the Group exceeds the Group's market capitalization. If an indicator of impairment is noted, further management estimate is required to determine the amount, if any, of impairment. In order to measure for potential impairment, the carrying amount of the rigs and drillships would be compared to the recoverable amount, which normally is the value in use. The value in use is calculated as the present value of the expected future cash flows for the individual units, requiring significant management estimates of the proper discount rates as well as the day rates, utilizations, length and amounts of cash flows. Estimating the fair value is a complex process involving a number of key judgements and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs.

As a result of the current market situation and because the uncertainty is higher than usual for when new contracts will be entered into and the related future day rate levels, fair value of the offshore units is exposed to high estimation uncertainty.

An impairment loss would be recognized to the extent the carrying amount exceeds the recoverable amount.

..the note continues on the next page

Amounts in USD 000's	Rigs and drillships	Machinery and equipment	Plant, building and land	Total
Cost				
Balance at 1 January 2015	4 552 795	95 683	23 389	4 671 867
Acquisitions	398 613	3 723	623	402 959
Disposals	-345 064	-1 544	0	-346 608
Reclassifications	-477 624	1 414	-1 414	-477 624
Effect of movements in foreign exchange	0	-6 209	-1 343	-7 552
Balance at 31 December 2015	4 128 720	93 067	21 255	4 243 042
Balance at 1 January 2016	4 128 720	93 067	21 255	4 243 042
Acquisitions	9 179	1 224	0	10 403
Disposals	-281 234	-10 130	-819	-292 183
Effect of movements in foreign exchange	0	-9 854	-2 132	-11 986
Balance at 31 December 2016	3 856 665	74 307	18 304	3 949 276
Accumulated depreciation				
Balance at 1 January 2015	1 688 125	71 469	10 687	1 770 281
Depreciation charge for the year	346 641	5 810	1 657	354 108
Impairment charge for the year	607 940	0	0	607 940
Disposals	-345 076	-1 409	0	-346 485
Reclassifications	0	1 600	-1 600	0
Effect of movements in foreign exchange	0	-4 530	-665	-5 195
Balance at 31 December 2015	2 297 630	72 940	10 079	2 380 649
Balance at 1 January 2016	2 297 630	72 940	10 079	2 380 649
Depreciation charge for the year	284 309	5 437	657	290 403
Impairment charge for the year	218 764	0	0	218 764
Disposals	-280 857	-10 120	-618	-291 595
Reclassifications	0	0	0	0
Effect of movements in foreign exchange	0	-8 762	-1 134	-9 896
Balance at 31 December 2016	2 519 846	59 495	8 984	2 588 325
Carrying amounts				
At 1 January 2015	2 864 670	24 214	12 702	2 901 586
At 31 December 2015	1 831 090	20 127	11 176	1 862 393
At 1 January 2016	1 831 090	20 127	11 176	1 862 393
At 31 December 2016	1 336 819	14 812	9 320	1 360 951

In October 2015, Bollsta Dolphin Pte. Ltd. decided to exercise its contractual right to terminate the construction contract. As a result of the termination, the Group removed USD 477.6 million from "Rigs and drillship" whereof the 1st instalment to the yard of USD 186 million was included in "Prepayments, tax refunds and other current assets". The remainder was offset against other accrued expenses as we previously accounted for the construction of Bollsta Dolphin using the percentage of completion method. Bollsta Dolphin Pte. Ltd. received USD 176.4 million in September 2016. The loss of USD 10 million is included in Other operating expenses.

Decommissioning costs

There is no decommissioning liability on the drillship or the drilling rigs as there is no legal or constructive obligation to dismantle or restore the assets. In practice, assets of this nature are when no longer useful, either rebuilt, laid up in dry dock or decommissioned. For a standard vessel, special dismantling yards pay for a vessel to be decommissioned per light displacement tonne (LDWT) of the vessel.

Residual values

The residual value is reviewed at each year-end, with any change in estimate accounted for prospectively.

The most common method to estimate residual values for ships is to use scrap price that is publicly noted by brokers in USD per LDWT of a complete vessel with all normal machinery and equipment on board. This method is used to determine the residual value for the drillship Bolette Dolphin and Belford Dolphin. The estimated residual value for Bolette Dolphin and Belford Dolphin as at 31 December 2016 is USD 7.2 million and USD 5.5 million respectively (2015: 10.6 million and USD 8.1 million).

Drilling rigs are considerably more complicated to scrap than drillships and have less metal and scrapable/recoverable material due to their construction, design and nature. The price that could be recovered from the sale for scrap is estimated to approximate the cost of extracting this scrap metal. Therefore, no residual value is recorded for the drilling rigs.

Useful lives

The useful lives of the assets are reviewed at each year end. Management has reviewed each of the rigs by expected usage and considered the scheduled 5 years Class Renewal Surveys going forward.

Blackford Dolphin completed its Class Renewal Surveys and was upgraded for UK sector in July 2014. Bideford Dolphin completed its Class Renewal Survey in 2014 while Borgland Dolphin and Byford Dolphin completed their Class Renewal Surveys in first half of 2015. Smart Stacked rigs are preserved, maintained and kept warm by regular integrated testing. Under the DNV GL regime of prolonged survey intervals the validity of Class and Statutory certificates are extended equal to the smart stacking period.

Borgholm Dolphin and Bredford Dolphin are currently cold stacked due to market conditions. Belford Dolphin completed its Class Renewal Survey in 2015 and is currently in lay-up under a preservation program. Borgny Dolphin was decommissioned in 2016.

Estimated lifetime of Belford Dolphin, Bideford Dolphin, Borgland Dolphin, Byford Dolphin and Bredford Dolphin are based on the assumption that they will carry out their next forthcoming Class Renewal Survey and continue to operate five years thereafter. Two more scheduled Class Renewal Surveys are assumed for Blackford Dolphin and the lifetime of Bolette Dolphin was 25 years at delivery in 2014.

	Estimates		Net book value	
	Remaining lifetime as at		as at 31 December	
In million of USD	31 Dec 2016	31 Dec 2015	2016	2015
Belford Dolphin	9.0	10.0	146	172
Bideford Dolphin	7.5	8.5	110	144
Borgland Dolphin	8.0	9.0	93	221
Byford Dolphin	3.5	4.5	60	178
Borgsten Dolphin	0.0	2.0	-	46
Bredford Dolphin	5.5	6.5	15	37
Borgholm Dolphin	0.5	1.5	5	10
Blackford Dolphin	12.5	13.5	367	433
Bolette Dolphin	22.0	23.0	539	584
Equipment			2	6
Total rigs and drillships			1 337	1 831

..the note continues on the next page

Impairment

An impairment loss of USD 218.8 million was recorded in 2016 (2015: USD 607.9 million). Impairment tests have been undertaken for all the units in the fleet. Our determination of the recoverable amount for each Cash Generating Unit (CGU) is based on value in use calculation by estimating future cash flows to be derived from continuing use of each CGU including three scenarios with a percentage likelihood. The Group applied pre-tax discount rates in the range from 10.45% to 10.91% (2015: 9.04% to 9.82%) for the various units. The post-tax discount rates varies from 9.21% up to 9.68% (2015: 8.52% to 9.04%) due to differences in effective tax rates for the units from 0% up to 14%.

The following impairments have been recorded:

			Discount rates 2016	
In million of USD	2016	2015	Post-tax	Pre-Tax
Borgland Dolphin	88.0	-	9.55 %	10.91 %
Byford Dolphin	89.2	98.0	9.21 %	10.63 %
Borgsten Dolphin	21.5	-	N/A	N/A
Bredford Dolphin	20.1	110.0	N/A	N/A
Blackford Dolphin	-	172.0	9.68 %	10.77 %
Belford Dolphin	-	80.0	9.58 %	10.53 %
Borgholm Dolphin	-	41.0	N/A	N/A
Borgny Dolphin	-	15.5	N/A	N/A
Bollsta Dolphin	-	91.4	N/A	N/A
Total impairment	218.8	607.9		

The global marked for floating oil and gas drilling units have been weak during 2015 and 2016. There is a large reduction in investments from the oil companies globally in combination with oversupply of newbuild ultradeep water units. This have created a weak market for offshore drilling units with low tender activity for new drilling contracts. The market is expected to continue to be weak in 2017 but start recovering from 2018 and 2019. This is reflected in the estimates of future cash flows for the units.

The value in use calculation is based on estimated future cash flows. The estimates are based on the current low dayrate and low utilization for 2017 and 2018. Thereafter it is assumed an increased dayrate for all segments and normalized utilization for the remaining lifetime of the units.

The net book value of the units represent the estimated recoverable amount of the assets that have been impaired.

Borgsten Dolphin completed a tender support vessel contract in October 2016. The Group does not see any future contract opportunities for this unit in the near to medium term and the net book value has been written down to zero.

Byford Dolphin completed a three-year contract in October 2016. Due to the negative development of dayrates and expected utilization, the assumptions have been reduced compared to previous years.

Borgland Dolphin completed a contract in October 2016. Due to the negative development of dayrates and expected utilization, the assumptions have been reduced compared to previous years.

Bredford Dolphin completed a contract early January 2016. The rig is currently cold stacked. Due to the negative development of dayrates and expected utilization, the book value of the unit is based on a potential sale price when the market condition improves.

Sensitivity

An increase of 1% on the post-tax discount rate would have increased the impairment by USD 47 million.
The estimated day rates and utilizations are significant assumptions in the model and if the market not will strengthen in 2018 or if the market recovers earlier than assumed it will have a material impact.

Commitments

Commitments related to investments are approximately USD 4 million as at 31 December 2016.

Note 9 - Intangible assets

Accounting policies

Goodwill represents amounts arisen on the acquisition of business, and is the difference between the cost of the acquisition and the fair value of identifiable net asset acquired.

Goodwill is stated at cost less any accumulated impairment. Goodwill is allocated to relevant cash-generating unit and is tested minimum annually for impairment.

The value in use is used for the impairment test for goodwill, which is the present value of the future cash flows from continuing use and ultimate disposal expected to be derived from the cash-generating unit that includes goodwill, which is Dolphin Drilling AS, representing the Group's North Sea activities on the Norwegian Continental Shelf. The discount rate used in the calculations is based on a risk-free rate, a market risk premium and other input factors used in the CAPM and WACC model. Fair value is not readily determinable.

An impairment loss is recognized if the carrying amount of an asset exceeds the recoverable amount.

Key accounting estimate – estimate of fair value of cash-generating unit for impairment testing of goodwill

Goodwill is tested by the Group for impairment minimum annually or when impairment indicators are triggered. The recoverable amounts of cash-generating unit have been determined based on a value in use calculation. This calculation requires the use of estimates and is based on assumptions that are consistent with the market valuation assumptions utilized in our impairment assessment for the rigs of the Group.

Goodwill

Amounts in USD 000's	Goodwill
Balance at 1 January 2015	13 262
Effect of movements in foreign exchange	-2 072
Balance at 31 December 2015	11 190
Balance at 1 January 2016	11 190
Impairment	-12 017
Effect of movements in foreign exchange	827
Balance at 31 December 2016	0

Impairment

The Group performed an impairment test during 2016. The value in use calculation was based on the following key assumptions:

- Projected cash flows for two rigs being operated by Dolphin Drilling AS
- A post-tax discount rate of 8.8% was applied in determining the recoverable amount (pre-tax discount rate of 10.1%)

The recoverable amount was estimated to be lower than its carrying amount and impairment of the goodwill of USD 12 million was required.

Note 10 - Deferred tax assets and liabilities

Accounting policies

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Amounts in USD 000's	2016	2015	2016	2015	2016	2015
Property, plant and equipment	-197	-3 212	0	0	-197	-3 212
Provisions	-1 934	-470	0	0	-1 934	-470
Other items	-14 582	-19 064	27	34	-14 555	-19 030
Tax value of loss carry-forward recognised	0	0	0	0	0	0
Tax (assets)/liabilities	-16 713	-22 746	27	34	-16 686	-22 712
Set off 1)	27	34	-27	-34	0	0
Net tax (assets)/liabilities	-16 686	-22 712	0	0	-16 686	-22 712

[1] Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income tax levied to the same taxable entity.

Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items:

Amounts in USD 000's	2016	2015
Deductible temporary differences	147 417	78 410
Tax losses	169 989	198 666
Total unrecognised deferred tax assets	317 406	277 076

As at 31 December 2016, approximately USD 126 million of the tax losses carried forward are available to offset the taxable income for subsidiaries in UK and USD 613 million for subsidiaries in Norway, in total USD 739 million in tax losses carried forward for the Group. These losses are not recorded as a deferred tax asset due to uncertainty of the level of future suitable taxable profits in the respective taxable jurisdictions.

Note 11 - Cash and cash equivalents

Accounting policies

Cash and cash equivalents includes cash, bank deposits and other short-term highly liquid assets that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Amounts in USD 000's	2016	2015
Cash related to payroll tax withholdings	2 080	3 868
Other restricted cash	2 379	2 008
Total restricted cash	4 459	5 876
Unrestricted cash	285 903	208 222
Total cash and cash equivalents	290 362	214 098

Note 12 - Capital and reserves

Share capital and share premium

Par value per share	NOK 20
Number of shares authorized	73 363 651
Number of shares issued	66 694 229

Outstanding shares	2016	2015
As at 31 December	66 264 129	66 264 129

Translation reserves

This reserve represents exchange differences resulting from the consolidation of subsidiaries having different functional currencies.

Reserve for own shares

The Company held 430 100 shares as at 31 December 2016 (unchanged from 2015).

Dividend

No dividend were paid in 2015 or 2016.

Note 13 - Interest-bearing loans and borrowings

Accounting policies

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Amounts in USD 000's				31.12.16		31.12.15	
	Currency	Interest rate	Maturity	Nominal value	Balance	Nominal value	Balance
FOE04 bond loan	NOK	3M Nibor + 4.25%	2016	0	0	134 749	134 557
FOE05 bond loan	NOK	3M Nibor + 3.00%	2019	127 610	126 815	124 872	123 709
Fleet loan USD 1 450 million facility	USD	3M Libor + 2.70%	2020	762 727	752 796	1 084 546	1 069 480
Total interest-bearing loans and borrowings				890 337	879 611	1 344 167	1 327 746
Current interest-bearing loans and borrowings					0		325 658
Non-current interest-bearing loans and borrowings					879 611		1 002 088
Total interest-bearing loans and borrowings					879 611		1 327 746

Of the interest-bearing debt of the Group at 31 December 2016, USD 763 million is denominated in US dollars (2015: USD 1 085 million), and USD 128 million is denominated in NOK (2015: USD 260 million).

A waiver request for temporarily waiving the minimum market value covenant, the net debt/EBITDA and the EBITDA/net interest expenses covenants was approved by the syndicate banks in December 2016. Subsequently, two instalments of USD 95.5 million for 2017 were prepaid in December 2016 and USD 105 million of the undrawn facility was cancelled. The remaining USD 105 million was temporarily suspended during the waiver period. In January 2017, the Bondholders in FOE05 approved a temporary waiver for the net debt/EBITDA and the EBITDA/net interest expenses covenants. Consequently, a partial redemption of NOK 75 million took place in February 2017.

Note 14 - Financial risk management

Accounting policies

Financial assets and financial liabilities are recognized on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are classified as fair value through profit or loss.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognized in profit or loss. There are no derivatives to which hedge accounting is applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date. The fair value of forward exchange contracts is their market price at the balance sheet date, being the present value of the quoted forward price as provided by financial institutions.

Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

Trade and other payables

Trade and other payables are stated at cost.

Capital management

The Group's objective is to have a sound financial position in order to maintain market confidence and sustain future development of the business. The Board monitors the capital structure and return on capital on a continuous basis, with the aim to maintain a strong capital base while maximizing the return on capital.

The offshore drilling market is facing a severe downturn and the main focus of the Group has been to preserve liquidity and to undertake initiatives in order to be able to handle the downturn. Due to the weak offshore drilling market the Company seeked waiver of potential breach of covenants towards end of 2017. An approval has been obtained from its syndicate banks to certain amendments to the original USD 2 billion credit facility agreement dated June 2014.

As per the key terms of such amendment the following covenants will be temporarily waived until 30 June 2018:

- Minimum value
- Leverage ratio
- Interest cover ratio

The minimum cash covenant will be set at USD 80 million. Furthermore, the scheduled amortizations of USD 95.5 million in January 2017 and July 2017, in total USD 191 million, was prepaid before end of 2016. Other amortizations of the Facility are unaffected by the agreement, hence the original amortization schedule will be restored from 2018. The available amount under the revolving credit facility of USD 210 million will be cancelled by 50% and the remaining 50% will be temporarily suspended during the waiver period. The interest margin under the Facility will increase from 2.3% to 2.7% until 30 June 2018. During the waiver period, no dividend payments or buy back of shares shall be undertaken.

A waiver was obtained also from bondholders in FOE 05 in January 2017, waiving the leverage ratio and the interest cover ratio until 30 June 2018. Subsequently, a partial redemption of the bond loan of NOK 75 million was completed in February 2017.

The Company was granted an authorization to buy back shares by the Annual General Meeting in 2016 There was no share purchases during 2016.

The Group is in compliance with the remaining covenants in all loan agreements.

Market risk

The Group is exposed to credit-, interest rate- and foreign currency risks in its operations. Derivative financial instruments are from time to time entered into to hedge against fluctuations in foreign currency rates and interest rate levels. The Group does not enter into commodity hedging contracts.

Credit risk

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base of international oil and gas companies. The Group continually evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees, either in the form of parent company guarantees, bank guarantees or cash collateral. The Group's short-term investments are limited to cash deposits in the Group's relationship banks and derivative financial instruments are normally entered into with the Group's main relationship banks. As such, the Group considers its exposure to credit risk to generally be moderate.

At 31 December 2016, the main customer is Anadarko Petroleum Corporation Ltd. due to a longer term contract with that company. The remaining contracts are of shorter term duration. Hence the concentration of credit risk resides on fewer customers than the previous years due to lower contract coverage. Maximum exposure to credit risk is reflected in the carrying value of each financial asset, including derivative financial instruments, in the balance sheet.

Amounts in USD 000's	2016	2015
Loans and receivables	94 666	135 248
Cash and cash equivalents	290 362	214 098
Total	385 028	349 346

Receivables are to be collected from the following type of customers:

Amounts in USD 000's	2016	2015
Loans to employees [1]	76	151
First instalment paid to HHI for Bollsta Dolphin	0	186 393
Customers	94 590	135 097
Total	94 666	321 641

[1] Average interest rate for loans to employees was 2.3 % in 2016 and 2.7% for 2015. Part of the amount contains rolling travel advances.

The ageing of trade receivables at the reporting date was:

	2016			2015		
	Nominal value	Provision	Balance	Nominal value	Provision	Balance
Not due	61 740	0	61 740	133 603	0	133 603
Overdue 0-30 days	29 633	0	29 633	2	0	2
Overdue 30-90 days	115	0	115	664	0	664
Overdue 90-180 days	0	0	0	0	0	0
Overdue 180-360 days	3 837	-735	3 102	2 077	-1 249	828
Overdue > 360 days [1]	4 958	-4 958	0	3 728	-3 728	0
Total	100 283	-5 693	94 590	140 074	-4 977	135 097

[1] see note 19

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Liquidity risk

In June 2014, the Group refinanced its main bank credit facility. The new facility of originally USD 2 billion has final maturity in 2020 with semi annual instalments of USD 95.5 million. In fourth quarter 2015, USD 550 million of this facility was cancelled subsequent to the cancellation of the construction contract for Bollsta Dolphin. In February 2014, the Group established a bond loan of NOK 1.1 billion with maturity in February 2019.

Due to the weak offshore drilling market the Company seeked approval for potential breach of covenants towards end of 2017. An approval has been obtained from its syndicate banks and the key terms of such amendment the following covenants will be temporarily waived until 30 June 2018:

- Minimum value
- Leverage ratio
- Interest cover ratio

The minimum cash covenant will be set at USD 80 million. Furthermore, the scheduled amortizations of USD 95.5 million in January 2017 and July 2017, in total USD 191 million, was prepaid before end of 2016. Other amortizations of the Facility are unaffected by the agreement, hence the original amortization schedule will be restored from 2018. The available amount under the revolving credit facility of USD 210 million will be cancelled by 50% and the remaining 50% will be temporarily suspended during the waiver period. The interest margin under the Facility will increase from 2.3% to 2.7% until 30 June 2018. During the waiver period, no dividend payments or buy back of shares shall be undertaken.

A waiver was obtained also from bondholders in FOE 05 in January 2017, waiving the leverage ratio and the interest cover ratio until 30 June 2018. Subsequently, a partial redemption of the bond loan of NOK 75 million was completed in February 2017.

The Group is in compliance with covenants in all loan agreements.

The Group continuously evaluates the refinancing need and will carry out refinancing transactions from time to time. The overview of the Group's loans and adjacent repayment schedule is further detailed in note 12. The following are the contractual maturities of financial liabilities including interest payments.

Amounts in USD 000's	Nominal value 31.12.16	Contractual cash flows	Due in 2017	2018	2019	2020
FFOE05 bond loan (NOK)	127 610	139 086	5 309	5 309	128 468	0
Fleet loan (USD)	762 727	825 191	24 892	210 426	204 421	385 452
Total Interest-bearing loans and borrowings	890 337	964 277	30 201	215 735	332 889	385 452

Amounts in USD 000's	Nominal value 31.12.15	Contractual cash flows	Due in 2016	2017	2018	2019	2020
FOE04 bond loan (NOK)	134 749	137 380	137 380	0	0	0	0
FOE05 bond loan (NOK)	124 872	141 297	5 195	5 195	5 195	125 712	0
Fleet loan (USD)	1 084 546	1 157 600	216 849	210 625	205 615	200 606	323 905
Total Interest-bearing loans and borrowings	1 344 167	1 436 277	359 424	215 820	210 810	326 318	323 905

Interest rate risk

The Group is exposed to fluctuations in interest rates for USD and NOK. During the last years, the Group has had approximately 3%-50% of its interest expenses based on fixed rates, either as fixed rate loans or through interest rate derivatives. As per 31 December 2016 approximately 6% of outstanding debt was at fixed rate. At 31 December 2016 the Group's USD denominated debt amounted to USD 763 million, while the NOK denominated debt amounted to NOK 1 100 million. The debt with floating interest rate is based on US Libor or Nibor plus a margin. USD 50 million is based on a fixed rate of 3.16% plus a margin, and was fixed for 10 years from 2009.

Realized loss of USD 1.3 million and unrealized gain of USD 0.9 million (2015: realized loss of USD 1.5 million and unrealized gain of USD 0.5 million) was recorded as net financial expense in 2016 related to fixed rate agreements. The mark-to-market value of the interest rate swaps are measured as the difference between the agreed fixed rate and the current market interest rate with the corresponding maturity as the remaining fixed rate maturity.

Foreign currency risk

The Group is exposed to foreign currency risks related to its operations and debt instruments. The Group's financial statements are denominated in US Dollar (USD) and most of the subsidiaries use US dollar as their functional currency. Some subsidiaries also use GBP or NOK. The Group's revenues consist primarily of NOK, GBP and USD with USD as the main currency. The Group's expenses are primarily in NOK, GBP and USD. As such, the Group's earnings are exposed to fluctuations in the foreign currency market. The Group's future foreign currency exposure is dependent upon the currency denomination of future operating contracts and denomination of operating expenses. In 2016, approximately 90 % of revenues and 26 % of operating expenses are in USD. In the longer term, parts of the USD/NOK exposure is neutralised due to a majority of the Group's debt being denominated in USD. 86 % of total debt is denominated in USD, while 14% is denominated in NOK.

At 31 December 2016, the Group had outstanding currency derivative contracts for forward sale of USD 6 million towards GBP and USD 3 million towards NOK.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2016 was USD 0.4 million recorded as current liabilities (2015: USD 17.7 million). A net loss of USD 1 million related to foreign exchange contracts was recorded in 2016 (2015: net loss of USD 14.8 million).

Sensitivity analysis

In managing interest- and currency risks the Group aims to reduce the impact on its earnings from short-term fluctuations in interest rates and currency exchange rates. Over the longer-term changes in currency exchange rates and interest rate levels will have an impact on the Group's earnings.

Interest rate sensitivity

It is estimated that 1 – one percent incremental change in USD LIBOR and NIBOR is estimated to have an effect on the net result of approximately USD 5.5 million (2015: USD 10.8 million), taken into account the fixed rate portion of the net debt.

The Group is exposed to fluctuations in the interest rates. At the reporting date the following table shows the amounts of financial instruments with fixed and variable interest:

Amounts in USD 000's	2016	2015
Fixed rate instruments		
Financial liabilities	-50 000	-50 000
Variable rate instruments		
Bank deposits	290 362	214 098
Financial liabilities	-840 337	-1 294 167
Total variable rate instruments	-549 975	-1 080 069

Exchange rate sensitivity from operations

For the year 2016 a 10% increase in NOK versus USD would increase the Group's EBITDA by USD 3 million while a 10% increase in GBP versus USD would decrease the EBITDA by USD 11 million.

Exchange rate sensitivity on balance sheet items and derivatives as at reporting date

At December 2016, an incremental change in the GBP/USD and the USD/NOK exchange rate will have the following impact on profit before tax due to the currency derivatives of USD 6 million which is sold against GBP and USD 3 million sold against NOK (please see section on foreign currency risk), accounts payable denominated in GBP, accounts receivables in USD and currency deposits where currencies differ from the various functional currencies:

Impact on profit in USD	GBP/USD				USD/NOK			
	2016		2015		2016		2015	
% change in exchange rates	10%	-10%	10%	-10%	10%	-10%	10%	-10%
Through outstanding currency derivatives	0.1	-1.0	2.8	-4.3	-0.4	0.2	-20.1	0.5
Through accounts payable	-0.3	0.3	-0.3	0.3	-	-	-0.1	0.1
Through accounts receivable	-	-	-	-	2.8	-2.8	5.8	-5.8
Through currency deposit accounts	0.7	-0.7	0.6	-0.6	0.3	-0.4	-	-
Total impact in USD million	0.5	-1.4	3.1	-4.6	2.7	-3.0	-14.4	-5.2

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Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Amounts in USD 000's	2016			2015		
	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
Assets carried at amortised cost						
Loans and receivables	94 666	94 666		321 641	321 641	
Cash and cash equivalents	290 362	290 362		214 098	214 098	
Total	385 028	385 028		535 739	535 739	
Liabilities carried at fair value						
Non-current liabilities						
Interest rate swaps	1 921	1 921	2	2 833	2 833	2
Current liabilities						
Currency contracts	396	396	2	17 659	17 659	2
Total	2 317	2 317		20 492	20 492	
Liabilities carried at amortised cost						
Secured bank loans	752 796	762 727	2	1 069 480	1 084 546	2
Bond loan	126 815	74 652	2	258 266	218 739	2
Trade and other payables	16 683	16 683		31 825	31 825	
Total	896 294	854 062		1 359 571	1 335 110	

The gain or loss on re-measurement to fair value for the financial instruments stated at fair values is recognized in profit or loss.

The mark to market value on the interest swaps is derived from the interest rate difference between the fixed rate and the relevant market interest rate for the remaining maturity of the interest rate swap.

The fair value of the bond loan is calculated using the average of bid and ask prices.

The Group is required to disclose the hierarchy of how fair value is determined for financial instruments recorded at fair value in the consolidated financial statements. The hierarchy gives highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 includes assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.

Note 15 - Mortgages and guarantees

Amounts in USD 000's	2016	2015
Interest-bearing debt	762 727	1 084 546
Other guarantees and liabilities	2 379	2 008
Total	765 106	1 086 554
The net book value of assets pledged as security:		
Rigs and drillship	1 330 113	1 814 767
Total	1 330 113	1 814 767

As a normal part of it operations, the Group has provided performance guarantees in relation to certain of its drilling contracts.

Note 16 - Employee benefits

Accounting policies

Pensions

The Company and certain of its subsidiaries have pension plans for employees which provide for a defined pension benefit upon retirement. The benefit to be received by employees generally depends on many factors including length of service, retirement date and future salary increases. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date reflecting the maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognized in other comprehensive income (OCI).

The Company and certain of its subsidiaries have a defined contribution plan, where the employer makes contributions on a regular basis to the employees individual pension account. The benefits received by the employee are based on the employer contributions and gains or losses from investing the capital. Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

In addition, employees of other subsidiaries are covered by multi-employer pension plans administered by trade unions and by plans administered by related companies. Costs related to these plans are expensed as incurred.

Key accounting estimate – pension obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the calculated pension obligations. The Group determines the appropriate discount rate at the end of each year. This rate is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The rate used for Norwegian subsidiaries is based on 10 year government bonds or OMF rate. Beyond 10 years the rate has been based on an extrapolation of the government bond rate and long-term swap rates for the relevant period. Other key assumptions for pension obligation are based on current market conditions.

Pension plans

Fred. Olsen Energy ASA including its subsidiaries Dolphin Drilling AS, Harland & Wolff Group Ltd and Harland & Wolff Heavy Industries Ltd have independent pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement. The total number of employees involved in the pension plans as of 31 December 2016 was 313 and the number of pensioners was 1 574, of which the majority is related to Harland & Wolff. Each of these pension plans are operated independently of each other and have no recourse in case of underfunding to either other pension plans or other companies within the Group.

Characteristics of the plans:

Harland & Wolff Group Ltd:

The pension scheme liabilities are spread mainly across the deferred and pensioner categories. The weighted average duration of the scheme's liabilities is 15 years. The scheme remains open to accrual for existing active members but is not open for new members. As of 31 December the active members are 33. Existing members (excluding Executive members) accrue an annual pension of 1/60th (to 1/30th depending on membership category) of final salary for each year of pensionable service, increasing in line with inflation while in payments. The scheme also provide 50% spouse's pension on the death of a member.

Norway:

Employees have the right to future pension benefits based on the number of contribution years and the salary level at retirement. The retirement age is 67 years. The offshore personnel retire at age 60. The pension funds are administered by pension funds legally separated from the Group.

The pension plan for the Norwegian Group companies is in accordance with the Norwegian law concerning mandatory occupational pension (OTP).

Fred. Olsen Energy ASA has pension agreement for senior management, in which the beneficiaries will receive 66% of their final year salary with early retirement at the age of 65 and up to 70% from the age of 67. This is unfunded pension obligations. Fred. Olsen Energy ASA has defined benefit plan for its employees but is not open for new members. New employees participate in a defined contribution plan.

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Employees not eligible for coverage under the defined benefit plans in the UK are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans. The Company's contributions to defined contribution plans for year ended December 31, 2016 and 2015 were USD 2.2 million and USD 3.1 million respectively. The Company's contribution to Norwegian seamen pension was USD 1.3 million in 2016 and USD 2.0 million in 2015.

The status of the defined benefit obligations is as follows:

Amounts in USD 000's	2016	2015
Present value of unfunded obligations	14 728	13 083
Present value of funded obligations	288 684	321 678
Total present value of obligations	303 412	334 761
Plan assets at market value	214 493	237 298
Net liability for defined benefit obligations	-88 919	-97 463
Hereof unfunded pension plans	-14 728	-13 083
Hereof funded pension plans	-74 191	-84 380
Net liability for defined benefit obligations	-88 919	-97 463
Other investments	0	0
Employee benefits	-88 919	-97 463
Balance at 31 December	-88 919	-97 463

Movements in the net liability for defined benefit obligations recognised in the balance sheet:

Amounts in USD 000's	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
Funded	2016	2015	2016	2015	2016	2015
Balance at 1 January	-321 678	-388 401	237 298	269 494	-84 380	-118 907
Pension contribution	0	0	7 066	15 675	7 066	15 675
Benefits paid by the plan	12 798	14 319	-12 267	-12 991	531	1 328
	12 798	14 319	-5 201	2 684	7 597	17 003
Included in profit or loss:						
Interest	-9 909	-12 185	7 195	8 488	-2 714	-3 697
Current service cost	-9 438	-14 384	0	0	-9 438	-14 384
Settlements	27 934	5 314	-12 513	-3 749	15 421	1 565
Net pension cost	8 587	-21 255	-5 318	4 739	3 269	-16 516
Included in other comprehensive income:						
Actuarial gain/(loss) arising from:						
Demographic assumptions	0	0	0	0	0	0
Financial assumptions	-29 774	32 557	18 410	-19 381	-11 364	13 176
Experience adjustments	3 531	7 158	0	0	3 531	7 158
	-26 243	39 715	18 410	-19 381	-7 833	20 334
Foreign currency translation	37 852	33 944	-30 696	-20 238	7 156	13 706
Balance at 31 December	-288 684	-321 678	214 493	237 298	-74 191	-84 380
Hereof Harland & Wolff Group Ltd	-215 927	-230 271	169 000	183 832	-46 927	-46 439

Amounts in USD 000's		
Unfunded	2016	2015
Balance at 1 January	-13 083	-14 992
Benefits paid by the plan	408	325
Included in profit or loss:		
Current service costs	-684	-997
Interest on pension liability	-334	-339
Settlements	-372	0
Net pension cost	-1 390	-1 336
Included in other comprehensive income:		
Actuarial gain/(loss) arising from:		
Financial assumptions	189	325
Experience adjustments	-599	141
	-410	466
Foreign currency translation	-253	2 454
Balance at 31 December	-14 728	-13 083

Total expense recognised in the income statement for all defined benefit plans:

Amounts in USD 000's	2016	2015
Current service costs	10 122	15 381
Interest on obligations	10 243	12 524
Expected return of plan assets	-7 195	-8 488
Gain on settlements	-15 049	-1 565
Net pension cost for defined benefit plans	-1 879	17 852
Hereof Harland & Wolff Group Ltd	2 413	1 789

Major categories of plan assets:

	2016	2015
Equity instruments	35 %	34 %
Corporate bonds	44 %	43 %
Government bonds	10 %	10 %
Annuities	7 %	9 %
Real estate	3 %	3 %
Cash	1 %	1 %
Plan assets	100 %	100 %

Approximately 98% of the equities and 82% of the bonds are quoted at bid prices. The annuities have been valued on a basis consistent with the valuation of the Scheme's liabilities. There are no investments in the Company or in property occupied by the Group.

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Total present value of obligations

Amounts in USD 000's	2016	2015
Employees	85 441	110 311
Deferred	86 747	90 764
Pensioners	131 224	133 686
Total present value of obligations	303 412	334 761

Assumptions used in the calculation of pension obligations are as follows:

	2016		2015	
	UK	Norway	UK	Norway
Assumed salary increases	3.2%	2.25%	2.8%	2.25%
Discount rates	2.8%	2.5%	3.7%	2.5%

Sensitivity:

Amounts in USD 000's	Increase in PBO [1]
Future salary and pension increase with 0.25%	-3 876
Discount rate decrease by 0.25%	-13 964
Future mortality increase by 1 year	-9 977

[1] Projected Benefit Obligation

Expected contributions to funded defined benefit plans in 2017 are USD 4 million. Expected payments of benefits for the unfunded plans are in 2017 estimated to be USD 0.5 million.

Risks:
The major risks for the defined benefit plans are interest rate risk, investment risk, inflation risk and longevity risk.

A potential risk for the Harland and Wolff Group PLC pension scheme may affect the ability to meet the benefits payable and on the stability of future contributions. A recovery plan was put in place following the 31 December 2013 actuarial valuation to eliminate the deficit as calculated on the valuation assumptions. The recovery plan assumes that future experience will match the valuation assumptions. If future experience is unfavorable (for example investment returns are lower than expected), the deficit will take longer than the plan (December 2026) to clear unless the recovery plan is appropriately revised.

Note 17 - Rental & Leases

Leases as lessee

Accounting policies

Operating lease expenses
Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. The Group does not have any financial leases.

Amounts in USD 000's	2016	2015
Less than one year	631	1 107
Between one and five years	2 126	2 323
More than five years	33 813	41 327
Total	36 570	44 757

The Group has certain long-term operating leases expiring on various dates, some which contain renewal options.

The Group subsidiary Compact Properties (NI) Ltd. in Belfast has a property lease contract that expires in 2114 and is the major part of the above.

Leases as lessor

Accounting policies

The Group recognize revenue from lease on a systematic basis based on the benefits received from the leased assets.

IAS 17 require the Group to disclose future minimum lease payments under non-cancellable operating leases. For historical lease payments, the charter contracts consists of both lease payments and service payments. Due to the nature of the terms and conditions in the various charter rate contracts and the uncertainty of future operational performance, management is of the opinion that disclosing the lease payment part separately from the service payments will not add any value to the reader in understanding the charter payments. Furthermore, it will be difficult to reconcile the lease payments to the total charter payments.

Contractual income

Bolette Dolphin, which commenced its first contract in May 2014, continued operations under its four-year drilling contract with Anadarko Petroleum Corporation in 2016. The unit has operated in Ivory Coast and Colombia during 2016. The contract expires in July 2018. The maximum contractual dayrates are USD 419 000 (for 6 months) and USD 488 000, which includes revenue both from lease rentals and services rendered.

Blackford Dolphin continued under a contract for Chevron, for operations in UK. The contract was expected to expire early February 2017. In January 2017, the contract with Chevron was extended until the end of February 2017. The maximum contractual dayrates are USD 428 000 for January 2017 and thereafter USD 118 500, which includes revenue from lease rentals and services rendered.

Bideford Dolphin continued operations under a three-year drilling contract for Statoil ASA. The contract expired in early February 2017. In January the contract with Statoil was extended with one well, estimated to 35 days with completion early March. The maximum contractual dayrates are USD 428 000 for January 2017 and thereafter USD 175 000, which includes revenue from lease rentals and services rendered.

Note 18 - Related parties

In the ordinary course of business, the Group recognizes revenues and expenses with related companies, which may have a significant impact on the Group's Consolidated Financial Statements. The Group receives certain administrative, financial, and legal advisory services from Fred. Olsen & Co. The agreements are on arms-length terms and are subject to ordinary termination provisions. Other related parties relate to subsidiaries of Bonheur ASA. Revenues and purchases from such companies were as follows:

Amounts in USD 000's	2016	2015
Revenues		
Others	442	30
Total	442	30
Operating expense		
Others	95	129
Bonheur ASA	180	198
Fred. Olsen & Co.	989	936
Total	1 264	1 263
Accounts receivables		
Other	0	50
Total	0	50
Accounts payable		
Fred. Olsen & Co.	20	39
Other	12	34
Total	32	73
Loan to employees		
Loan to senior management	15	67
Loan to employees	61	84
Total	76	151

Average interest rate for loans to employees was 2.3% for 2016 and 2.7% for 2015. Part of the amount contains rolling travel advances.

The loans to senior management have monthly settlements and is fully repaid in 4th quarter 2018. One of the loans was fully repaid in 2016.

Members of the senior management and Board of Directors hold in total NOK 25 million in FOE05 bonds.

The remunerations of Board of Directors and senior management were as follows:

	Board of Directors	
Amounts in USD 000's	2016	2015
Remuneration	122	135
Total	122	135

	Senior Management	
Amounts in USD 000's	2016	2015
Salary	1 870	2 265
Bonus	224	841
Pension costs	142	226
Other	165	229
Total	2 401	3 561

2016

Amounts in USD 000's	Board remuneration	Salary	Bonus	Other	Pension	Total
Senior Management						
Ivar Brandvold, Chief Executive Officer	20	654	98	21	38	831
Hjalmar Krogseth Moe, Chief Financial Officer	9	272	42	20	32	375
Total parent company	29	926	140	41	70	1 206
Gunnar Koløen, Managing Director		290	28	57	35	410
Robert Cooper, Managing Director		292	-	34	-	326
Graeme Murray, Managing Director (until 30th September)		298	56	-	33	387
Johan Finnestad, Acting Managing Director (from 1st October)		64	-	4	4	72
Total	29	1 870	224	136	142	2 401
Board of Directors						
Anette S. Olsen	30					30
Øivin Fjeldstad (until May)	16					16
Richard Olav Aa (from October)	-					-
Jan Peter Valheim	24					24
Agnar Gravdahl	24					24
Cecilie B. Heuch	24					24
Stephen Knutzon	4					4
Total	122	0	0	0	0	122

2015

Amounts in USD 000's	Board remuneration	Salary	Bonus [1)]	Other	Pension	Total
Senior Management						
Ivar Brandvold, Chief Executive Officer	23	675	297	23	31	1 049
Hjalmar Krogseth Moe, Chief Financial Officer	12	284	130	22	24	472
Total parent company	35	959	427	45	55	1 521
Gunnar Koløen, Managing Director (from 1st August)		293	71	91	108	563
Joakim Kleppe, Managing Director		296	143	21	19	479
Robert Cooper, Managing Director		332	47	37	-	416
Graeme Murray, Managing Director		385	153	-	44	582
Total	35	2 265	841	194	226	3 561
Board of Directors						
Anette S. Olsen	31					31
Øivin Fjeldstad	25					25
Jan Peter Valheim	25					25
Agnar Gravdahl	25					25
Cecilie B. Heuch	25					25
Stephen Knutzon	4					4
Total	135	0	0	0	0	135

The pension above reflect the contribution to the plans. Earned pension entitlement to Chief Executive Officer is for 2016 USD 0.4 million (2015: USD 0.4 million).

Senior Management consists of Group management (Chief Executive Officer and Chief Financial Officer) and the Managing Directors in the subsidiaries, a total of 5 employees during 2016.

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The management has a management cash bonus scheme. The beneficiaries of the scheme are senior management and certain key personnel. Annual bonus awards under the scheme are maximised to one year's salary. One third of the annual bonus award will be paid upon approval of the final accounts, while the remaining balance will be paid evenly over the subsequent two years. The scheme is subject to the Group achieving certain predefined financial criteria, including achieved budget goals and development of the Company's share price. The Group has not any share based remuneration scheme.

Guidelines for 2016

The Board of Directors of Fred.Olsen Energy ASA has a Compensation Committee comprising four Directors including the Chairman of the Board and two Directors independent of the main shareholders. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer and senior management as well as management incentive schemes for the Group.

The policy of Fred.Olsen Energy ASA is to offer competitive payments and benefits to senior management to attract qualified management within the company's business segments. The Company seeks to apply competitive and motivating remuneration principles to attract, develop and retain highly qualified employees.

The salaries paid to the senior management are determined on the basis of the responsibility and complexity of the appointment in question. A part of the remuneration to the senior management is based on the Company's financial performance and related to achieved budget goals and the increase in market value of the shares for the Company.

The remuneration for 2016 has been in accordance with the statement presented at the Annual General Meeting in May 2016.

Note 19 - Contingencies

The Group is subject to various legal and tax claims arising in the normal course of business which the Group assesses on a regular basis.

Outstanding receivables from customers

As per 31 December 2016 the Group was involved in legal disputes with one specific customer with the original claims in dispute amounted to USD 18.3 million. The Group won the legal dispute, originally amounting to USD 14 million and received payment of USD 11 million as per 31 December 2016. USD 3 million is still outstanding and is made provision for. Furthermore there are outstanding dispute regarding interest calculation on the original disputed amount.

Outstanding issues from suppliers

A Group Company is involved in a customs issue in one of the countries of operation. This is not expected to have a material effect on the accounts.

Note 20 - Shareholder information

Shareholders holding more than 1% of the shares at 31 December 2016 are as follows:

Shareholder	Percent of shares	Number of shares
Bonheur ASA	51.92 %	34 628 764
Clearstream Banking S.A	2.77 %	1 844 522
Nordnet Bank AB	2.63 %	1 754 037
Folketrygdfondet	2.57 %	1 712 732
Danske Bank AS	2.00 %	1 336 134
J.P. Morgan Chase Bank N.A. London	1.29 %	858 503
Statoil pensjon	1.09 %	730 000
Avanza Bank AB	1.01 %	672 784
Others	34.72 %	23 156 753
Total	100.00 %	66 694 229

Shares owned directly by the Company's directors and senior management at 31 December 2016:

Name	Title	Shares
Anette S. Olsen	Chairman	100 [1]
Øivin Fjeldstad	Director (until May 2016)	4 220
Agnar Gravdal (Agdal Management AS)	Director	50 000
Hjalmar Krogseth Moe	Chief Financial Officer	10 000

[1] Private Fred. Olsen related interests directly/indirectly hold a majority shareholding interest with the Company.

Note 21 - Earnings per share

Accounting policies

Basic

Basic earnings per share is calculated by the profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares outstanding.

The calculation of basic and diluted earnings per share is based on the following data:

Earnings

Amounts in USD 000's	2016	2015
Earnings for the purpose of basic earnings per share	-104 651	-350 881
Effect of dilutive potential ordinary shares	0	0
Earnings for the purpose of diluted earnings per share	-104 651	-350 881

Number of shares

In 1000's	2016	2015
Weighted average number of ordinary shares for the purposes of basic earnings per share	66 264	66 264
Effect of dilutive potential ordinary shares	0	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	66 264	66 264

Earnings per share

	2016	2015
Basic	-1.58	-5.30
Diluted	-1.58	-5.30

Note 22 - Subsidiaries

The ownership percentage in subsidiaries as of 31 December 2016 was as follows:

Company	Jurisdiction	Shareholding and voting shares
Dolphin Drilling AS	Norway	100.0 %
Dolphin International AS	Norway	100.0 %
Dolphin Finans AS	Norway	100.0 %
Fred. Olsen Energy Management AS	Norway	100.0 %
Blackford Dolphin Pte. Ltd.	Singapore	100.0 %
Bideford Dolphin Pte. Ltd.	Singapore	100.0 %
Borgland Dolphin Pte. Ltd.	Singapore	100.0 %
Borgsten Dolphin Pte. Ltd.	Singapore	100.0 %
Byford Dolphin Pte. Ltd.	Singapore	100.0 %
Borgny Dolphin Pte. Ltd.	Singapore	100.0 %
Dolphin Drilling Pte. Ltd.	Singapore	100.0 %
Borgholm Dolphin Pte. Ltd.	Singapore	100.0 %
Bredford Dolphin Pte. Ltd.	Singapore	100.0 %
Bolette Dolphin Pte. Ltd.	Singapore	100.0 %
Bollsta Dolphin Pte. Ltd.	Singapore	100.0 %
Dolphin Drilling Personnel Pte. Ltd.	Singapore	100.0 %
Dolphin Drilling Ltd	Scottland	100.0 %
Dolphin Drilling Operations Ltd.	Scottland	100.0 %
Dolphin Drilling South Africa (Proprietary) Ltd.	South Africa	100.0 %
Dolphin Drilling Perfuracão Brasil Ltda	Brazil	100.0 %
Dolphin Brasil Ltda	Brazil	100.0 %
Dolphin Drilling Malta Ltd.	Malta	100.0 %
Atlan Shipping Co. Ltd.	Bermuda	100.0 %
Harland and Wolff Group PLC	Northern Ireland	92.2 %
Harland and Wolff Heavy Industries Ltd.	Northern Ireland	92.2 %
Compact Holdings (NI) Ltd.	Northern Ireland	100.0 %
Compact Properties (NI) Ltd.	Northern Ireland	100.0 %

Note 23 - Subsequent events

On 26 January 2017, the Bondholders in FOE05 approved the request for temporarily waiving the net debt/EBITDA and the EBITDA/net interest expenses covenants. As a consequence, a partial redemption of NOK 75 million took place in February 2017.

Fred. Olsen Energy ASA

Income Statement

For the years ended 31 December

Amounts in USD 000's	Note	2016	2015
Revenues	15	619	775
(Loss) / Gain on sale of equipment	7	-3	21
Salaries and other personnel costs	3	-4 881	-5 505
Other operating expenses	4	-2 777	-2 426
Operating loss before depreciation and net financial income		-7 042	-7 135
Depreciation	7	-39	-15
Operating loss before financial income		-7 081	-7 150
Group contribution and dividend		470 976	489 360
Financial income		8 044	62 009
Impairment of investments	16	-392 464	-302 514
Financial expenses		-79 628	-108 107
Net financial income	5	6 928	140 748
Profit/(loss) before tax		-153	133 598
Income tax expense	6	0	0
Profit/(loss) for the year		-153	133 598
Proposed allocations:			
(From)/ To other equity		-153	133 598
Total allocations		-153	133 598

The notes represent an integral part of the financial statements.

Fred. Olsen Energy ASA

Balance Sheet

As at 31 December

Amounts in USD 000's	Note	2016	2015
Assets			
Property, plant and equipment	7	10	61
Investments in subsidiary companies	16	1 636 531	1 943 084
Other non-current assets	3, 8, 15	11 846	16 564
Deferred tax assets	6	0	0
Total non-current assets		1 648 387	1 959 709
Other current assets		54	208
Trade and other receivables	9, 15	57 452	57 492
Cash and cash equivalents	10	42 462	70 687
Total current assets		99 968	128 387
Total assets		1 748 355	2 088 096
Equity			
Share capital		193 290	193 290
Treasury shares		-1 215	-1 215
Share premium		83 550	83 550
Other equity		331 920	332 186
Total equity	11	607 545	607 811
Liabilities			
Interest-bearing loans and borrowings	12	890 337	1 018 509
Other non-current liabilities	3	14 475	13 301
Total non-current liabilities		904 812	1 031 810
Interest-bearing loans and borrowings	12	0	325 658
Intercompany interest-bearing loans	15	217 500	0
Trade and other payables	13, 15	9 948	95 854
Currency derivatives	17	258	17 659
Other accrued expenses	14	8 292	9 304
Total current liabilities		235 998	448 475
Total liabilities		1 140 810	1 480 285
Total equity and liabilities		1 748 355	2 088 096

The notes represent an integral part of the financial statements.

Oslo, 31 December 2016 / 4 April 2017
Fred. Olsen Energy ASA

Anette S. Olsen *Chairman*	Jan Peter Valheim	Cecilie B. Heuch	Richard Olav Aa	Agnar Gravdal	Ivar Brandvold *Chief Executive Officer*

Fred. Olsen Energy ASA

Statement of Cash Flows

For the years ended 31 December

Amounts in USD 000's	Note	2016	2015
Cash flows from operating activities			
Profit/(loss) before income taxes		-153	133 598
Adjustment for:			
Group contribution		38 725	-125 499
Depreciation	7	39	15
Impairment of investments in subsidiaries	16	392 464	302 514
Interest expenses		49 290	69 096
Loss / (Gain) on sale of property, plant and equipment		3	-21
Unrealised currency gain financial instruments		-8 969	-44 052
Changes in trade and other receivables		265	708
Changes in trade and other payables		-9 924	10 144
Changes in other balance sheet items		6 833	-8 777
Cash generated from operations		468 573	337 726
Interest paid		-49 932	-48 162
Net cash from operating activities		418 641	289 564
Cash flows from investing activities			
Proceeds from sale of equipment		9	0
Net purchase of property, plant and equipment		0	93
Repayment of receivable		217 500	0
Investment in subsidiary		-218 706	0
Repayment from subsidiary		94 000	-290 000
Net cash used to investing activities		92 803	-289 907
Cash flows from financing activities			
Borrowing of interest-bearing loans		195 000	130 000
Repayments of interest-bearing loans		-659 882	-219 864
Intercompany interest-bearing loans		-74 787	104 520
Net cash from financing activities		-539 669	14 656
Net increase in cash and cash equivalents		-28 225	14 313
Cash and cash equivalents at 1 January		70 687	56 374
Cash and cash equivalents at 31 December		42 462	70 687

The notes represent an integral part of the financial statements.

Fred. Olsen Energy ASA

Notes to the Financial Statements

Note 1 - Basis of presentation

Fred. Olsen Energy ASA (the Company) is domiciled in Norway. The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Norway.

The financial statements which have been prepared by the Company's Board of Directors and Management should be read in conjunction with the report of the Board of Directors and the Auditors report. The financial statements have been prepared in accordance with the requirements of the Norwegian Accounting Act. The Company's financial statement are presented in US Dollar (USD).

Fred. Olsen Energy ASA is a company being consolidated into the Bonheur group of companies. Bonheur ASA has prepared consolidated financial statements and has business address Fred. Olsensgt. 2, Oslo.

The notes and accounting policies refer to the Company's financial statements unless specified otherwise.

Note 2 - Summary of significant accounting policies

Foreign currency

Gains and losses on transactions denominated in foreign currencies are included in financial income/(expense). Transactions in foreign currencies are translated into USD using the exchange rates applicable at the time of each transaction. Monetary items in foreign currencies are translated into USD using the exchange rates applicable on the balance sheet date. Non-monetary items that are measured at historic cost in a foreign currency are translated into USD using the exchange rates applicable on the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated into USD using the exchange rates applicable on the date of measurement. Valuation changes due to exchange rate fluctuations are recorded on a continuous basis under other financial items.

Non-current assets

The carrying amount of the Company's non-current assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, each asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined by the higher of fair value or estimated future discounted cash flows. In estimating future discounted cash flows, certain assumptions are made concerning discount rates which vary depending on the asset, terms of relevant contracts, foreign currencies, useful life of the assets and market growth. Impairment losses are recognised in the income statement.

Classification and valuation of other balance-sheet items

Current assets and current liabilities include items due within one year. Other assets and liabilities due after one year are classified as non-current assets or non-current liabilities. Current assets are valued at the lowest of cost and fair value. Current liabilities are valued at nominal value at the time of recognition.

Cash and cash equivalents

The cashflow statement is prepared in accordance with the indirect method.
Cash and cash equivalents includes cash and bank deposits that are readily convertible to cash.

Use of estimates

The preparations of financial statements require use of estimates, judgements and assumptions that may affect the use of accounting principles and recognized assets, liabilities, income and expenses. The resulting accounting estimates may differ from the eventual outcome.

Estimating the fair value is a complex process involving a number of key judgements and estimates regarding various inputs. Due to the nature of the underlaying asset of investments in subsidiaries, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable independent inputs.

As a result of the current market situation for the underlaying assets and because there are more than normal uncertainty when new contracts will be entered into and the related future dayrate levels, fair value of the underlying assets is exposed to high estimation uncertainty.

Note 3 - Salaries and other personnel costs

Amounts in USD 000's	2016	2015
Salaries	2 692	2 798
Social security expenses	457	560
Pension costs	1 227	1 622
Travel expenses	262	438
Other	243	87
Total	4 881	5 505
Average man-labour year	14	16

Salaries, remuneration and other personnel expenses to the Chief Executive Officer, Senior Management and Board of Directors, see note 18 for the Group.

Pension Plans

Fred. Olsen Energy ASA has pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement.

The pension plan assets consist primarily of bank deposits, investments in fixed income and equity securities. The pension plan for the Company is in accordance with the Norwegian law concerning mandatory occupational pension (OTP). The Company accounts for defined benefit pension plans in accordance with NRS 6A, which means that the company can elect to present pension liabilities in NGAAP accounts in accordance with IAS 19. Costs related to these plans are expensed as incurred. Amendments have been issued to IAS 19, which change the measurement principles of expected return on plan assets and remove the accounting policy choice for recognition of actuarial gains and losses using the corridor mechanism. The total number of employees involved in the pension plans as of 31 December 2016 was 12.

As of 1st June 2012 the defined benefit plan was closed for new members, and are included in the defined contribution plan.

The Company has an extended pension plan agreement for CEO and Senior Management, in which the beneficiaries will receive up to 70% of their final year salary at early retirement at the age of 65.

The funded status of the defined benefit pension plans is as follows:

Amounts in USD 000's	2016	2015
Projected benefit obligation	-17 588	-16 742
Plan assets at market value	3 112	3 441
Net pension liability	-14 475	-13 301

..the note continues on the next page

Movements in the net liability for defined benefit obligations recognised in the balance sheet:

Amounts in USD 000's	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
Funded and unfunded	2016	2015	2016	2015	2016	2015
Balance at 1 January	-16 742	-19 237	3 441	3 656	-13 301	-15 581
Pension contribution	0	0	40	290	40	290
Benefits paid by the plan	390	327	-42	-40	348	287
	390	327	-2	250	388	577
Included in profit or loss:						
Interest	-434	-436	94	90	-340	-346
Current service cost	-847	-1 257	0	0	-847	-1 257
Net pension cost	-1 281	-1 693	94	90	-1 187	-1 603
Included directly in equity:						
Actuarial gain/(loss) arising from:						
Transferred value to employees left the scheme	151		-151		0	0
Financial assumptions	-238	520	-343	24	-581	544
Experience adjustments	466	194	0	0	466	194
	379	714	-494	24	-115	738
Foreign currency translation	-334	3 147	74	-579	-260	2 568
Balance at 31 December	-17 588	-16 742	3 113	3 441	-14 475	-13 301

Assumptions used in the calculation of pension obligations are as follows:

	2016	2015
Assumed salary increases	2.25 %	2.25 %
Discount rates	2.50 %	2.50 %

Net periodic pension costs for defined benefit plans are as follows:

Amounts in USD 000's	2016	2015
This period's earned pensions	847	1 252
Interest expense on pension liabilities	434	434
Earnings on pension funds	-94	-90
Net pension cost for defined benefit plans	1 187	1 596
Net pension cost for defined contribution plans	40	26
Actuarial gain / (loss) on defined benefit pension plans recorded in equity	-113	738
Accumulated actuarial gain / (loss) on defined benefit pension plans through equity	-7 033	-6 920

Social security cost of pension cost is included in the calculation from the actuary, and is expensed in net pension cost.
Earned pension entitlement to Chief Executive Officer are for 2016 USD 0.4 million (2015: USD 0.4 million).

The following loans were outstanding to employees of the Company:

Amounts in USD 000's	2016	2015
Loan to employees	63	100
Loan to Chief Executive Officer	0	44
Total	63	144

The loans comply with Company law requirements and are adequately secured, when required. The loan will be repaid monthly, and in full within October 2018.

Note 4 - Other operating expenses

Amounts in USD 000's	2016	2015
General operating overheads	2 597	2 228
Property rental expenses	180	198
Total	2 777	2 426

Fees for audit (exclusive VAT) and other services provided by the Company's auditor are as follows:

Amounts in USD 000's	2016	2015
Audit fees	257	216
Tax advisory services	5	8
Other non-audit services	16	48
Total	278	272

Note 5 - Financial income and expenses

Amounts in USD 000's	2016	2015
Financial income		
Interest income	4 466	5 759
Group contribution and dividend	470 976	489 360
Gain on foreign currency contracts	1 531	0
Other financial income	403	494
Foreign exchange gains	1 645	55 756
Total	479 020	551 369
Financial expense		
Interest expenses	49 290	69 096
Loss on foreign currency contracts	0	14 813
Other financial expenses	18 352	20 202
Impairment of investments in subsidiaries	392 464	302 514
Foreign exchange losses	11 986	3 996
Total	472 092	410 621
Net Financial income	6 928	140 748

The Board of Directors of the subsidiary Dolphin Drilling AS has proposed a Group contribution to Fred. Olsen Energy ASA of USD 18.4 million. The company has through the year 2016 received dividend from the subsidiary Dolphin International AS of USD 452.5 million.

Interest income is related to return on cash and cash equivalents and loans to other companies in the Group.

Interest expenses is primarily expenses related to bank loan and bond loan, and amortised borrowing costs.

Other financial expenses is primarily guarantee fee to other companies in the Group.

Information regarding interest income and expenses from Group companies and other related parties is provided in note 15.

Note 6 - Taxes

Accounting policies

Income taxes

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates as they apply to taxable income in the years in which the differences are expected to be recovered or settled. Deferred tax assets are recognised in the balance sheet to the extent that is more likely than not that benefits will be recognised.

Temporary differences between the book and tax basis of assets and liabilities, and related deferred taxes, are as follows:

Amounts in USD 000's	2016	2015
Temporary difference	15 345	-23 451
Temporary difference related to investment i shares	-6 297	-6 162
Losses carried forward	-448 315	-445 544
Limitation of deferred tax assets	439 267	475 157
Net basis for deferred tax (assets)/liabilities	0	0

Deferred tax assets have not been recognised in respect of these items, because it is not probable that future taxable profits will be available against which the Company can utilize the benefits.

The provisions for income taxes are as follows:

Amounts in USD 000's	2016	2015
Profit before income tax	-153	133 598
Change in temporary differences	-39 337	29 838
Dividend / Group contribution without tax effect	-452 540	-432 200
Permanent differences	319 162	288 993
Currency effects in tax filings	179 839	-185 433
Utilized tax losses carry forward	-6 971	0
Basis taxes payable	-0	-165 204
Tax rate	25 %	27 %

Effective tax rate:

Amounts in USD 000's	2016		2015	
Expected income tax expense according to statutory tax rate	-38	25 %	36 071	27 %
Permanent differences	11 615		-88 733	
Effect of tax losses utilized / changes in temporary differences not recognized	-11 577		52 661	
Income tax	-0	0 %	-0	0 %

Note 7 - Property, plant and equipment

Accounting policies

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over 3-5 years.

Amounts in USD 000's	2016	2015
Cost		
Balance at 1 January	4 617	4 930
Additions during the period	0	4
Disposals during the period	-4 580	-317
Balance at 31 December	37	4 617
Accumulated depreciation		
Balance at 1 January	4 556	4 782
Depreciation during the period	39	15
Disposals during the period	-4 568	-241
Balance at 31 December	27	4 556
Net book value at 31 December	10	61

Note 8 - Other non-current assets

Amounts in USD 000's	2016	2015
Capitalised borrowing costs	10 727	16 420
Long-term receivables (see note 15)	1 119	144
Total	11 846	16 564

Note 9 - Trade and other receivables

Amounts in USD 000's	2016	2015
Related parties (note 15)	57 492	57 492
Total	57 492	57 492

Note 10 - Cash and cash equivalents

Amounts in USD 000's	2016	2015
Payroll taxes	171	159
Total restricted cash	171	159
Unrestricted cash	42 291	70 528
Total cash and cash equivalents	42 462	70 687

Note 11 - Capital and reserves

Amounts in USD 000's	Share capital	Treasury shares	Share premium	Paid in other equity	Other equity	Total
Balance at 1 January 2015	193 290	-1 215	83 550	24 931	172 919	473 475
Net profit for the year	0	0	0	0	133 598	133 598
Actuarial gain on defined benefit pension plans	0	0	0	0	738	738
Balance at 31 December 2015	193 290	-1 215	83 550	24 931	307 255	607 811
Balance at 1 January 2016	193 290	-1 215	83 550	24 931	307 255	607 811
Net profit for the year	0	0	0	0	-153	-153
Actuarial loss on defined benefit pension plans	0	0	0	0	-113	-113
Balance at 31 December 2016	193 290	-1 215	83 550	24 931	306 989	607 545

Treasury shares

The Company has not purchased nor sold any own shares in 2016 and at 31 December 2016 the Company holds 430 100 of its own shares.

Par value

The par value per share in the Company is NOK 20.

Note 12 - Interest-bearing loans and borrowings / Mortgages

Amounts in USD 000's	Nominal value 31.12.16	Contractual cash flows	Interest rate	Principal and interest payments 2017	2018	2019	2020
FOE05 bond loan (NOK)	127 610	139 086	3M Nibor + 3.00%	5 309	5 309	128 468	
Syndicated Bank Facility (USD)	762 727	825 191	3M Libor + 2.70%	24 892	210 426	204 421	385 452
Total	890 337	964 277		30 201	215 735	332 889	385 452

Fair value of the bond loans see note 14 for the Group.

The Company issued a bond loan of NOK 1 100 million in February 2014. The bond was raised in the Norwegian bond market at a coupon of 3 months Nibor + 3.00 %.
In June 2014 the Company signed a six year bank credit facility of USD 2 000 million. USD 550 million of the facility was cancelled as a result of the construction contract of Bollsta Dolphin being terminated.
Due to a covenant waiver, the instalments for 2017 was prepaid late 2016 hence USD 763 million was drawn under the facility as per end of 2016.
The available revolving credit facility was amended whereby USD 105 million of the revolving credit facility is temporarily suspended until 30 June 2018 and USD 105 million was permanently cancelled.

Mortgages:

Amounts in USD 000's	2016	2015
Interest-bearing debt	762 727	1 084 546
Total	762 727	1 084 546
The net book value of assets pledged as security:		
Rigs and drillship	1 330 113	1 814 767
Total	1 330 113	1 814 767

The net book value of the Groups rigs and drillships are pledged as security for the syndicated bank facility.

Note 13 - Trade and other payables

Amounts in USD 000's	2016	2015
Trade	58	23
Related parties (note 15)	9 890	95 831
Total	9 948	95 854

See note 15 for additional information on balances with Group companies and other related parties.

Note 14 - Other accrued expenses

Amounts in USD 000's	2016	2015
Accrued wages	603	927
Accrued interest	7 674	8 316
Other	15	61
Total	8 292	9 304

Note 15 - Related parties

In the ordinary course of business, the Company recognises revenues and expenses with related companies, which may have a significant impact on the Company's financial statements. The Company receives certain administrative and legal advisory services from Fred. Olsen & Co. The agreements are on arms-length terms and are subject to ordinary termination provisions. Other related parties relate entirely to Bonheur ASA which are the owner of 51.92 % of the shares in the Company, and their subsidiaries and Fred. Olsen & Co.

Revenues, purchases, financial income and financial expenses from such companies were as follows:

Amounts in USD 000's	2016	2015
Revenues		
Subsidiaries	619	775
Total	619	775
Operating expenses		
Subsidiaries	83	91
Other related parties	1 169	1 134
Total	1 252	1 225
Financial income		
Subsidiaries	475 231	494 916
Total	475 231	494 916
Financial expense		
Subsidiaries	21 208	20 920
Total	21 208	20 920

Revenues from subsidiaries are recharge of personnel expenses and administrative income. Financial income relates to dividend and Group contribution.

Amounts in USD 000's	2016	2015
Other non-current assets		
Subsidiaries	1 056	0
Other related parties	63	144
Total	1 119	144
Trade and other receivables		
Subsidiaries	57 452	57 492
Total	57 452	57 492

The balance relates primarily to Group contributions and loans to subsidiaries.

The subsidiaries will repay the loans based on the "pay-as-you earn" principle. The interest rate is based on market rate plus a margin.

Amounts in USD 000's	2016	2015
Interest-bearing loans subsidiaries	217 500	0
Trade and other payables		
Subsidiaries	9 858	95 783
Other related parties	32	48
Total	9 890	95 831

See note 5, 8, 9 and 13 for further information on transactions with related parties.

Note 16 - Investments in subsidiary companies

Accounting policies

Investments in subsidiaries are accounted for using the cost method in the Company's accounts. The investments are valued at cost less any impairment losses. Write downs to fair value are recognised when the impairment is considered not to be temporary. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

Amounts in USD 000's Subsidiaries	Business Offices	% of holding & voting shares	Equity	Net profit (loss)	Book value 31.12.15	Capital changes	Impair-ment	Book value 31.12.16
Dolphin Drilling AS	Tananger, Norway	100 %	32 786	20 536	39 785		-7 000	32 785
Dolphin International AS	Oslo, Norway	100 %	1 265 167	-187 837	1 528 205		-263 038	1 265 167
Dolphin Finans AS	Oslo, Norway	100 %	145 138	2 142	280 081	-132 795	0	147 286
Fred. Olsen Energy Management AS	Oslo, Norway	100 %	-	-		1 206	0	1 206
Atlan Shipping Co. Ltd.	Hamilton, Bermuda	100 %	-124	-38	0		0	0
Dolphin Drilling Perfuracao Brasil Ltda	Macae, Brazil	0,01 %	-1 944	-4 111	12		0	12
Dolphin Drilling Operations Ltd	Aberdeen, UK	100 %	85 383	-1	85 001		0	85 001
Dolphin Drilling Ltd	Aberdeen, UK	55 %	190 075	-48 712	10 000	217 500	-122 426	105 074
Total					1 943 084	85 911	-392 464	1 636 531

The company Dolphin Drilling Ltd is indirectly 100 % owned by Fred.Olsen Energy ASA.

The Company has accounted for an investment of USD 218.7 million, a repayment of USD 132.8 million and an impairment of USD 392.5 million. The Company has received USD 452.5 million as dividend from subsidiaries recorded for in profit and loss.

Note 17 - Financial instruments

Accounting policies

The Company may be exposed to interest rate- and foreign currency risks in its operations. Derivative financial instruments are from time to time entered to hedge against fluctuations in foreign currency rates and interest rate levels.

Interest rate derivatives

The Company uses derivative financial instruments to manage the Group's exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Unrealised gains and loss on interest rate derivatives are recognised on a current basis.

Forward exchange contracts

The Company may enter into forward currency contracts throughout the year to hedge the currency exposure on income, expenses, investments and debt in Great British pounds (GBP), United States dollars (USD) and Norwegian kroner (NOK). Unrealised gains/losses on foreign exchange contracts used to offset the effect of anticipated transactions are marked to market and recognised as financial income or expenses.

Interest rate risk

The Company had no interest derivatives at 31 December 2016 or 2015.

Foreign currency risk

At 31 December 2016, the Company had outstanding currency derivative contracts for forward sale of USD 6 million against GBP (2015: USD 46 million) and USD 3 million against NOK (2015: USD 115 million).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2016 USD 0.3 mill recorded as current liability (2015: USD 17.7 million. A net gain of USD 1.5 million related to foreign exchange contracts was recorded as financial income in 2016 (2015: net loss of USD 14.8 million).

Auditor's Report

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To the General Meeting of Fred. Olsen Energy ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fred. Olsen Energy ASA. The financial statements comprise:

- The financial statements of the Parent company, which comprise the balance sheet as at 31 December 2016, the income statement and statement of cash flows 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 consolidated statement of financial position as at 31 December 2016, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows 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 the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- 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 and of the Group 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.

Valuations of offshore units (drillships and rigs) in Group financial statement and valuation of shares in subsidiaries in Parent company financial statements.

We refer to the sections "Offshore Drilling" and "Financial result and balance sheet at year end" in the Board of Director's report.
The value of offshore units at year-end constitute 72 % of the Group's total balance, after the recognition of an impairment of USD 219 million. We refer to note 8 and 9 of the Group Financial Statements.
Investment in subsidiaries for the Parent company constitute 93 % of the total balance, after the recognition of an impairment of 392 million. We refer to note 16 of the Parent company.

Key audit matter	*How the matter was addressed in our audit:*
The observable market capitalization for the Group is significantly lower than the book value of equity. This triggered the need for impairment tests of the Group's offshore units. The Group's offshore units are valued at the lowest of net book value and fair value using a value in use approach. Estimating the fair value is a complex process involving a number of key judgements and estimates of various inputs. Due to the nature of the offshore units, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable independent inputs. As a result of the current market situation and because of the increased level of uncertainty related to the timing of new contracts and the related future day rate levels, fair value of the offshore units is exposed to high estimation uncertainty. The above mentioned impairment risk has a direct impact on the valuation of shares in subsidiaries for the Parent company.	Our audit procedures in this area included, among others: • Challenging the Groups valuation model , including the assumptions and input used in calculating the estimated cash flows by comparing with past and present performance, expected market development and the Group's plans, as well as our understanding of the industry and the economic environment the Group operates in; • Involving a KPMG valuation specialist to assess the mathematical and methodological integrity of management's impairment models and to assess the discount rate applied with reference to market data; • Evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, 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, with the exception of our "Report on Other Legal and Regulatory Requirements" below.

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.

Auditor's Report

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 Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, 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. The financial statements of the Parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the Group use 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.

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 ISAs, we exercise professional judgment and maintain professional skepticism 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 or the Group'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.

Auditor's Report

- 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 the Board of Directors 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

We also provide the Board of Directors 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 the Board of Directors, 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 in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss 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.

Oslo, 4 April 2017
KPMG AS

Arve Gevoll
State Authorised Public Accountant

4

Corporate Governance

High standards of Corporate Governance is a cornerstone of the Fred. Olsen Energy Group. A strong Corporate Governance framework provides the guide to our overall approach to business operations, dealings and providing services to customers and adding shareholder value.

The Board of Directors in Fred. Olsen Energy ASA continually develops and refines its Corporate Governance policy and strive to be in compliance with the Norwegian Code of Practice for Corporate Governance (NUES). The Corporate Governance is subject to an annual assessment by the Board of Directors. Corporate Governance instituted throughout our Company reflects the economy and industry we operate in.

The Corporate Governance chapter is structured in the same order as the Norwegian Code of Practice. In the Board of Directors Report, Fred. Olsen Energy ASA is required to report our Corporate Governance in accordance with the Norwegian Accounting Act section 3-3b. We refer to this in the Board of Directors report.

Business

As stated in the articles of association, the Company's purpose is to carry out shipping business, including the ownership and leasing of floating platforms and everything related thereto, including owning shares and interests in companies with similar or related businesses. In carrying out their duties, assignments or appointments for the Company, all employees are expected to follow high standards of ethical and non-discriminating behaviour. The objectives of the Company, as defined in its articles of association, are to own or carry out industrial and other associated businesses, management of capital and other functions for the Group, and to participate in or acquire other businesses. The principal strategies of the Group are presented in the Annual Report. Each year, the Board of Directors evaluates the strategy, goals and guidelines of the Company through designated strategy processes. Information concerning the financial position and principal strategies of the Company, and any changes thereto is disclosed to the market in the context of the Company's quarterly reporting and in designated market presentations.

Equity and dividends

To the extent it is considered desirable the Company may raise new equity in the capital market to strengthen its business within the offshore segment. In this regard the Board of Directors received an authorization from the Annual General Meeting in 2016 to increase the share capital by 6 669 422 shares through an equity issue and to increase the share capital by another 6 669 422 shares through convertible loans. This mandate expires at the next Annual General Meeting. When the General Meeting of shareholders considers whether or not to authorize the Board of Directors to carry out share capital increases for multiple purposes, each purpose must be considered separately by the meeting. At 31 December 2016, the consolidated equity is USD 853 million (USD 966 million in 2015), which is equivalent to 45% (38%) of total assets. The Board of Directors considers this satisfactory. The Company's need for financial strength is considered at any given time in the light of its objectives, strategy and risk profile.

The Annual General Meeting authorized the Board in 2016 to purchase up to 10% of the Company's own shares, pursuant to Sections 9-2 onwards of the Norwegian Public Limited Companies Act, in order to allow greater flexibility around managing the Company's capital structure. This mandate expires at the next Annual General Meeting. As at 31 December 2016 the Company held 430 100 shares of its own shares.

Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy, market conditions and approval by the shareholders. In addition, the Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting. Due to the challenging offshore market, the Board of Directors will not propose dividend at the Annual General Meeting in May 2017.

Treatment of shareholders, transactions with close associates

The Company's shares are listed on Oslo Stock Exchange. Shares have been issued in only one share class. The Company's transactions in own shares will be carried out in the market at market price. All shares in the Company have equal rights and all shareholders have the right to participate in General Meetings.

There has not been any share capital increases in the Company since the listing in 1997 except conversion of the convertible bond loan FOE 02 in the period 2005 to 2008. In a case where the preemptive right of existing shareholders is waived in connection with a capital increase a stock notice with the reasoning behind the proposal will be issued to the Oslo Stock Exchange.

In connection with transactions that are not immaterial between the Company and related parties (see note 18), a competent Board of Directors consisting of Board members independent of the Company's main shareholder, Bonheur ASA, will deal with any such matters and avoid conflicts of interest. In such cases the Board will ensure that an independent valuation is presented to the Board.

The Company has established routines to ensure that the Board is notified if any Directors or management directly or indirectly have material interest in agreements entered into by the Company.

Freely negotiable shares

The Company has no restrictions on ownership and voting rights.

General Meetings

The Annual General Meeting (AGM) is normally held in May each year. Summons together with all supporting documents and resolution proposals are sent to shareholders and will also be available on the Company's website 21 days prior to the AGM. The supporting documents must contain all the documentation necessary to enable the shareholders to decide on the matters to be decided. The registration to participate in the AGM is set as close to the AGM date as possible.

The auditor is present at the AGM. The chairman for the AGM is elected at the AGM. One shareholder together with the chairman will sign the minutes and approval of the Summons of the Meeting and the Agenda. It is intended for the Board of Directors to attend the general meeting.

Shareholders registered in the Norwegian Registry of Securities (VPS) can vote in person or by proxy. Shareholders who can not attend the meeting are urged to authorize a proxy, and the system facilitates the use of proxies on each individual item on the agenda. Shareholders, who are not able to attend the Annual General Meeting in person, may execute a proxy in the name of another person attending the meeting. Such proxy may be issued to the Chairman Anette S. Olsen, CEO Ivar Brandvold or any other person. If no name is stated the proxy will be considered given to the chairman of the meeting.

The Annual General Meeting of shareholders elects individually the members to the Board of Directors, appoints the external auditor, determines the auditor's remuneration, approves the annual result and any dividend proposed by the Board of Directors and determines the remuneration to the Board of Directors. The summons and registration form are distributed to all shareholders according to the address list in VPS, at least 21 days before the Annual General Meeting.

Nomination committee

Fred. Olsen Energy ASA has for the time being no Nomination Committee. Due to the ownership structure of the Company, the Company has not considered it adequate to establish a Nomination Committee. The Board will appoint a Nomination Committee as a sub-committee of the Board on an ad hoc basis as and if required.

Corporate Assembly and Board of Directors, composition and independence

In accordance with Norwegian law, the Board of Directors is responsible for managing the Company and for ensuring that the Company's operations are organized in a satisfactory manner. The Company's Articles of Association provides that the Board of Directors shall have no less than three and no more than seven members. In accordance with Norwegian law, the CEO and at least half of the members of the Board of Directors must either be resident in Norway, or be citizens of and resident in an EU/ EEA country. The Annual General Meeting of the shareholders elects each member of the Board of Directors individually. The Board of Directors currently consists of five Board members who are elected for a two-year period. The Chairman of the Board is elected annually by the Board of Directors.

All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholder, Bonheur ASA. 40% of the Members of the Board are women. In 2016 the Board of Directors had 13 meetings. Board members are elected based on need for expertise, capacity and ability to make balanced decisions in the best interests of the shareholders in general. The Board shall operate independently of any special interests and function effectively as a collegiate body in the best interests of the shareholders in general. All Directors attended all Board meetings. The Board of Directors are encouraged to own shares in the Company. The Company has no Corporate Assembly.

The Board of Directors consists of:

Anette S. Olsen (b. 1956), Chairman. Ms. Olsen has been the Chairman of the Board since the inception of the Company in 1997. Since 1994 Ms. Olsen has been the sole proprietor of Fred. Olsen & Co. – which is in charge of the management of the stock listed company Bonheur ASA, where Ms. Olsen holds the position as Managing Director. Ms. Olsen holds chairman and ordinary board positions with a number of companies, amongst others with Fred. Olsen Ocean Ltd., Fred. Olsen Renewables Ltd., Fred. Olsen Cruise Lines Ltd., Timex Corporation and NHST Media

Group AS. Ms. Olsen holds a BA in Business Organization and an MBA. Ms. Olsen is a Norwegian citizen, resident in Oslo, Norway.

Richard Olav Aa (b. 1966), Director. Mr. Aa became a Director of the Board in October 2016 after assuming the position as CFO in Fred. Olsen & Co. Prior to joining Fred. Olsen & Co., Mr. Aa held positions as CFO of the Telenor Group, Investment Director of Arendals Fossekompani ASA, CEO of Norsk Vekst ASA, CFO and other functions within Elkem ASA and Senior VP business development of Bertel O. Steen AS. He has further experience both as chairman and board member from numerous boards in Norway and internationally. Mr. Aa graduated as Siviløkonom from NHH in Bergen in 1990. He is a Norwegian citizen, resident in Bærum, Norway.

Agnar Gravdal (b. 1941), Director, independent of the main shareholder. Mr. Gravdal became a Director of the Board in May 2007. He is working as independent consultant after being CEO at the Rosenberg Yard from 2003-2007. In addition, he has many years experience from CEO positions within various companies in the Kværner group, Aker group and Umoe group as well as from development and design of advanced LNG ships. He holds positions within several boards, including chairman of the board in Sway AS and Lyse Produksjon AS and board member in Scanfuel AS and Inwind AS. He holds a Master Degree in Naval Architecture and Marine Engineering from NTNU 1968. Mr. Gravdal is a Norwegian citizen, resident in Stavanger, Norway.

Cecilie B. Heuch (b. 1965), Director, independent of the main shareholder. Ms. Heuch became a Director of the Board in 2007. She is presently Chief Human Resource Officer in DNV GL. Ms Heuch has previously worked for Norsk Hydro in the fertilizer division (now Yara), in Hydro Aluminium and in Corporate staff. She has had several positions within economic and market analysis, strategy and business development. Ms. Heuch graduated from Institutd'Etudes Politiques de Paris. She has a MSc from London School of Economics and a Business diploma from Henley Management College. Ms. Heuch is a Norwegian citizen, resident in Bærum, Norway.

Jan Peter Valheim (b. 1951), Director, independent of the main shareholder. Mr. Valheim became a Director of the Board in May 2007. Mr. Valheim retired from the position as CFO in Fred. Olsen & Co. in September 2016. Prior to joining Fred. Olsen & Co., Mr. Valheim was CFO in Fred. Olsen Energy ASA from 2002. Mr. Valheim has held positions in Scribona AB, PC Lan ASA, Saga Petroleum ASA and Fearnley Finans AS. Mr. Valheim is a graduate from BI Norwegian School of Management. He is a Norwegian citizen, resident in Bærum, Norway.

Mr. Øivin Fjeldstad resigned from his position as Director of the Board in May 2016. Mr. Fjeldstad has been at the Board since the inception of the Company.

The work of the Board of Directors

The Company has implemented guidelines for the work of the Board of Directors. The purpose of these guidelines is to establish a practical tool for the Board's annual plan for exercising good Corporate Governance. The Board has prepared special instructions for the CEO. The current composition of Directors reflects adequate competence relative to the main business areas of the Group. The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main shareholder of the Company. The charter of the Audit Committee is to assist the Board in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process, and the Company's process for monitoring compliance with applicable laws and regulations. The Audit Committee has regular meetings with the management and the external auditor. Part of the meetings with the external auditor are without participation of the management. The Board of Directors has appointed a Compensation Committee comprising four Directors including the Chairman of the Board and two of the independent Directors. The Compensation Committee discusses and recommends to the Board salary and benefits for the CEO and senior management as well as the management incentive schemes for the Group. Meetings of the Board of Directors are chaired by the Chairman of the Board. If the Chairman of the Board is absent, the Board must select a member to chair the meeting.

The Board evaluates its own work and work methods annually, and the evaluation forms the basis for adjustments and measures. In addition, the Board's competencies, overall and those of each Board member, are evaluated.

Risk management and internal control

The Board of Directors holds responsibility that proper guidelines and internal control processes are instituted and operated. The Company's risk management, financial reporting and internal control procedures are reviewed by the Audit Committee in accordance with its charter. The risk management process of the Group is carried out in accordance with the Group's Risk Management Manual. The process ensures identification and treatment of all relevant risks in order to support the organization in achieving defined corporate objectives, enable explicit consideration of risks in decision-making and maintain the risk exposure of the Group at an acceptable level. The operational risk management, financial reporting and internal controls are carried out within each subsidiary in accordance with the nature of the operations and the government legislation in the relevant jurisdiction. In addition, the Company carries out internal audits related to specific projects and to the ongoing business. Risk management related to foreign exchange, interest rate management and short-term investments is handled by the Company on behalf of itself and the subsidiaries, in accordance with listed authorizations, policies and procedures. The Company receives reports on the financial development of each business segment and subsidiary on a monthly basis. The Audit Committee will raise issues to the Board of Directors if deemed necessary and a review of the Group's risks is part of an annual review.

Remuneration of the Board of Directors

The Board's remuneration reflects the Board's responsibility, expertise, time commitment and the complexity of the Company. All Directors are remunerated with a fixed fee and the remuneration is not linked to the Group's bonus scheme and there is no option program for Directors. If any additional remuneration is given to Board members it will be specified in the annual report. The remuneration to the Board of Directors is fully disclosed in note 18. In 2016 none of the Board of directors have worked for the Company outside of their directorships.

Executive Management

The Chief Executive Officer (CEO) is appointed by and serves at the discretion of the Board of Directors. He is responsible for the daily management and the operations of the Company. The CEO is not a member of the Board of Directors.

The executive management consists of:

Ivar Brandvold (b. 1956), Chief Executive Officer. Mr. Brandvold joined the company in September 2009, and was appointed President and Chief Executive Officer as of November 2009. Before joining the company, Mr. Brandvold held the position as Chief Operating Officer of DNO International ASA. He previously has 23 years of experience from Norsk Hydro ASA, of which he has held a number of positions within the company's oil and gas activities, including the overall responsibility for Norsk Hydro's global drilling operations from 2002 to 2007. Mr. Brandvold has a Master of Science degree from The Norwegian Institute of Science and Technology (NTNU) in Trondheim, Norway. Mr. Brandvold is a Norwegian citizen, and resides in Bergen, Norway.

Hjalmar Krogseth Moe (b. 1971), Chief Financial Officer. Mr. Moe has been Chief Financial Officer since June 2007. Mr. Moe joined Fred. Olsen Energy ASA in January 2005 as Financial Manager, and has previously held positions in Aros Securities and A. Sundvall ASA/Kaupthing ASA. Mr. Moe holds a Master of Business and Economics from BI Norwegian School of Management. He is a Norwegian citizen and resides in Bærum, Norway.

Johan Finnestad (b. 1965), acting Managing Director for Dolphin Drilling AS and Dolphin Drilling Ltd. Mr. Finnestad assumed the position as acting Managing Director in October 2016. Mr. Finnestad has had several positions within these companies, and served lately as Senior Vice President Operations. Mr. Finnestad joined Dolphin Drilling AS in 1984 and has been a member of the management team in Dolphin Drilling since 1996. He is a graduate from Technical School in Stavanger and holds all drilling certificates. Mr. Finnestad is a Norwegian citizen and resides in Stavanger, Norway.

Gunnar Koløen (b. 1978), Managing Director, Dolphin Drilling Pte Ltd. Mr. Koløen was appointed Managing Director of Dolphin Drilling Pte Ltd in July 2014. He first joined the Company in July 2011 as CFO for Dolphin Drilling Pte Ltd. He has previously held positions in the Awilco Offshore Group (later known as China Oilfied Services Limited), Gram Car Carriers and KPMG. Mr Koløen holds a Master of Science degree in Finance from University of Strathclyde and qualified as a state authorised public accountant from Norway. Mr. Koløen is a Norwegian citizen, and resides in Singapore.

Robert J Cooper (b. 1952), Chief Executive Officer, Harland and Wolff Group Plc. Mr. Cooper was appointed CEO of Harland and Wolff Group Plc in February 2003. Prior to that he held the position as financial director in the Harland and Wolff Group from 1993. Mr. Cooper joined the Company in 1983 as a trainee accountant, and after completing his ICMA professional examinations he held a number of positions within the finance department. Mr. Cooper is a UK citizen and resides in Belfast, Northern Ireland.

Remuneration of the executive management

The Board has adopted guidelines for remuneration of executive management in accordance with section 6-16a of the Norwegian Public limited Liability Companies Act. These guidelines are communicated to the Annual General Meeting.

The Board's Compensation Committee present and recommends to the Board of Directors salary and benefits for the Chief

Executive Officer and leading personnel as well as management incentive schemes for the Group.

Management has had a cash bonus scheme since 2005. The beneficiaries of the scheme are the executive management and certain key personnel. Annual awards under the scheme, maximized to one year's salary, are subject to the Group achieving certain predefined financial criteria, including achieved budget goals and development of the Company's share price. See also note 18 on page 44.

Information and communications

The Company provides information to the market through quarterly and annual reports; investor- and analyst presentations open to the media and by making operational and financial information available on the Company's website. Events of importance are made available to the stock market through notification to the Oslo Stock Exchange in accordance with the Stock Exchange regulations. Information is provided in English.

Takeovers

In light of the Company's shareholder structure, with the controlling shareholder holding a majority of the shares, the Board of Directors has not found it appropriate to establish separate guidelines to prepare for a take-over situation.

Auditor

The auditor is appointed by the Annual General Meeting. The remuneration of the auditor is stated in the Annual Report and approved by the general meeting of shareholders. The same firm of auditors should also as a general rule be appointed for all subsidiaries. The auditor should not perform any work for the Company which could lead to conflicts of interest. The Audit Committee is responsible for ensuring that the auditor's independent role is maintained and, on a annual basis, the auditor presents a review of the Company's internal control procedure to the committee. A summary annual audit plan shall be presented to the Audit Committee once a year. In accordance with the auditor's independence requirement, the Company is cautious when using the elected external auditor for tasks other than the financial audit required by law. Nevertheless, the auditor may be used for tasks that are naturally related to the audit, such as technical assistance with tax returns, annual accounts, understanding of accounting and tax rules and confirmation of financial information in various contexts. Information about fees paid by the Company to the auditor is provided in the Annual Report. The Audit Committee is kept informed, on a regular basis, of all work undertaken by the auditor. The auditor provides the Board with an annual written confirmation that a number of requirements, including independence and objectivity are met. The auditor attends meetings of the Audit Committee that deal with the financial statements and that review the report on the auditor's view of the Company's accounting principles, risk areas and internal control routines. The external auditor also takes part in the Board's discussions on the final annual financial statements. Both the Audit Committee and Board of Directors ensures that it is able to discuss relevant matters with the auditor without the presence of the management.

Corporate Social Responsibility Reporting

Introduction

The Corporate Strategy, Corporate Governance and the Code of Conduct Policy constitute the fundamental steering principles in the Group. Together these form the foundation of how we should act and operate in the Group as well as giving the priorities and the direction of the Group.

Supplementary to these principles are the Corporate Management Systems. Together, these define the roles and responsibilities within the organization and towards our stakeholders, including employees, customers, shareholders, regulatory and governmental bodies, financial institutions, vendors and the environment as well as local communities and countries where we operate.

Working environment

The Group has a strong focus on health, safety and environment (HSE) for its employees, subcontractors and customers, embedded in our zero accident objective. We are closely monitoring the established procedures for operations, projects and work sites both onshore and offshore. Continuous efforts involve planning, training of personnel and careful selection of subcontractors. The objective of zero accident applies to personnel injuries, harm to the environment and material damage.

The Total Recordable Incident (TRI) rate for offshore drilling and related services in 2016 was reduced to 3,34 per one million working hours, compared to 5,95 per one million working hours in 2015. TRI includes personnel injuries of the categories lost time incidents, medical treatment incidents and work restricted cases.

Furthermore, all incidents relating to personnel, environment and equipment with a high potential risk factor are recorded separately and investigated (defined as "high potential"). All injuries and damages are registered and the potential risk factors are determined based on a five by five risk matrix system. Three personnel injuries were categorized as high potential during the year. The incidents were injured legs during working operations on deck and a forehead injury during a lifting operation on deck. The other high potential incidents are damages to equipment and certain falling objects during work operations. The incidents could have had a potential for more serious damages or consequences. Therefore co-operation and experience transfer resulting from the incident investigations between the operational regions have been systemized and improved by regular network meetings within each discipline and on top management level. HSE results are measured and benchmarked continuously in order to improve performance and to react proactively to negative trends.

To meet our zero accident objective on a long-term basis, some main areas of continuous improvement have been established. These can be summarized as follows:

- Adherence to the Management Systems; follow rules and procedures
- Observation techniques on site; including pictures and documented observations
- Red zone areas on the units; restricted zones for personnel entry
- Observation card reporting; reporting of incidents and actions for improvement
- Avoid falling objects; procedures related to preventing falling objects
- Improved supervision and monitoring of control measures on site
- Improved risk assessment including all workers in tool box talk meetings

When negative trends are observed or any rigs are underperforming on their KPIs, corrective actions are taken. We have had a good declining trend in high potential incidents in 2016. Further we have had a decrease in personnel injuries in 2016.

Whenever an incident has occurred, investigations are carried out in order to understand the underlying causes and corrective actions are taken to improve. The implementation of mandatory last minute risk assessment and debrief prior to and after each work task have improved the planning process and the lesson learnt process.

Leadership training for offshore personnel has continued in 2016 with further focus on leadership and risk assessments. All the drilling rigs have implemented the red zone on the drill floor.

The Group has performed several HSE activities in 2016 in order to continuously improve the HSE performance and culture. Special focus in 2016 has been focus on improving procedures in the management system, training key personnel in so called Top Set investigation technique and training all personnel in a new web based incident reporting system. The management systems in the Group govern both HSE, onshore and operational related activities. HSE goals and key performance indicators (KPI) have been developed for 2017. The KPIs cover areas such as personnel injuries, emissions to the environment and damages to equipment. The goals and the KPIs have been developed and agreed with a high degree of workforce involvement in order to achieve ownership and follow up. Internal audits have been carried out in order to verify knowledge and implementation of the management system and the result from these audits confirm that the management system is well known and accessible. Findings from audits are presented to relevant top management and to the department in question and corrective actions are taken. The internal audit plan is comprehensive and monthly status and updates are performed.

Sick leave was 8.73% in 2016 versus 5.03% in 2015. The Group continues to focus on reducing sick leave, however there has been a negative trend in 2016. We have training programs for employees with the aim of preventing sick leave, focusing for example on leaders' responsibilities and their role in sickleave follow-up work.

Equality

The Group aims to be a workplace with equal opportunities, offering challenging and motivating jobs to all personnel, regardless of gender. The composition of genders within the Group reflects the available recruitment base for offshore work, which traditionally has a higher proportion of men, being the nature of the offshore industry worldwide. For onshore operations, there are 23% women. There are no particular initiatives in place to attract or retain either female or male employees.

Two out of five members of the Board of Directors are women, including the Chairman of the Board. At year-end 2016 the Group had 727 employees. 11% of the employees are women and 8% of leading onshore personnel within the Group are women.

Discrimination

The Group aims to be a workplace with equal opportunities, offering challenging and motivating jobs to all personnel, regardless of nationality, culture, religion or gender. It is the Group's Code of Conduct Policy to conduct business in accordance with the letter and spirit of the law and with the overriding ethical standards of good business conduct including non-discriminating behaviour. The Group does not accept any form of discrimination or harassment e.g. based on race, color, religion, gender, age or disability.

The composition of nationalities reflects the available recruitment base for the offshore drilling industry. Per year-end 2016, there were more than 15 nationalities working for the Group.

Environment

The Group's operations involve activities that entail potential risks to the external environment, with the main risks being emissions to air and discharges to sea.

One of the corporate focus areas going forward includes technical solutions and environmental initiatives with the aim to reduce the environmental impact of our business activities.

The Group is careful in its approach to the environment and discharges to sea are continuously monitored and reported. The Group strives to reduce the use of hazardous chemicals and materials through established routines and procedures and seeks alternative products to safeguard the environment.

The CO_2 emissions are continuously monitored and reported. The Group is consumer of different types of fuel oil in our operations. This is primarily for operations of the rigs, but also for travelling as well as heating of office buildings. The emission of CO_2 amounted to 112 291 metric tons in 2016, compared to 148 859 metric tons in 2015. The fuel consumption amounted to 40 793 metric tons in 2016 versus 53 383 in 2015.

The international rigs in the Group are ISO 9000-14 001 certified. The intention was to certify the Norwegian rigs as well, however due to the current weak market these projects have been postponed. The Group will during 2017 continue to evaluate measures that can be undertaken in order to further reduce the environmental impact from our operations.

Corporate Social Responsibility

The Corporate Strategy and Code of Conduct Policy constitute the foundation in managing our Corporate Social Responsibility as a Group. The Code of Conduct Policy is distributed to our main suppliers and relations as well as to all employees. The principles is emphasized regularly when representatives from the Senior Management have review meetings with management teams and employees.

The Corporate Strategy and Code of Conduct emphasizes the respect for human rights and ethical behavior. All employees may be part of a union.

It is the policy of the Group to conduct all businesses in an honest and ethical manner and in compliance with applicable laws and regulations. The Group take a zero-tolerance approach to bribery and corruption and are committed to acting professionally and with integrity in all our relationship

Corporate Social Responsibility Reporting

and business dealings. The Code of Conduct Policy, underline that any form of corruption or bribery is strictly prohibited. The Group adopt a risk-based approach to its Anti-bribery and Corruption Program. The means of controls in place relative to the operation the Group are commensurate with the deemed bribery and corruption risk that have been identified during the quarterly risk assessment process. The Anti-Bribery and Corruption Program comprise of three action elements: Prevent, Detect and Respond and includes activities such as anti-corruption training, annual internal audit plan, financial control mechanisms and Business partner's compliance program.

Initiatives in 2017 will be to continue to further enhance the knowledge of the Code of Conduct Policy, by introducing this through the new e-learning system.

Being a subsidiary of Bonheur ASA (Bonheur), the Company participates in, and supports with human resources, a new initiative across the Fred. Olsen-related companies in relation to Corporate Social Responsibility. As an integral part of Bonheur's social responsibility, Bonheur annually extends financial contributions not only towards mere social and charitable purposes, but also towards projects and purposes considered close to Bonheur's sphere of interest. In 2016, the Fred. Olsen Social Engagement Group (FOSEG) was established across the board of the various Fred. Olsen-related companies with a view to support Bonheur's effort in this respect by means of i.a. more directly engaging employees of Fred. Olsen-related companies. A key parameter hereunder is to support projects that contribute to self-sufficiency and/or have an environmentally positive impact, either locally or globally. For further information, please refer to Bonheur's Corporate Social Responsibility report embedded in Bonheur's Annual Accounts 2016.


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Annual Report 2016

Fred. Olsen Energy ASA