



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2016 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 990 397 090  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: DEEP SEA SUPPLY MANAGEMENT AS  
Forretningsadresse: Storgaten 4  
4876 GRIMSTAD

### Regnskapsår

Årsregnskapets periode: 01.01.2016 - 31.12.2016

### Konsern

Mørselskap i konsern: Ja  
Konsernregnskap lagt ved: Ja

### Regnskapsregler

Regler for små foretak benyttet: Nei  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler  
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: IFRS

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Anders Hall Jomås  
Dato for fastsettelse av årsregnskapet: 30.06.2017

### Grunnlag for avgivelse

År 2016: Årsregnskapet er elektronisk innlevert  
År 2015: Tall er hentet fra elektronisk innlevert årsregnskap fra 2016

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 06.11.2020



## Resultatregnskap

Beløp i: USD	Note	2016	2015
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Operating revenue	7	4 258 000	4 091 000
<b>Sum inntekter</b>		<b>4 258 000</b>	<b>4 091 000</b>
<b>Kostnader</b>			
Salaries	9,10	2 893 000	2 801 000
Depreciation	2	30 000	54 000
Impairment investments		0	9 700 000
Other operating expenses	9,12	1 084 000	1 033 000
<b>Sum kostnader</b>		<b>4 007 000</b>	<b>13 588 000</b>
<b>Driftsresultat</b>		<b>251 000</b>	<b>-9 497 000</b>
<b>Finansinntekter og finanskostnader</b>			
received dividend	13	8 000 000	0
Renteinntekt fra foretak i samme konsern	13	189 000	54 000
Other financial income from group companies	13	0	178 000
Net currency items	13	260 000	0
<b>Sum finansinntekter</b>		<b>8 449 000</b>	<b>232 000</b>
Rentekostnad til foretak i samme konsern	13	363 000	335 000
Other financial expense	13	3 000	21 000
Other losses	13	61 000	1 025 000
<b>Sum finanskostnader</b>		<b>427 000</b>	<b>1 381 000</b>
<b>Netto finans</b>		<b>8 022 000</b>	<b>-1 149 000</b>
<b>Ordinært resultat før skattekostnad</b>		<b>8 273 000</b>	<b>-10 646 000</b>
Taxes	4	0	-98 000
<b>Ordinært resultat etter skattekostnad</b>		<b>8 273 000</b>	<b>-10 548 000</b>
<b>Årsresultat</b>		<b>8 273 000</b>	<b>-10 548 000</b>
<b>Overføringer og disponeringer</b>			
Overføringer til/fra annen egenkapital		8 273 000	-10 548 000



## Resultatregnskap

<b>Beløp i: USD</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Sum overføringer og disponeringer		8 273 000	-10 548 000



## Balanse

Beløp i: USD	Note	2016	2015
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
<b>Varige driftsmidler</b>			
Driftsløsøre, inventar, verktøy, kontormaskiner og lignende	2	147 000	130 000
<b>Sum varige driftsmidler</b>		<b>147 000</b>	<b>130 000</b>
<b>Finansielle anleggsmidler</b>			
Investering i datterselskap	11	12 761 000	3 573 000
Investeringer i tilknyttet selskap	11	0	7 438 000
<b>Sum finansielle anleggsmidler</b>		<b>12 761 000</b>	<b>11 011 000</b>
<b>Sum anleggsmidler</b>		<b>12 908 000</b>	<b>11 141 000</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Fordringer</b>			
Other short term receivables		86 000	7 832 000
Konsernfordringer	6	4 321 000	0
<b>Sum fordringer</b>		<b>4 407 000</b>	<b>7 832 000</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Cash and cash deposits	8	795 000	1 341 000
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>795 000</b>	<b>1 341 000</b>
<b>Sum omløpsmidler</b>		<b>5 202 000</b>	<b>9 173 000</b>
<b>SUM EIENDELER</b>		<b>18 110 000</b>	<b>20 314 000</b>

## BALANSE - EGENKAPITAL OG GJELD

### Egenkapital

#### Innskutt egenkapital



## Balanse

<b>Beløp i: USD</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Share Capital	5,3	90 000	90 000
Overkurs	3	283 000	283 000
<b>Sum innskutt egenkapital</b>		<b>373 000</b>	<b>373 000</b>
<b>Opptjent egenkapital</b>			
Retained earning	3	14 544 000	6 270 000
<b>Sum opptjent egenkapital</b>		<b>14 544 000</b>	<b>6 270 000</b>
<b>Sum egenkapital</b>		<b>14 917 000</b>	<b>6 643 000</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Pensjonsforpliktelser	10	0	-45 000
<b>Sum avsetninger for forpliktelser</b>		<b>0</b>	<b>-45 000</b>
<b>Annen langsiktig gjeld</b>			
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>-45 000</b>
<b>Kortsiktig gjeld</b>			
Leverandørgjeld		776 000	718 000
Other current not interest bearing debt	6	2 417 000	12 997 000
<b>Sum kortsiktig gjeld</b>		<b>3 193 000</b>	<b>13 715 000</b>
<b>Sum gjeld</b>		<b>3 193 000</b>	<b>13 670 000</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>18 110 000</b>	<b>20 313 000</b>



## Konsernets resultatregnskap

Beløp i: USD	Note	2016	2015
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Freight revenue		32 594 000	70 155 000
Management fee income from related parties	24	2 676 000	3 038 000
<b>Sum inntekter</b>		<b>35 270 000</b>	<b>73 193 000</b>
<b>Kostnader</b>			
Depreciation related to vessels	6	29 770 000	26 052 000
Impairment related to vessels	6	92 361 000	56 897 000
Other depreciations	6	238 000	225 000
Operating expenses vessels	19	23 302 000	27 354 000
Other operating expenses	20	9 101 000	9 519 000
<b>Sum kostnader</b>		<b>154 772 000</b>	<b>120 047 000</b>
<b>Driftsresultat</b>		<b>-119 502 000</b>	<b>-46 854 000</b>
<b>Finansinntekter og finanskostnader</b>			
Other gain/losses	17	6 975 000	-258 000
Finance income		919 000	1 124 000
<b>Sum finansinntekter</b>		<b>7 894 000</b>	<b>866 000</b>
Share of loss of investemnts accounted for using the equity method	29	19 351 000	60 924 000
Impairment of investment i JV	29	0	30 894 000
Loss from sale of vessels	6	17 337 000	0
Finance cost		18 558 000	12 246 000
Currency losses		1 095 000	1 295 000
<b>Sum finanskostnader</b>		<b>56 341 000</b>	<b>105 359 000</b>
<b>Netto finans</b>		<b>-48 447 000</b>	<b>-104 493 000</b>
<b>Ordinært resultat før skattekostnad</b>		<b>-167 949 000</b>	<b>-151 347 000</b>
Income tax expense	15	154 000	175 000
<b>Ordinært resultat etter skattekostnad</b>		<b>-168 103 000</b>	<b>-151 522 000</b>
<b>Årsresultat</b>		<b>-168 103 000</b>	<b>-151 522 000</b>



## Konsernets resultatregnskap

<b>Beløp i: USD</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Overføringer og disponeringer</b>			
Overføringer til/fra annen egenkapital		-168 103 000	-151 522 000
<b>Sum overføringer og disponeringer</b>		<b>-168 103 000</b>	<b>-151 522 000</b>



### Konsernets balanse

Beløp i: USD	Note	2016	2015
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
<b>Varige driftsmidler</b>			
Vessels	6	635 572 000	446 516 000
Vessels financial lease	6	66 964 000	16 335 000
Equipment and vehicles	6	798 000	393 000
<b>Sum varige driftsmidler</b>		<b>703 334 000</b>	<b>463 244 000</b>
<b>Finansielle anleggsmidler</b>			
Investments using the equity method	29	0	31 637 000
CIRR deposit	14	9 459 000	13 258 000
Pensions	7	0	45 000
<b>Sum finansielle anleggsmidler</b>		<b>9 459 000</b>	<b>44 940 000</b>
<b>Sum anleggsmidler</b>		<b>712 793 000</b>	<b>508 184 000</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
Inventories	10	3 538 000	2 108 000
<b>Sum varer</b>		<b>3 538 000</b>	<b>2 108 000</b>
<b>Fordringer</b>			
Trade receivables	9	9 852 000	10 012 000
CIRR deposit	14	3 366 000	2 684 000
Other short term receivables	25	6 264 000	3 979 000
Loans to related parties	24	1 424 000	15 000 000
<b>Sum fordringer</b>		<b>20 906 000</b>	<b>31 675 000</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Cash and cash equivalents	11	51 202 000	74 186 000
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>51 202 000</b>	<b>74 186 000</b>
<b>Sum omløpsmidler</b>		<b>75 646 000</b>	<b>107 969 000</b>



## Konsernets balanse

Beløp i: USD	Note	2016	2015
<b>SUM EIENDELER</b>		<b>788 439 000</b>	<b>616 153 000</b>
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Share Capital	12	5 827 000	5 224 000
Overkurs	12	205 341 000	200 796 000
Annen innskutt egenkapital	12	2 145 000	1 486 000
<b>Sum innskutt egenkapital</b>		<b>213 313 000</b>	<b>207 506 000</b>
<b>Opptjent egenkapital</b>			
Annen egenkapital		-83 713 000	84 078 000
<b>Sum opptjent egenkapital</b>		<b>-83 713 000</b>	<b>84 078 000</b>
<b>Sum egenkapital</b>		<b>129 600 000</b>	<b>291 584 000</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
<b>Annen langsiktig gjeld</b>			
Gjeld til kredittinstitusjoner	14	518 020 000	185 415 000
Finance lease liabilities	14	74 663 000	20 825 000
Loans fom third parties	14	12 238 000	0
CIRR loan	14	9 459 000	13 258 000
Deferred gain CIRR loan		299 000	401 000
<b>Sum annen langsiktig gjeld</b>		<b>614 679 000</b>	<b>219 899 000</b>
<b>Sum langsiktig gjeld</b>		<b>614 679 000</b>	<b>219 899 000</b>
<b>Kortsiktig gjeld</b>			
Bank borrowings	14	22 271 000	91 378 000
Leverandørgjeld	13	15 852 000	6 200 000
Finance lease liabilities	14	1 207 000	4 065 000
Loan from third parties	14	1 344 000	0
CIRR loan	14	3 366 000	2 684 000
Deferred gain CIRR loan		120 000	122 000
Financial derivatives	8	0	221 000



## Konsernets balanse

<b>Beløp i: USD</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Sum kortsiktig gjeld		44 160 000	104 670 000
Sum gjeld		658 839 000	324 569 000
<b>SUM EGENKAPITAL OG GJELD</b>		<b>788 439 000</b>	<b>616 153 000</b>



To the General Meeting of Deep Sea Supply Management AS

## *Independent Auditor's Report*

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Deep Sea Supply Management AS showing a profit of NOK 8 273 483. The financial statements 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.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the 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.

#### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other information*

Management is responsible for the other information. The other information comprises the Board of Directors' 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.

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.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm



Independent Auditor's Report - Deep Sea Supply Management AS

*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 in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

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Independent Auditor's Report - Deep Sea Supply Management AS

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.

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

### *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 concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

#### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 28 June 2017  
**PricewaterhouseCoopers AS**

Svein A. Andresen  
State Authorised Public Accountant



## Skattedirektoratet

Saksbehandler Torstein Kinden Helleland	Deres dato 18.03.2016	Vår dato 29.03.2016
Telefon 22078139	Deres referanse Peter R. Elleson	Vår referanse 2016/247372

ADVOKATFIRMAET PRICEWATERHOUSECOOPERS AS  
Postboks 447  
4664 KRISTIANSAND S

PRICEWATERHOUSECOOPERS  
INNKOMMET 31 MAR 2016

## Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk

Vi viser til deres brev av 18. mars 2016 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende selskaper;

<b>Deep Sea Supply Management AS</b>	<b>org.nr. 990 397 090</b>
<b>Deep Sea Supply Shipowning AS</b>	<b>org.nr. 986 847 839</b>
<b>Deep Sea Supply BTG AS</b>	<b>org.nr. 914 274 133</b>
<b>Deep Sea Supply Shipowning I AS</b>	<b>org.nr. 914 439 639</b>
<b>Deep Sea Supply Shipowning II AS</b>	<b>org.nr. 914 439 736</b>
<b>Deep Sea Supply Shipowning III AS</b>	<b>org.nr. 914 441 277</b>

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering de overnevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

### Bakgrunn

Deep Sea Supply Plc er et børsnotert selskap hjemmehørende på Kypros. Selskapet er morselskap i en konsernstruktur med datterselskaper i en rekke land (Kypros, Brasil, Malaysia, Singapore og Norge). I tillegg eier selskapet 50 % i et joint venture med den brasilianske investeringsbanken BTG Pactual. Joint venture er etablert i Norge med et felles holdingselskap og underliggende skipseiende selskaper. Konsernets hovedaktivitet er å eie og drive ankerhåndterings- og supplyfartøyer. Driften består av utleie av fartøyene på bareboat eller time charter. Konsernets virksomhet er verdensomspennende, med særlig fokus på Brasil, Nordsjøen, Sør-Øst-Asia og Afrika.

Deep Sea Supply Management AS og Deep Sea Supply Shipowning AS er heleid av Deep Sea Supply Plc. Joint venture med BTG Pactual består av holdingselskapet Deep Sea Supply BTG AS, som er eid 50/50 av Deep Sea Supply Plc og BTG. Dette selskapet har tre underliggende

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Se [www.skatteetaten.no](http://www.skatteetaten.no)  
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E-post: [skatteetaten.no/sendepost](mailto:skatteetaten.no/sendepost)

Sentralbord  
800 80 000  
Telefaks  
22 17 08 60



heleide skipseiende datterselskaper; Deep Sea Supply Shipowning I AS, Deep Sea Supply Shipowning II AS og Deep Sea Supply Shipowning III AS.

Bransjen selskapene tilhører er internasjonal og arbeidsspråket på verdensbasis er engelsk. Alle sentrale aktører og samarbeidspartnere innen denne bransjen behersker og benytter engelsk. En norsk oversettelse vil kun ha til formål å oppfylle regnskapslovens språkkrav.

#### **Skattedirektoratets vurdering**

Etter regnskapsloven § 3-4 tredje ledd skal *”årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.”*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

*”Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon.”*

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *”informative regnskaper for ulike grupper av regnskapsbrukere”*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt særlig vekt på at selskapene er eid av utenlandsk selskaper. Eierkretsen er begrenset. Videre er det vektlagt at selskapene driver virksomhet i en bransje der alle sentrale aktører behersker og benytter engelsk språk.



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Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad  
*seniorrådgiver*  
Rettsavdelingen, foretaksskatt  
Skattedirektoratet

Torstein Kinden Helleland

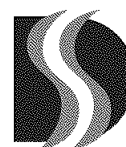
*Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer*





2016  
DEEP SEA SUPPLY PLC

ANNUAL REPORT



DEEP SEA SUPPLY



2



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DEEP SEA SUPPLY

## Management report – the financial year 2016

*Deep Sea Supply Plc* ("Deep Sea Supply", "DESSC" or the "Company") and its subsidiaries ("Group") on a consolidated basis in 2016 achieved operating revenues of USD 32.6 mill, vessel operating expenses of USD 23.3 mill and net other operating expenses of USD 6.4 mill. Share of loss from investments accounted for using the equity method was negative USD 19.4 mill, partly due to the impairments of vessels of the joint venture in Brazil ("DESS BTG"). Net other gains/losses was a positive USD 7.0 mill mainly due to USD 8.2 mill net gain from business combination (Note 30). Loss from sale of vessels net of gains on associated liabilities was USD 17.3 mill. The EBITDA for 2016 was therefore negative USD 26.8 mill. Total depreciation of vessels was USD 29.8 mill and extraordinary impairment of vessels of the Group was USD 92.4 mill. Following net financial items of negative USD 18.7 mill, the net result after tax was a loss of USD 168.1 mill or a negative USD 0.62 per share. The book equity as per 31 December 2016 was USD 129.6 mill.

In 2016 the Group generated USD 6.3 mill from its operating activities, and decreased the cash position by USD 26.6 mill from USD 74.2 mill on 1 January 2016 to USD 51.2 mill on 31 December 2016.

The consolidated financial statements of the Group as presented in the 2016 Annual Report have been prepared in compliance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113. The financial results from the 50% owned DESS BTG up to 15 September 2016 when the Group purchased the remaining 50% (Note 30) is included in "Share of profit of investments accounted for using the equity method."

The Board measures the financial performance of Deep Sea Supply as presented in note 5 "Segment reporting" to the consolidated financial statements, in which 50% of the profit and loss financial figures from DESS BTG until 15 September 2016 were incorporated line by line using the proportionate consolidation method. The profit and loss financial figures of the DESS BTG companies were consolidated 100% from 16 September 2016 to 31 December 2016 and the balance sheet figures of the DESS BTG companies as at 31 December 2016 were consolidated on a 100% basis to the financial figures of the Group.

### COMPANY BACKGROUND

Deep Sea Supply is a Cyprus based offshore supply company with a modern fleet of anchor handling tug and supply vessels ("AHTS") and platform supply vessels ("PSVs") operating worldwide. The Group became operational in July 2005 through the acquisition of 6 large AHTS vessels, and as per 31 December 2016 the Group operated 37 vessels with an average age of 6.6 years. Of the 37 vessels, 12 are AHTS vessels and 25 are PSVs.

The parent company is domiciled in Limassol, Cyprus, and the Group has offices in Cyprus, Norway, Singapore, Ukraine and

Brazil. The total number of onshore employees at year-end was 58 and the number of seafarers was approximately 232.

Deep Sea Supply is listed on Oslo Stock Exchange with the ticker code "DESSC".

### STRATEGY

The Group's vision is to become one of the leading offshore supply vessel groups on a global basis. The Group is a fully integrated shipowning group and focus on the following main activities;

- Chartering of the vessels
- Technical and crew management of the vessels
- Business development
- Investor relations and finance

The chartering and marketing activities of the Group are performed from offices in Singapore, Brazil and Norway. The Group seeks to obtain long term charter contracts for the vessels.

The Group aims at maintaining an open and transparent information strategy.

### DESS Aquaculture Shipping AS

On 2 June 2016, Deep Sea Supply and Marine Harvest ASA (Marine Harvest) announced that they have established a 50/50 owned aquaculture shipping joint venture (the "JV" or "DESS Aqua") that is to build, own and operate aquaculture vessels. The JV represents a unique opportunity for Deep Sea Supply to capitalize on the Group's experience from the OSV sector to enter into a new and attractive market together with an industry leading partner. Subsequent to the establishment, the joint venture has entered into contracts for two 3,000 m<sup>3</sup> wellboats and one harvest vessel.

The wellboats are expected to have a delivery cost of approximately NOK 225 mill, and represents substantial savings compared to contracting of similar vessels from other aquaculture vessel providers. 100% of the expected delivery cost is payable on delivery, preserving DESS' liquidity. Upon delivery, the vessels will enter into long term charter contracts with Marine Harvest. The vessels will be managed by DESS and employed in Canada and Norway to support Marine Harvest's farming operations. The first vessel is expected to be delivered during fourth quarter of 2017 and the second vessel during second quarter of 2018. DESS Aqua has further options for 2 similar wellboats.

The harvest vessel is expected to have a delivery cost of approximately NOK 179 mill (net after receiving a NOK 20 mill grant from Innovation Norway) and will have an annual capacity to slaughter and transport approximately 40 000 GWT. With 10/10/80 payments terms, limited liquidity is needed prior to delivery. The harvest vessel will be managed by DESSC and be chartered by Marine Harvest under a long term contract for Marine Harvest's farming operations in Region South in Norway. The vessel is expected to be delivered during first quarter of 2018.



The Board is pleased to see that Marine Harvest and Deep Sea Supply have established an aquaculture shipping joint venture. The announced contracts of two wellboats and one harvest vessel, represents the start of an important new venture for DESS. The long term strategy is to build the JV into an industry leading aquaculture company that will generate substantial cash flows to DESS.

#### DESS BTG roll-up and amendments to financing terms

On 22 July 2016, the Company reached an agreement with DPC Serviços de Óleo e Gás ("DPC") where 50% of DESS BTG was acquired by the Company in exchange for 30,133,022 new common shares in the Company, 10,000,000 warrants and a cash payment of USD 2.0 mill. The warrants are exercisable into common shares in the Company at any time during a period of 36 months at an exercise price of NOK 1.24 per share.

The Group believes the acquisition represents an attractive growth opportunity as the vessels are acquired at historical low valuations. Inclusion of the vessels will strengthen the operational platform and better position the Group in today's challenging market. Limited cash proceeds were paid as consideration, preserving the liquidity of the Group while also simplifying the corporate structure of the combined Group.

As part of the roll-up, the Group reached an agreement with its senior lenders, securing extensive amendments to substantially all of the Group's debt facilities;

- Commencing May 31, 2016 the Group will not pay scheduled amortizations under substantially all of its bank facilities until March 31, 2018, including bank debt in DESS BTG, deferring a total amount of up to USD 68 mill.
- Minimum value adjusted equity ratio and value adjusted equity covenant has been waived, minimum consolidated free cash has been reduced to USD 20 million and the minimum value covenant has been reduced to 100% until March 31, 2018.
- The loan facilities maturing in October 2016 have been extended until October 2018, and as such, the Group will not have any material debt maturities until the 4th quarter of 2018.
- The margin on the Group's debt facilities has remained unchanged, however with a slightly increased margin of 4.25% for the deferred amount under the loan facilities.
- Ship Finance agreed to reduce the bareboat hire from and including June 2016 through May 2018 with approximately USD 17 mill in aggregate against an extension of the bareboat period with 3 years in addition to a 50/50 profit-split.

Following the refinancing, the Company became a guarantor for all of the outstanding debt of the Group, including Ship Finance.

#### FLEET

The total fleet of 37 vessels operates worldwide, and in total 21 vessels were laid up as per end of 2016. The remaining 16 vessels operated in the following geographical areas:

North Sea:	4 vessels
Asia and Australia:	2 vessels
South America:	6 vessels
Mediterranean:	4 vessels

Of the 37 vessels, 30 vessels had Cyprus flag, 1 Brazilian flag, 1 Panama flag, 3 Marshall Islands flag and 2 Malaysian flag.

Deep Sea Supply's maintenance philosophy is to do proactive maintenance to ensure that the vessels can operate safely and are in good technical condition at all times. At the same time the Group focuses on good cost control. During the last years, a fuel efficiency program aiming at reducing the vessels' fuel consumption has been initiated.

#### THE 2016 FINANCIAL STATEMENTS AND CERTAIN MAIN RISK FACTORS

The consolidated financial statements of the Group have been prepared in accordance with, and comply with, IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113. The financial information presented in note 5 "Segment Reporting" incorporates 50% of the financial figures from the Brazilian Joint Venture business up to 15 September 2016 on a line by line basis, using the proportionate consolidation method, and this is how the Board measured the financial performance of the Group. The profit and loss financial figures of the DESS BTG companies were consolidated 100% from 16 September 2016 to 31 December 2016 and the balance sheet figures of the DESS BTG companies as at 31 December 2016 were consolidated on a 100% basis to the financial figures of the Group.

#### Going concern

The consolidated financial statements are prepared on a going concern basis.

#### Revenue and profit

The Group in 2016 achieved operating revenues of USD 32.6 mill, vessel operating expenses of USD 23.3 mill and net other operating expenses of USD 6.4 mill. Share of loss from investments accounted for using the equity method was negative USD 19.4 mill partly due to impairments of the book values of vessels. Net other gains/losses was a positive USD 7.0 mill mainly due to USD 8.2 mill net gain from business combination (Note 30). Loss from sale of vessels net of gains on associated liabilities was USD 17.3 mill. The EBITDA for 2016 was therefore negative USD 26.8 mill.

The Group's revenues in 2016 were in USD, BRL, and GBP and the operating expenses were mainly in USD, BRL, SGD and NOK.

Total depreciation and extraordinary impairment of vessels was in total USD 122.0 mill. Following net financial items of negative USD 18.7 mill, the net result after tax was a loss of USD 168.1 mill or a negative USD 0.62 per share. The book equity as per 31 December 2016 was USD 129.6 mill.

#### Impairment of book values

When testing the book value of all assets for possible impairments, the Group has considered both market valuations received from independent ship brokers and an internal cash flow valuation on a per vessel basis. Such cash flow valuation reflects the current low contract coverage, the significant number of vessels in lay-up and a difficult market outlook.



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The result of these tests shows an impairment of book values of USD 92.6 mill for the total fleet of the Group on a consolidated basis. Following the impairment, book value of the fleet was USD 702.5 mill by the end of 2016 for the 37 owned vessels compared to USD 462.9 mill by the end of 2015 for the 18 owned vessels owned at that time (excluding DESS BTG vessels).

### Dividend policy

Due to the uncertain market outlook in the oil service and offshore supply market, the Board of Directors decided to be cautious and not to distribute any dividend to shareholders in relation to 2016.

### Balance sheet

Total assets as per 31.12.2016 were USD 788.4 mill consisting mainly of the book value of vessels.

Cash and cash equivalents at year-end were USD 51.2 mill.

### Trade and other receivables

Total receivables from customers were USD 9.9 mill.

### Financing – Bank facilities

In November 2011, the Company refinanced its senior loan facility with a syndicate consisting of leading international shipping banks. The loan has a repayment profile of 18 years for the new vessels, 14/15 years for the 2007/2008-built vessels and 7 years for the 1998/1999-built vessels. The senior loan facility is secured with a 1st priority mortgage in the financed vessels. This facility originally included 15 vessels, of which 9 were sold to DESS BTG in 2013. These 9 vessels were carved out from the existing 15 vessel facility to a new facility, keeping both profile and remaining term from existing facility. The facility regarding the 9 carved out vessels was acquired back by the Group through the acquisition of the remaining 50% of DESS BTG in September 2016 (Note 30).

As per year-end 2016, the outstanding loan including all 15 vessels was USD 136.2 mill and total deferred installments were USD 13.9 mill. In September 2016 a deferral of installments was obtained for period up to 31 March 2018 and the maturity of the senior loan has been extended to October 2018.

In addition, the Group also has a separate loan agreement secured with 1st priority mortgage in the vessel "Sea Eagle 1". This loan was drawn in February 2010 and by the end of 2016, USD 9.2 mill loan and USD 0.8 mill deferred installments were outstanding. The loan has a 12 years repayment profile. In September 2016 a deferral of installments was obtained for period up to 31 March 2018 and the maturity of the loan has been extended to October 2018.

In June 2014 the Group secured loan facilities for all 10 new vessels acquired. For the 4 vessels of STX 05L design delivered from Cochin shipyard, a USD 72 mill loan agreement with 29 year repayment profile and a 5 year term was agreed. As per 31 December 2016, total outstanding loan was USD 65.9 mill and total deferred installments were USD 1.9 mill. In September 2016 a deferral of installments was obtained for period up to 31 March 2018.

For 2 vessels of PX 105 design delivered from Sinopacific shipyard, a USD 44.5 mill loan agreement with 29.5 year repayment profile and a 5 year term was agreed. As per 31 December 2016, total outstanding loan was USD 40.8 mill and total deferred installments were USD 1.5 mill. In September 2016 a deferral of installments was obtained for period up to 31 March 2018.

For 4 vessels of PX 105 design delivered from Sinopacific shipyard, a USD 92 mill loan agreement with 28.5 year repayment profile and a 5 year term was agreed. As per 31 December 2016, total outstanding loan was USD 83.6 mill.

In February 2016, a vessel which was on finance lease by the Group was disposed and the lease agreement was terminated and replaced by a Promissory Note with a 6 year term and repayment profile. As per 31 December 2016, total outstanding amount of the promissory note was USD 13.6 mill.

As part of the acquisition of the remaining 50% of DESS BTG (Note 30), the Group has also acquired the following facilities:

- Loan with BNDES (the Brazilian Development Bank) for the financing of the vessel "Sea Brasil". The loan has a 18 years repayment profile from May 2014 and fixed interest rate for the 18 years. By the end of 2016 USD 50.4 mill was outstanding under this loan agreement.
- Loan for the financing of 6 vessels of PX 105 design delivered from Sinopacific shipyard. This loan has a 15 year repayment profile and a 5 year term. As per 31 December 2016, total outstanding loan was USD 135.2 mill and total deferred installments were USD 5.5 mill. In September 2016 a deferral of installments was obtained for period up to 31 March 2018.
- Finance lease with Ship finance international Ltd for five vessels. The total outstanding amount as per 31 December 2016 for these finance leases was USD 75.8 mill. On 30 September 2016 and as part of the acquisition of the 50% of DESS BTG (Note 30), the terms of the five leases have been modified. As part of the restructured lease arrangements, it was agreed to reduce the charter rates in the lease agreement until May 2018, to extent the charter period by further 3 years and to introduce a 50/50 profit share on profits earned by the vessels over the lease term. The Group has a call option to buy the vessels at a predetermined price.

### Capital expenditure

DESS Aqua has 3 newbuildings under construction, with remaining capital expenditure of USD 77.6 mill. Investment in DESS Aqua is accounted for through equity accounting so the capital commitments of DESS Aqua are not included in the capital commitments of the Group.

### Equity

Shareholders' equity at the start of 2016 was USD 291.6 mill. At the end of 2016 the Group's equity was USD 129.6 mill. The decreased equity is mainly caused by the impairment of book value of the vessels of the Group, the share of losses from DESS BTG up to 15 September 2016, the loss from sale of vessels and weakened OSV market leading to operating losses.



## Shareholders

Hemen Holding Limited is the Company's largest shareholder and holds 31.4% of the Company's shares.

## Liquidity

Total current assets at year end were USD 75.6 mill and short term liabilities (including short term portion of long term debt) was USD 44.2mill.

## **Cash and cash flow**

Cash flow from operations was USD 6.3 mill for the year ended 31 December 2016.

Capital expenditure related to scheduled special surveys and upgrading of vessels was USD 2.8 mill. During the year the Group provided additional borrowings to related parties of USD 11.4 mill and received interest payments of USD 1.0 mill. The cash effect of the purchase or the remaining of 50% of DESS BTG was a positive USD 12.8 mill (Note 30). The Group has received cash from disposal of vessels at an amount of USD 5.3 mill.

In 2016, the Group has repaid USD 22.9 mill of borrowings and paid USD 14.6 mill of interest.

Cash and cash equivalents were USD 51.2 by the end of 2016, which is a decrease of USD 26.6 mill from end of 2015.

## **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Group are disclosed in Notes 3, 4 and 28 of the consolidated financial statements.

## **Health, safety and environment**

By year end 2016, the Group's on-shore staff was to 58 employees world-wide. The working environment is considered good and all employees are encouraged to participate in the development of his/her position and in the development of the Group.

Out of the 58 employees are 38 male and 20 female. The Group treats men and women equal in the recruitment processes.

Emphasis is made on professionalism and adherence to national and international laws and regulations by the suppliers delivering services to the Group. Efforts and initiatives to reduced accidents and pollution to the environment are compulsory.

The Group's vessels are engaged in sea transportation and hence at risk related to pollution of the environment. The fleet is modern with an average age of 6.6 years, and all the vessels are in compliance with requirements issued by regulatory bodies and the risk of pollution is hence viewed as limited.

The Group's shore based activities are considered environmental friendly and normal for this type (office) activity.

## **Changes in the Board of Directors in 2016**

All members of the Board of Directors have their term expiring in 2017. In August 2016 Edwyn Neves has been appointed as Director and Daniel Pegorini as an Alternate Director for Edwyn Neves of the Group for a period of 2 years.

There were no changes to the responsibilities of the Board of Directors in 2016. Remuneration to the Board is described in Note 24 of the consolidated financial statements.

## **Share capital**

All changes in share capital composition including new shares issued during 2016 are disclosed in Note 12 of the consolidated financial statements. There were no changes in share capital during 2015.

## **Branches**

The Group did not operate through any branches during the year.

## **Use of financial instruments by the Group**

The detailed analysis of the Group's exposure to financial risks as at the balance sheet date and the measures taken by the Management in order to mitigate those risks, including the use of financial derivatives for hedging purposes, are disclosed in Note 3 of the consolidated financial statements.

## **Future outlook**

There are limited signs of improvement of the fundamentals of the global OSV markets, but there has been a slight increase in tendering activity for OSVs in some regions. The contract coverage for the Group is not satisfactory, but the Board is pleased to see that the Group has been able to secure several contracts and reactivate vessels during the last months.

As a consequence of the weak market, Deep Sea Supply has laid up in total 21 vessels. In addition to laying up vessels to reduce cost, the Group is working hard to further reduce operating expenses for the vessels in operation. The Board is satisfied to recognize an underlying cost reduction for vessels in operation also in 2016 and expects this to continue also in 2017.

Even though rates are under severe pressure and the competition is fierce, the Group is not willing to enter into loss making term contracts. All new term contracts secured in 2016 and 2017 are expected to give a positive EBITDA contribution. With the current pipeline of tenders, the Group is confident more term work will be in the near future.

As announced to the market on 6 February 2017, the Group plans to merge with Farstad Shipping ASA and Solstad Offshore ASA to create a solid and world-leading OSV group with 154 vessels across all OSV subsectors and with a strong global footprint. The statutory merger plans have been approved and signed by the boards of Solstad, Farstad, DESSC and Solstad's relevant subsidiaries, into which Farstad and DESSC will be merged, as at 24th March 2017.

## **Corporate Governance**

The Company's principles for Corporate Governance are reported in a separate section of the Annual Report.



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## Events after the balance sheet date

### Merger of Deep Sea Supply Plc with Farstad Shipping ASA and Solstad Offshore ASA

On 6 February 2017, Farstad Shipping ASA ("FAR"), Aker Capital AS ("Aker"), Hemen Holding Limited ("Hemen"), FAR's largest lenders (the "Lenders"), a major part of FAR's bondholders (the "Bondholders"), as well as F-Shiplease AS signed an extensive and fully financed restructuring agreement (the "Restructuring Agreement") of the FAR Group (the "FAR Restructuring"). The FAR Restructuring was completed 9 March 2017. Aker, Hemen, the Lenders and the Bondholders as well as SOFF Invest AS and Ivan II AS and Tyrholm & Farstad AS, Tyrholm & Farstad Invest AS, Sverre A. Farstad and Jan H. Farstad also agreed to work for a merger between Solstad Offshore ASA ("SOFF"), FAR and DESSC after the completion of FAR Restructuring (the "Combination").

The boards of directors of SOFF, FAR and DESSC are of the opinion that a consolidation in the industry is required. After concluding the Restructuring Agreement the boards of directors of the mentioned companies have discussed the possibilities for a merger of the operations of the three companies and have concluded that such merger will be advantageous for all companies. The Combination will result in the incorporation of a world leading OSV group, with a fleet of totally 154 vessels. The merged group will operate a fleet consisting of 33 CSV, 66 PSV and 55 AHTS vessels.

As part of the Combination, a cross-border merger will take place between the Company and Solship Sub AS, a Norwegian entity recently incorporated and wholly owned subsidiary of Solship Invest 3 AS ("Solship Invest 3"), which again is a recently incorporated wholly owned subsidiary of SOFF. Solship Sub AS will be the surviving company of the merger.

The statutory merger plans have been approved and signed, by the boards of Solstad, Farstad, DESSC and Solstad's relevant subsidiaries, into which Farstad and DESSC will be merged, as at 24 March 2017.

The material post balance sheet events which have a bearing on the understanding of the financial statements, are disclosed in Note 31 of the consolidated financial statements.

## Independent Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Statement of the members of the Board of Directors and other responsible persons of the Company for the financial statements In accordance with Article 9, sections (3) (c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law"), we the members of the Board of Directors and other responsible persons for the financial statements of Deep Sea Supply Plc, and the businesses that are included in the consolidated accounts as a total, for the year ended 31 December 2016 confirm that, to the best of our knowledge:

A) The annual consolidated financial statements that are presented on pages 15 to 69:

- (i) were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Article 9, section (4) of the Law, and
- (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of Deep Sea Supply Plc, and the businesses that are included in the consolidated accounts as a total, and

B) The Directors' Report gives a fair review of the developments and the performance of the business as well as the financial position of Deep Sea Supply Plc and the businesses that are included in the consolidated accounts as a total, together with a description of the principal risks and uncertainties that they are facing.

Limassol, 12th April 2017

The Board of Deep Sea Supply Plc

**Harald Thorstein**

Chairman

**Neofytos Neofytou**

**Hans Petter Aas**

**Edwyn Neves**

**Jon Are Gummedal**

Chief Executive Officer

**Anders Hall Jomaas**

Chief Financial Officer







## Fleet list Deep Sea Supply PLC

Existing Vessels	Design	Yard	Year Built	BHP/DWT
<b>AHTS</b>				
Sea Tiger	KMAR-404	Kværner Kleven, Norway	1998	15000 BHP
Sea Leopard	KMAR-404	Kværner Kleven, Norway	1998	15000 BHP
Sea Panther	KMAR-404	Kværner Leirvik, Norway	1999	15000 BHP
Sea Cheetah	Khiam Chuan	Jaya Shipbuilding, Singapore	2007	15000 BHP
Sea Jaguar	Khiam Chuan	Jaya Shipbuilding, Singapore	2007	15000 BHP
Sea Ocelot	Khiam Chuan	Jaya Shipbuilding, Singapore	2007	10880 BHP
Sea Eagle 1	Khiam Chuan	Jaya Shipbuilding, Singapore	2009	12000 BHP
Sea Fox	Seatech P-729	ABG Shipyard Ltd, India	2011	6800 BHP
Sea Jackal	Seatech P-729	ABG Shipyard Ltd, India	2011	6800 BHP
Sea Badger	Seatech P-729	ABG Shipyard Ltd, India	2011	6800 BHP
Sea Vixen	Seatech P-729	ABG Shipyard Ltd, India	2011	6800 BHP
Sea Stoat	Seatech P-729	ABG Shipyard Ltd, India	2011	6800 BHP
<b>PSV</b>				
Sea Halibut	UT 755 L	Cochin Shipyard Ltd, India	2007	3250 DWT
Sea Angler	UT 755 L	Cochin Shipyard Ltd, India	2007	3250 DWT
Sea Pike	UT 755 L	Cochin Shipyard Ltd, India	2007	3250 DWT
Sea Bass	UT 755 L	Cochin Shipyard Ltd, India	2008	3250 DWT
Sea Pollock	UT 755 L	Cochin Shipyard Ltd, India	2008	3250 DWT
Sea Turbot	UT 755 L	Cochin Shipyard Ltd, India	2008	3250 DWT
Sea Witch	UT 755 L	Cochin Shipyard Ltd, India	2008	3250 DWT
Sea Trout	VS 470 MKII	Karmsund M.S, Norway	2008	3300 DWT
Sea Brasil	STX 09	STX Promar, Brazil	2012	4700 DWT
Sea Falcon	PX 105	Sinopacific Shipyard, China	2013	4700 DWT
Sea Flyer	PX 105	Sinopacific Shipyard, China	2013	4700 DWT
Sea Forth	PX105	Sinopacific Shipyard, China	2013	4700 DWT
Sea Frost	PX105	Sinopacific Shipyard, China	2013	4700 DWT
Sea Tantalus	STX 05L	Cochin Shipyard Ltd, India	2013	4000 DWT
Sea Titus	STX 05L	Cochin Shipyard Ltd, India	2014	4000 DWT
Sea Tortuga	STX 05L	Cochin Shipyard Ltd, India	2014	4000 DWT
Sea Triumph	STX 05L	Cochin Shipyard Ltd, India	2014	4000 DWT
Sea Spark	PX105	Sinopacific Shipyard, China	2013	4700 DWT
Sea Spear	PX105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Spider	PX105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Springer	PX105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Supra	PX 105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Surfer	PX 105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Swan	PX 105	Sinopacific Shipyard, China	2014	4700 DWT
Sea Swift	PX 105	Sinopacific Shipyard, China	2014	4700 DWT



DEEP SEA SUPPLY

## Board of directors



### Harald Thorstein

Born 1979  
Chairman since 2013  
Member of the board of directors since 2013

**Other board assignments:**  
Ship Finance International Limited  
Seadrill Partners

**Education:**  
Master of Science degree within  
Industrial Economics and Technology  
Management from the Norwegian  
University of Technology and Science

Shares in Deep Sea Supply  
per 31.12.2016: None



### Hans Petter Aas

Born 1946  
Director since 2013

**Other board assignments:**  
Ship Finance International Ltd  
Golden Ocean Group Limited  
Seadrill Limited  
KNOT Partners Ltd  
Solvang ASA  
and several privately held companies

**Education:**  
Norwegian School of Economics and  
Business Administration, Bergen

Shares in Deep Sea Supply  
per 31.12.2016: None



### Kathrine Fredriksen

Born 1983  
Alternate Director for  
Mr. Harald Thorstein since 2009

**Other board assignments:**  
Norwegian Property ASA

**Education:**  
Wang Handelsgymnas Oslo  
European Business School London  
2002-2005

Shares in Deep Sea Supply Plc per  
31.12.2016: None



### Neofytos Neofytou

Born 1951  
Director since 2015

**Other board assignments:**  
Seatankers Management Co. Ltd  
Redimus Services Ltd  
Synot International Ltd  
and several other private companies

**Education:**  
Fellow Chartered Accountant

Shares in Deep Sea Supply per  
31.12.2016: None



### Edwyn Neves

Born 1983  
Director since 2016

**Other board assignments:**  
Eneva S.A.  
Estapar (Allpark Empreendimentos,  
Participações e Serviços S.A.)  
B&A Mineração S.A.

**Education:**  
Bachelor's degree in Business  
Administration from Fundação Getúlio  
Vargas, São Paulo

Shares in Deep Sea Supply Plc per  
31.12.2016: None



### Daniel Pegorini

Born 1974  
Alternate Member of the Board for Mr.  
Edwyn Neves

**Other Board Assignments:**  
Member of the Board of GPS  
Participações S.A.  
Member of the board of Valora  
Participações S.A. and Valora Gestão  
de Investimentos  
Member of the Board of Brasbunker  
Participações S.A.

**Education**  
Bachelor's degree in Business  
Administration from Fundação Getúlio  
Vargas, São Paulo

Shares in Deep Sea Supply Plc per  
31.12.2016: None



## Offices and Management Team:

The Company is incorporated in Limassol, Cyprus. The Company has management companies in Cyprus, Singapore, Brazil and Norway. As of year-end the on-shore staff is 58 persons, which is a decrease of 19 from last year.

### **Deep Sea Supply Management (Cyprus) Ltd.**

The Company was established in 2007 and focuses primarily on financial reporting, cash management, control functions and insurance claims handling. The Company has 4 employees and is headed by Mr. Constantinos Tzagotzides.

### **Deep Sea Supply Navegacao Maritima Ltda, Rio de Janeiro, Brazil**

The company was established in 2009 after DESSC contracted a large PSV from STX Offshore Brazil S.A. The Company has 16 employees and is a fully operational shipping company in Brazil including chartering and technical and crew management. The General Manager is Mr. Abilio Mello.

### **Deep Sea Supply Management (Singapore) Ltd.**

The Company was established in 2010, in continuation of a representative office which has been in Singapore since 2006, and has 18 employees. The Company is a fully operational shipping company including chartering, technical and crew management. The General Manager is Mr. Steven Yong.

### **Deep Sea Supply Management AS**

The Company was established in 2006 and has 16 employees involved in Chartering, Business Development, Finance, Accounting and Technical.

### **Deep Sea Supply Crew (Ukraine) Ltd**

The company was established in 2015 and employs 4 persons. The company's activities are crew management for the fleet of DESSC.

### **The Management team of the Company is as follows:**

#### **Jon Are Gummedal, CEO Chief Executive Officer/**

#### **Technical Director:**

Jon Are Gummedal has worked with Deep Sea Supply since January 2014, first as Technical Director with the responsibility of the technical management and crewing of the fleet operating worldwide. He took the position as CEO in Deep Sea Supply in April 2015. Prior to joining DESSC, he held the position as Technical Director in one of the largest ship management companies in Norway, managing a fleet of 86 vessels. Mr. Gummedal has more than 14 years of experience in the shipping industry, last 8 years in senior management positions.

#### **Anders Hall Jomaas, CFO – Chief Financial Officer:**

Anders Hall Jomaas holds a MSc within Industrial Economics and Technology Management from Norwegian University of Science and Technology (NTNU). He joined Deep Sea Supply in 2007 and held the position of Finance Manager for 3 years

before taking the position as CFO in 2010. Prior to joining Deep Sea Supply, he worked within project management consulting and finance management for 5 years.

#### **Constantinos Tzagotzides - Accounting Director:**

Constantinos Tzagotzides holds a BSc in Applied Accounting and is a Fellow of the Association of Chartered Certified Accountants (FCCA). He has more than 10 years of experience in accounting related positions. He has worked as Chief Accountant in Deep Sea Supply since 2007. Previously, he was employed as a chief accountant in A.P. Moller Maersk, Cyprus and has furthermore worked as an auditor.

#### **Tallak Strandenæs, Chartering and Marketing Director:**

Tallak Strandenæs joined Deep Sea Supply in April 2014, and prior to that he worked as a shipbroker and partner in RS Platou from 1994 to 2014. During the period from 2008 to 2011 Mr. Strandenæs worked for RS Platou in Singapore.

#### **Trond Erling Andersen, HSEQ Director:**

Trond Erling Andersen has worked with Deep Sea Supply since February 2015, first as Marine Manager with the responsibility of the Marine Operations, HSEQ and crewing procedures. He took position as HSEQ Director in October 2016. Prior to joining DESSC, he held position as Stability section Leader in Seadrill, North Atlantic and Master Mariner on PSV's and AHTS's in the North Sea. Mr. Andersen has more than 22 years of experience from the marine and offshore industry.

#### **Steven Yong – General Manager, Singapore:**

Steven Yong has been working in the Offshore industry for 35 years in various functions including Technical, Procurement, Crewing, HSE and Operations. He was the pioneering Manager with GulfMark's Far East operations (Gulf Marine FE Singapore) and held the position of Operations Manager for close to 20 Years. Subsequently he joined Deep Sea Supply Singapore in 2010 as the Operations Manager and was promoted to General Manager in 2014.

#### **Abilio Mello – General Manager, Brazil:**

Mr. Abilio Mello is a former Navy Officer with more than 30 years' experience working in the Brazilian Navy. After his retirement in 2009 he joined the Offshore Market working as Operations Manager at Astromaritima. In January 2011 he started working in Deep Sea Supply as Fleet Superintendent, where he received the technical / operational management of the first vessels under DESS Brazil Management in 2011 & 2012. In 2012 Abilio was promoted to Technical Manager where he was in charge of the technical management team.

Mr. Mello has graduated from the Naval Academy in 1987, Naval Architect and postgraduate course in Machinery. Holds a MSc in Naval Sciences - Naval War College and has an MBA in Business Management from COPPEAD Institute / Federal University.





## Consolidated income statement

All amounts in USD 1,000

	Note	2016	2015
Sales-freight revenue		32 594	70 155
Management fee Income from related parties	24	2 676	3 038
Operating expenses of vessels	19	(23 302)	(27 354)
Other operating expenses	20	(9 101)	(9 519)
Share of loss of investments accounted for using the equity method	29	(19 351)	(60 924)
Other gains/(losses) - net	17	6 975	(258)
Loss from sale of vessels net of gains on associated liabilities	6	(17 337)	-
<b>Operating loss before depreciation and impairments (EBITDA)</b>		<b>(26 846)</b>	<b>(24 862)</b>
Depreciation related to vessels	6	(29 770)	(26 052)
Impairment related to vessels	6	(92 361)	(56 897)
Other depreciation	6	(238)	(225)
Impairment of investment in Joint Venture	29	-	(30 894)
<b>Operating loss (EBIT)</b>		<b>(149 215)</b>	<b>(138 930)</b>
Finance income		919	1 124
Finance costs		(18 558)	(12 246)
Currency losses		(1 095)	(1 295)
<b>Net Financial items</b>		<b>(18 734)</b>	<b>(12 417)</b>
<b>Loss before income tax</b>		<b>(167 949)</b>	<b>(151 347)</b>
Income tax expenses	15	(154)	(175)
<b>Loss for the year</b>		<b>(168 103)</b>	<b>(151 522)</b>
<b>Loss attributable to:</b>			
-Equity holders of the Group		(168 103)	(151 522)
-Non controlling interest		-	-
		<b>(168 103)</b>	<b>(151 522)</b>

Losses per share for losses attributable to the equity holders of the Group, expressed in USD per share:

		USD per share	USD per share
-Basic	21	(0,623)	(0,580)
-Diluted	21	(0,621)	(0,580)

## Consolidated statement of comprehensive income

All amounts in USD 1,000

	2016	2015
<b>Loss for the year</b>	<b>(168 103)</b>	<b>(151 522)</b>
<b>Other Comprehensive Income:</b>		
<b>Items that will not be subsequently reclassified to profit and loss</b>		
Adjustment for pension plan (Note 7)	308	105
Cash flow hedges	4	21
<b>Total comprehensive loss for the year</b>	<b>(167 791)</b>	<b>(151 396)</b>
<b>Attributable to:</b>		
-Equity holders of the Group	(167 791)	(151 396)
-Non-controlling interest	-	-
	<b>(167 791)</b>	<b>(151 396)</b>

Changes to other comprehensive income are stated gross of tax.

The notes in pages 21 to 69 form an integral part of these consolidated financial statements.



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## Consolidated balance sheet

All amounts in USD 1,000

		As at 31 December	
	Note	2016	2015
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
<b>Property, plant and equipment</b>			
Vessels	6	635 572	446 516
Vessels under finance lease contracts	6	66 964	16 335
Equipment and vehicles	6	798	393
<b>Total property, plant and equipment</b>		<b>703 334</b>	<b>463 244</b>
Investments accounted for using the equity method	29	-	31 637
CIRR Deposit	14	9 459	13 258
Pensions	7	-	45
<b>Total non-current assets</b>		<b>712 793</b>	<b>508 184</b>
<b>Current assets</b>			
CIRR Deposit	14	3 366	2 684
Inventories	10	3 538	2 108
Trade receivables	9	9 852	10 012
Other short term receivables	25	6 264	3 979
Loans to related parties	24	1 424	15 000
Cash and cash equivalents	11	51 202	74 186
<b>Total current assets</b>		<b>75 646</b>	<b>107 969</b>
<b>Total assets</b>		<b>788 439</b>	<b>616 153</b>





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		As at 31 December	
	Note	2016	2015
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	12	5 827	5 224
Share premium & Reorganisation reserve	12	205 341	200 796
Other paid in capital	12	2 145	1 486
Retained earnings and other comprehensive income		(83 713)	84 078
<b>Total equity</b>		<b>129 600</b>	<b>291 584</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings	14	518 020	185 415
Finance lease liability	14	74 663	20 825
Loans from third parties	14	12 238	-
CIRR Loan	14	9 459	13 258
Deferred gain on CIRR Loan		299	401
<b>Total non-current liabilities</b>		<b>614 679</b>	<b>219 899</b>
<b>Current liabilities</b>			
Trade and other payables	13	15 852	6 200
Bank borrowings	14	22 271	91 378
Finance lease liability	14	1 207	4 065
Loans from third parties	14	1 344	-
CIRR Loan	14	3 366	2 684
Deferred gain on CIRR Loan		120	122
Financial derivatives	8	-	221
<b>Total current liabilities</b>		<b>44 160</b>	<b>104 670</b>
<b>Total liabilities</b>		<b>658 839</b>	<b>324 569</b>
<b>Total equity and liabilities</b>		<b>788 439</b>	<b>616 153</b>

The notes in pages 21 to 69 form an integral part of these consolidated financial statements.





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## Consolidated statement of changes in equity

All amounts in USD 1,000

	Share Capital	Share premium reserve	Reorganisation reserve	Other paid-in- capital	Other reserves	Retained earnings	Total
<b>Balance at 1 January 2015</b>	5 224	324 183	(123 386)	1 654	(438)	235 912	443 148
<b>Comprehensive income</b>							
Loss for the year	-	-	-	-	-	(151 522)	(151 522)
Other comprehensive income for the year	-	-	-	-	126	-	126
<b>Total comprehensive income/(loss)</b>	-	-	-	-	126	(151 522)	(151 396)
<b>Transaction with owners</b>							
Valuation of share option scheme	-	-	-	(168)	-	-	(168)
<b>Total transactions with owners</b>	-	-	-	(168)	-	-	(168)
<b>Balance at 31 December 2015</b>	5 224	324 183	(123 386)	1 486	(312)	84 390	291 584
<b>Balance at 1 January 2016</b>	5 224	324 183	(123 386)	1 486	(312)	84 390	291 584
<b>Comprehensive income</b>							
Loss for the year	-	-	-	-	-	(168 103)	(168 103)
Other comprehensive income for the year	-	-	-	-	312	-	312
<b>Total comprehensive income/(loss)</b>	-	-	-	-	312	(168 103)	(167 791)
<b>Transaction with owners</b>							
Share capital increase (Note 12)	603	4 544	-	-	-	-	5 147
Issue of warrants (Note 12)	-	-	-	638	-	-	638
Valuation of share option scheme	-	-	-	21	-	-	21
<b>Total transactions with owners</b>	603	4 544	-	659	-	-	5 806
<b>Balance at 31 December 2016</b>	5 827	328 727	(123 386)	2 145	-	(83 713)	129 600

The only reserve which is available for distribution in the form of dividends are "Retained Earnings" in the separate financial statements of the Company.

The notes in pages 21 to 69 form an integral part of these consolidated financial statements.





## Consolidated statement of cash flows

All amounts in USD 1,000

		Year Ended 31 December	
	Note	2016	2015
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	6 270	42 078
Income tax paid		(193)	(56)
<b>Net cash generated from operating activities</b>		<b>6 077</b>	<b>42 022</b>
<b>Cash flow from investing activities</b>			
Acquisitions of vessels, constructions contracts and other PPE	6	(2 827)	(4 405)
Loans to related parties	24	(11 424)	-
Cash effect of Business combination	30	12 773	-
Repayment of loans from related parties	24	-	20 000
Proceeds from disposal of PPE*		5 333	-
Interest received		988	1 213
<b>Net cash generated from investing activities</b>		<b>4 844</b>	<b>16 808</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(11 219)	-
Prepayments of borrowings*		(11 705)	(21 113)
Interest paid		(14 572)	(10 223)
<b>Net cash used in financing activities</b>		<b>(37 496)</b>	<b>(31 336)</b>
<b>Total changes in liquidity in the year</b>		<b>(26 575)</b>	<b>27 495</b>
Cash and cash equivalents at beginning of year		74 076	46 581
<b>Cash and cash equivalents at end of the year</b>	<b>11</b>	<b>47 500</b>	<b>74 076</b>
Pledged bank accounts	11	3 702	110
<b>Cash at bank as per balance sheet</b>		<b>51 202</b>	<b>74 186</b>

For the non-cash transactions please refer to Note 11.

\* Proceeds from disposal of PPE and prepayments of borrowings have been shown as net in the Group unaudited quarterly reports, released for 2016.

The notes in pages 21 to 69 form an integral part of these consolidated financial statements.







## Notes to the consolidated financial statements

### 1. General Information

Deep Sea Supply PLC's ("the Company") and its subsidiaries, hereinafter collectively ("the Group"), principal activities are to engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore supply vessel business.

Cap. 113. Its registered office is at John Kennedy, Iris House, 7th Floor, Limassol, Cyprus.

The Company has its primary and only listing on the Oslo Stock Exchange and trades under symbol DESSC.

The Company was incorporated as a public limited liability company on 7 November 2006 and is domiciled in Cyprus in accordance with the provisions of the Cyprus Companies Law,

The Group's principal subsidiaries and joint ventures at 31 December 2016 are set out below:

Name of Entity	Country of incorporation	Ownership held by the Group		Principal activities
		2016	2015	
<u>Ownership through direct interest</u>				
Deep Sea Supply Management (Cyprus) Ltd	Cyprus	100 %	100 %	Management
Deep Sea Supply Management AS	Norway	100 %	100 %	Management
DESS Invest Ltd	Cyprus	100 %	100 %	Investment holding
Deep Sea Supply Management (Singapore) PTE Ltd	Singapore	100 %	100 %	Management
Deep Sea Supply Shipowning AS	Norway	100 %	100 %	Shipowning
DESS Cyprus Ltd	Cyprus	100 %	100 %	Shipowning
DESS PSV Ltd	Cyprus	100 %	100 %	Shipowning
DESS Finance Ltd	Cyprus	100 %	100 %	Financing
DESS PSV II Ltd	Cyprus	100 %	100 %	Shipowning
DESS PSV III Ltd	Cyprus	100 %	100 %	Shipowning
DESS PSV IV Ltd	Cyprus	100 %	100 %	Shipowning
DESS Labuan Ltd	Malaysia	100 %	100 %	Shipowning
DESS Labuan II Ltd	Malaysia	100 %	100 %	Shipowning
DESS Sea Supply Management (Malaysia) SDN. BHD.	Malaysia	100 %	100 %	Management
Deep Sea Supply Serviços Marítimos Ltda*	Brazil	100 %	50 %	Management
Deep Sea Supply Navegação Marítima Ltda.*	Brazil	100 %	50 %	Shipowning
Deep Sea Supply AS (formerly Deep Sea Supply BTG AS) (1)*	Norway	100 %	50 %	Investment holding
DESS Aquaculture Shipping AS (2)**	Norway	50 %	-	Investment holding
<u>(1) Ownership through indirect interest from direct interest in Deep Sea Supply AS</u>				
Deep Sea Supply Shipowning I AS*	Norway	100 %	50 %	Shipowning
Deep Sea Supply Shipowning II AS*	Norway	100 %	50 %	Shipowning
Deep Sea Supply Shipowning III AS*	Norway	100 %	50 %	Shipowning
<u>(2) Ownership through indirect interest from direct interest in DESS Aquaculture Shipping AS</u>				
DESS Aqua I AS**	Norway	50 %	-	Shipowning
DESS Aqua II AS**	Norway	50 %	-	Shipowning

\*These companies are collectively referred to as "DESS BTG".

\*\*These companies are collectively referred to as "DESS Aqua".

These consolidated financial statements have been approved for issue by the Board of Directors on 12 April 2017.



DEEP SEA SUPPLY

## 2. Summary of significant accounting policies

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission.

### 2.1 Statement of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and the requirements of the Cyprus Companies Law, Cap. 113.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value through profit or loss. A summary of the principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### Adoption of new and revised IFRSs

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016.

This adoption did not have a material effect on the accounting policies of the Group.

#### New standards and interpretations not yet adopted by the Group

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- i. Financial assets are required to be classified into three

measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- ii. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- iii. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- iv. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- v. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- vi. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.



The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)\*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)\*. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017)\*. The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market

interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)\*. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)\*. The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)\*. The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after



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1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28)\*. The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity, associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)\*. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements.

\* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

The Board of Directors assesses the impact of new standards and interpretations at the point when these are endorsed by the European Union. As a result the impact of the new standards and interpretations that have not been endorsed by the European Union has not yet been assessed.

## 2.2 Consolidation

### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Goodwill is measured by deducting the fair value of net assets of the acquiree from the aggregate of the fair value of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement. The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

In the case of a business combination achieved in stages, equity interest in the acquiree held previously by the Group is re-measured at fair value at the acquisition date (i.e. the day on which the Group obtains control), and gains or losses incurred are recognized in profit or loss.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.



## (b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

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

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount separately to 'share of profit/(loss) of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## (c) Joint arrangements

Investments in joint arrangements are classified as either joint operations ("JOs") or joint ventures ("JVs") depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. Dividends received or receivable from joint venture are recognized as a reduction in the carrying amount of the investment. When the group's share of

losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the JV is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the JV and its carrying value and recognises the amount separately in the consolidated income statement.

## 2.3 Discontinued operations

An operation that has been disposed of (by a particular reporting date) or classified as held for sale at that point may be classified as discontinued even if the entity continues to operate in the same business segment, but withdraws from a geographical area. If a disposal group meets the discontinued operation criteria, the cashflows and results of the disposal group are presented as discontinued operations. Discontinued operations are presented in a separate part of the statement of comprehensive income. The figure presented is for the entire period and not the result since the operation was discontinued. The amount to be disclosed is the entire post-tax result for the period plus any gain or loss on remeasurement/ disposal gain of assets or disposal groups. Hence, in the statement of comprehensive income each line item from revenue down to post-tax profit excludes discontinued operations. Discontinued operations held for sale are measured in the same way as other disposal groups, that is, at the lower of carrying amount and fair value less costs to sell.

## 2.4 Underlying concepts

The financial statements are prepared on the going concern basis using accrual accounting.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard.

Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to set off exists and the intention is either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the IFRS standards. If no such



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guidance is given, they are applied retrospectively, unless it is impracticable to do so, in which case they are applied prospectively.

## 2.5 Recognition of assets

Assets are only recognized if they meet the definition of an asset, it is probable that future economic benefits associated with the asset will flow to the Group and the cost or fair value can be measured reliably.

## 2.6 Classification of assets

Assets intended for long-term ownership or use, are classified as non-current. Other assets are classified as current. Receivables due to be repaid within one year are classified as current assets.

## 2.7 Use of estimates

The key sources of estimation of uncertainty at the balance sheet date, that have a significant risk for causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below in Note 4.

## 2.8 Commercial Interest Reference Rate (CIRR) loan

The Group has applied for two Commercial Interest Reference Rate (CIRR) loans from the Norwegian Export Credit Agency in 2008. The duration of the loans may vary and the cash proceeds from the loans have been deposited in fixed deposit account with a Norwegian bank at a higher interest rate than that of the loans. The agreed period of the deposits is identical with the one of the loans. The loans and the interest thereof will be repaid from that account. At initial recognition the difference between the amounts received and fair value of the loan has been recognised as deferred gain and is amortised over the period of the life of the asset.

## 2.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker of the Group is its Board of Directors.

The components of the Group that management uses to make decisions about operating matters are the geographical region and the type of the vessel.

The Group is organized into main geographic regions: North Sea, Mediterranean, Africa, Australia/Far East, Russia and North & South America. The geographical segments are based on the location of the vessels.

The types of vessels are AHTS and PSVs.

Depreciation is allocated between the different segments based on number of days the vessels have been operated within the different segments.

## 2.10 Foreign currency translation

### (a) Functional and presentation currency

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

All Group entities have the USD as their functional currency. All amounts in these financial statements are in USD 1,000 unless otherwise stated.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

## 2.11 Non-current assets and maintenance costs

Property, plant and equipment are stated at historical cost, less subsequent depreciation and impairment. For vessels purchased, these costs include expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis, taking residual values into consideration, and adjusted for impairment charges, if any. The carrying value of the fixed assets on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Day-to-day maintenance costs are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations and periodic maintenance of vessels (dry-dock) are capitalized and depreciated over the useful life of the parts replaced. The useful life of regular vessels dry-docking expenses will normally be the period until next docking which if it is an intermediate survey is after 30 months and if it is a special survey is after 60 months. When ships are acquired, a proportion of the acquisition cost is separated to periodic maintenance. Depreciation on vessels and other assets (equipment) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:



- Vessels	30 years
- Vehicles	5 years
- Dry docking costs	
• Intermediate survey	2.5 years
• Special survey	5 years
- Software licenses	3 years
- Furniture, fittings and equipment	3 years

The assets' residual values and useful lifetime assumptions of fixed-assets are reviewed at each balance sheet date, and where they differ significantly from previous estimates, depreciation charges are changed accordingly.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. For vessels under finance sale and leaseback disposals the deferred gain is recognized fully into the profit and loss upon disposal.

## 2.12 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## 2.13 Newbuild contracts

Installments on new vessel contracts are presented as prepayments for vessels under construction in accordance with the terms of the vessel-contracts. The total acquisition cost includes the sum of installments payable plus direct costs incurred during the construction period.

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

## 2.14 Lease agreements

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires

an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

In cases where the Group is the lessor in an operating lease, initial direct costs are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Financial leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in borrowings. Finance charges are charged directly to financial expenses.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

In a sale and finance leaseback transaction any excess of sales proceeds over the carrying amount is deferred and recognized in the profit or loss over the lease term.

Modifications in the terms of existing lease agreements are reassessed as to whether such modifications result to a different classification between operating leases or finance leases. The Group is carrying out this assessment, taking into account the new terms of the agreement as if the revised agreement was a new lease at the date of the modification.

## 2.15 Impairment of non-financial assets

The Group determines whether there are indications that non-financial assets are impaired at each balance sheet date or more frequently if events or changes in circumstances indicate that might be impaired. The carrying value of vessels are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The asset's cash generating ability either through use or sale is reviewed and compared to the asset's carrying value in the balance sheet. If the carrying value is higher, the difference must be written off as an impairment loss. Fair value reduced by estimated sales costs is the amount achievable on an arm's length sale to an independent third party. The recoverable amount is the higher of value in use and fair value less costs to sell and is established individually for all cash



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generating units. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments at the time and the risk specific to the asset that is considered impaired.

For vessels that are held under a sale and finance leaseback arrangement that have a related carrying amount of a deferred gain as explained in 2.14 above, upon impairment the Group recognizes the impairment first within the unamortized part of the deferred gain for the same asset that is presented as a liability and any excess is charged to the profit or loss.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Reversal of previously recognized impairment is limited to the amount the carrying value of the asset would have been, had the initial impairment charge not taken place.

## 2.16 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### (a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management, and they meet certain criteria (IAS 39.9). Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be settled within 12 months of the balance sheet date.

### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables', 'loans to related parties' and 'cash and cash equivalents' in the balance sheet.

### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium or long term or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

Regular way purchases and sales of financial assets are

recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the profit or loss within other (losses)/gains – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit or loss as part of other income when the Group's right to receive payment is established.

### (d) Held to maturity financial assets

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity that do not meet the definition of loans and receivables. During the year, the Group did not hold any investments in this category.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

## 2.17 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

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



The fair values of various derivative instruments used for hedging purposes are disclosed in note 8. Movements on the hedging reserve in other comprehensive income are shown in Statement of Changes of Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### Cash flow hedge

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

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

#### 2.18 Inventories

Bunkers inventories are valued at the lower of historical cost and net realisable value applying the FIFO (first-in, first-out) principle.

Luboil inventories are valued using the weighted average valuation method.

#### 2.19 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

#### 2.20 Cash and cash equivalents

Cash and cash equivalents, includes cash in hand and deposits held at call with banks.

#### 2.21 Restricted cash

Restricted cash deposits comprise of funds held in separate Group bank accounts, which will be used to settle accrued taxation liabilities related to employee's tax deduction and amounts blocked as additional security in relation to the asset-value requirements of loan agreements. Restricted cash are excluded from cash and cash equivalents in the statement of cash flows.

#### 2.22 Share capital

Ordinary shares are classified as equity

Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

#### 2.23 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss on extinguishment is recognised in profit or loss except to the extent that it arises as a result of transactions with shareholders acting in their capacity as shareholders when



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it is recognised directly in equity. The terms are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

## 2.24 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2.25 Taxation

Tax expense/income includes current taxes and the change in deferred taxes.

Parts of the Group's activities within the Norwegian and the Cyprus subsidiaries are structured within the regulations for the Norwegian and the Cyprus Tonnage Tax System for shipping companies, respectively.

The Group has estimated a tax rate of 0% for the Companies subject to the regulations of the shipping company regime (tonnage tax). For all companies under this regime, the Group has estimated 0% deferred tax on temporary differences when entering the regime. For companies not included in the regime, and for taxable financial revenues in companies under the regime, the Group applies a tax rate of 27% for Norwegian companies and 12,5% for Cyprus companies. Tax expense/income includes current taxes and the change in deferred taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and its probable that the temporary difference will not reverse in the foreseeable future.

## 2.26 Bonus plans

The Group recognizes a liability and an expense within wages and salaries for bonuses, based on a formula that takes into consideration the performance of peer group companies. The Group recognizes a liability where contractual obligations exist or where there is a past practice that has created a constructive obligation.

## 2.27 Share based payments

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments such as options to buy shares of the Company.

The cost of equity-settled transactions is measured by reference to the fair value at the date on which the award is granted. The fair value is determined using appropriate valuation models.

The cost of equity settled transactions is recognised as an expense, together with a corresponding increase in reserves within equity, over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period the entity revises the estimates of the number of options that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Where the terms of the share option scheme is modified to be settled in cash rather than in equity instruments, the entity measures the liability initially using the modification date fair value of the equity-settled award, based on the elapsed portion of the vesting period. This amount is then recognized as a credit to liability and a debit to equity. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognized in profit and loss.

## 2.28 Pension costs and obligation

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.



The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

Past-service costs are recognised immediately in income. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## 2.29 Provisions

Provisions represent liabilities of uncertain timing or amount.

Provisions are recognized when the Group has a present legal or constructive obligation, as a result of past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2.30 Revenue recognition

The Group's activity is chartering out different types of Anchor Handling Tug Supply vessels (AHTS's) and Platform Supply Vessels (PSV's).

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, withholding tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognized as follows:

### Charter rate contracts

Charter contracts are classified as operating leases under IAS 17. Revenue derived from charter contracts is recognized in the period over the lease term on a straight line basis. Related services are recognized as revenue in accordance with the services being rendered.

Vessels without signed contract in place at discharge have no revenue before a new contract is signed. Charter related expenses incurred for vessels in the idle time are expensed. Revenues from time charters and bareboat charters accounted for as operating leases are recognized over the rental periods of such charters, as service is performed on a straight line basis.

### Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

### Dividend income

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

## 2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders until payment is made.

## 2.32 Earnings per share

Earnings per share are calculated by dividing the net profit/loss for the Company by the average weighted number of outstanding shares over the period in question. Diluted earnings per share include the effect of the assumed conversion of potentially dilutive instruments such as stock options.

## 2.33 Statement of cash flow

The statement of cash flow is presented in accordance with the indirect method.

## 2.34 Insurance claims receivables

Insurance claims receivables fall into two categories, Loss of Hire (LOH) and Hull and Machinery (H&M).

Loss of hire pertains to claims made when a technical issue prevents the vessels ability to go onhire.

Hull and machinery pertains to reimbursement of actual expenses incurred to repair the problem. There is an element of judgment when deciding which expenses can be claimed and whether it is virtually certain that the amounts will be recovered but the Group follows the policies and the advice of external consultants before submitting any claim.



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Loss of hire claims receivables are calculated and booked as number of days that the vessel is unable to go onhire times the daily rate as per LOH insurance policy.

Hull and machinery is booked as actual expenses incurred to repair the problem less insurance deductible amount as per H&M insurance policy.

### 2.35 Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

### 2.36 Assets Acquisition

For acquisitions not meeting the definition of a business under IFRS 3 "Business Combinations", the Group recognises the individual identifiable assets and liabilities acquired at their fair values on the date of acquisition. The cost of the transaction is allocated to the assets acquired and liabilities assumed based on their relative fair values at the date of purchase. No goodwill arises on the transaction.

### 2.37 Presentation of consolidated income statement

Income statement is presented by nature of expense method. As per this presentation, "EBITDA" is defined as the earnings generated by the Group before the effect of financial income and expense, tax, depreciation and impairment and currency gains/losses. "EBIT" is defined as earnings generated by the Group before the effect of financial income and expense, currency gains/losses and tax.





## 3. Financial risk management

### 3.1 Financial risk factors

The Group's normal business activities expose it to a variety of financial risks. Financial market risk is the possibility that fluctuations in currency exchange rates, interest rates and freight rates in particular will affect the value of the Group's assets, liabilities or future cash flow. The Group has formulated a finance strategy where certain basic targets and policies are made for value adjusted equity (Note 3.2), required liquidity, exchange rates, interest rates, funds management etc.

To reduce and manage these risks, management daily reviews and assesses its primary financial and market risks. Once risks are identified, appropriate action is taken to mitigate the specific risk. Financial derivatives are used for hedging purposes in order to mitigate financial risks and only well understood conventional derivatives are used. Financial derivatives are entered into with our main banks which are highly rated financial institutions. The Group use derivatives in order to manage risks associated with interest rate and currency.

#### Foreign exchange risk

The Group's functional currency is USD. The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures primarily with respect to Euro (EUR), UK Pounds (GBP), Brazilian Reals (BRL), Singapore dollar (SGD) and Norwegian kroner (NOK). Foreign exchange risks arise from future commercial transactions and recognized assets and liabilities. The Group had in 2016 and 2015 mainly USD, EUR, GBP, BRL and NOK revenues and mainly USD, BRL, SGD and NOK expenses. Imbalances between revenues and costs are often managed using forward currency contracts. The table below shows the impact on profit before tax as a consequence of an increase/decrease in the various exchange rates.

#### Foreign Exchange Risk

<b>NOK</b>	<b>Increase</b>	<b>Effect USD '000</b>
2016	+/-10%	+/- 684
2015	+/-10%	+/- 649
<b>GBP</b>	<b>Increase</b>	<b>Effect USD '000</b>
2016	+/-10%	+/- 927
2015	+/-10%	+/- 931
<b>EUR</b>	<b>Increase</b>	<b>Effect USD '000</b>
2016	+/-10%	+/- 346
2015	+/-10%	+/- 355
<b>BRL</b>	<b>Increase</b>	<b>Effect USD '000</b>
2016	+/-10%	+/- 492
2015	+/-10%	+/- 5
<b>SGD</b>	<b>Increase</b>	<b>Effect USD '000</b>
2016	+/-10%	+/- 668
2015	+/-10%	+/- 619

#### Credit risk

The Group trades only with recognized, creditworthy third parties. For banks and financial institutions, only credit worthy institutions are chosen. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. Below, we present a table showing the concentration risks for 2016 and 2015:

#### Receivables at 31.12.2016

	<b>USD '000</b>	<b>% of total</b>
5 largest	5 861	59,5%
6 to 10 largest	3 028	30,7%
11 to 15 largest	871	8,8%
Others	92	0,9%
<b>Total</b>	<b>9 852</b>	<b>100,0%</b>

#### Receivables at 31.12.2015

	<b>USD '000</b>	<b>% of total</b>
5 largest	6 604	66,0%
6 to 10 largest	2 217	22,1%
11 to 15 largest	910	9,1%
Others	281	2,8%
<b>Total</b>	<b>10 012</b>	<b>100,0%</b>

Other information on the credit quality of the financial assets is presented in Note 23.

#### Cash flow and fair value interest rate risk

The Group's exposure to the risk of market interest rates are mainly related to the Group's long term debt obligations and loans receivables with floating interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the development of and on internal analyses of the interest rate market, the Group enters into various interest rate contracts to alter the ratio of fixed rate to floating rate debt and vice-versa.

As of 31 December 2016 approximately 24% of the interest bearing debt was fixed. As of 31 December 2015, after taking into account the effect of the interest rate swaps, approximately 28% of the interest bearing debt was fixed.

#### Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

#### Cash flow interest rate risk

	<b>Increase/decrease in basis points</b>	<b>Effect on loss before tax (USD '000)</b>
2016	+/-25	852
2015	+/-25	546



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## Liquidity risk

The Group monitors its risk to a shortage of funds by closely monitoring the projected cash flow from operations, financial expenses and its capital expenditure program. The Group maintains sufficient cash for its daily operations via short term cash deposits at banks.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2016	Less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	7 487	40 051	513 258	16 772	39 310	616 878
Finance lease liabilities	2 133	6 359	29 254	25 220	49 811	112 777
Trade and other payables	3 963	11 889	-	-	-	15 852
	<b>13 583</b>	<b>58 299</b>	<b>542 512</b>	<b>41 992</b>	<b>89 121</b>	<b>745 507</b>
<b>At 31 December 2015</b>						
Interest bearing loans and borrowings	6 587	92 533	25 185	178 732	-	303 037
Finance lease liabilities	1 101	3 303	8 780	15 240	-	28 424
Derivative financial instruments	138	322	-	-	-	460
Trade and other payables	1 550	4 650	-	-	-	6 200
	<b>9 376</b>	<b>100 808</b>	<b>33 965</b>	<b>193 972</b>	<b>-</b>	<b>338 121</b>

The liquidity effects of the CIRR loan are excluded from the above table as the cash outflows from the maturity of the loans are matched with the cash inflows from the maturity of the CIRR deposit account, and thus the Group is not exposed to liquidity risk in this respect.

## 31 December 2015

The Group had issued guarantees in relation to a bank loan drawn by a joint venture entity (Note 29.2). The Group's commitments are disclosed in Note 28.

## 3.2 Capital risk management

The Group's objective is to actively pursue an optimal financing of its fleet at any time for the purposes of providing good return to shareholders and benefits for other stakeholders, to aim at low cost of capital and at the same time secure the Group's ability to continue as a going concern.

In the shipping and offshore industry, emphasis is given on Value Adjusted Risk Capital. A certain minimum Value Adjusted Risk Capital is often used as one financial covenant by financial institutions.

The main source of financing of the Group is Senior Bank Loans from international banks which are long term players in the shipping and offshore business segments. The Group believes in building and maintaining long term relationships with these financial institutions and has pursued this strategy since the Group was founded.

Bank loan financing has been combined with a specially structured sale and leaseback transaction for (currently) 5 vessels owned by the Group. The sale and leaseback transaction is designed to withstand possible drops in the market by having fewer and leaner financial covenants compared to the senior bank loan facility.

The Group's Management considers the combination of senior bank loans and sale and the leaseback transaction as an effective and flexible way to finance the Group's fleet at an acceptable cost.



The Value Adjusted Risk Capital, for the Group (including 50% of DESS BTG for Year End 2015), by year end 2016 and 2015 is presented in table below:

<i>(all numbers are in USD million)</i>	Year end 2016	Year end 2015
Total value adjusted assets (*)	744	833
Total debt (**)	646	523
Value Adjusted Risk Capital	99 or 13% of total value adjusted assets	310 or 37% of total value adjusted assets

(\*) Adjustment of total assets relates to the replacement of book values of the vessels with the market values and replacement of the cost of Investment in DESS BTG with the market values of the vessels of the Joint Venture group. The market values obtained from two independent brokers on a charter-free basis.

(\*\*) Excluding deferred gain.

During the year the Group has complied with all externally imposed capital requirements.

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

There were no derivatives as at 31 December 2016.

The following table presents the Group 's assets and liabilities that are measured at fair value at 31 December 2015:

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives used for hedging		221		221
<b>Total liabilities</b>	-	<b>221</b>	-	<b>221</b>

The financial derivatives were not traded in an active market and were thus included in Level 2. The derivatives were used for economic hedging purposes. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Adjusted comparable price-to-book value multiples.
- Other techniques, such as discounted cash flow analysis.

## 4. Critical 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 are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom



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equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Impairment of Group's vessels

The Group performs an impairment test of its vessels when there are indicators for impairment in accordance with the relevant accounting policy. The Group compares the carrying amount of the vessels with their recoverable amount, being the higher of their fair value less costs to sell and their value-in-use. Management estimates the fair value less costs to sell by obtaining third party professional valuations for all vessels from two different independent valuers by adjusting to incorporate specific characteristics that market participants consider when pricing the asset, which include, but is not limited to, charter commitments and costs relating to reusing laid-up vessels.

In the current market for supply vessels the recoverable amount of the Group's vessels at 31 December 2016 and 31 December 2015 was lower than balance sheet value for a number of vessels. An impairment charge of USD 92,361 (2015: USD 56,897) arose for vessels of the Group which was recognized in the consolidated income statement (Note 6). The Group owned 37 vessels as at 31 December 2016 (2015: 18).

For the main assumptions used for the impairment testing of the vessels, please refer to Note 6.

A 10% change in the main assumptions used in the impairment testing of the vessels whose recoverable amount was based on their value in use would have the following effect on carrying amounts of vessels and profit for the year:

	<b>Decrease on Carrying amount of Vessels and profit for the year</b>
<hr/>	
<u>Year Ended 31 December 2016</u>	
10% decrease in utilization	(40 419)
10% increase in daily operating expenses	(38 237)
10% increase in discount factor	(34 916)
10% decrease in revenue growth	(9 157)
<u>Year Ended 31 December 2015</u>	
10% decrease in utilization	(7 047)
10% increase in daily operating expenses	(6 931)
10% increase in discount factor	(6 664)
10% decrease in revenue growth	(2 152)

For the vessels for which the recoverable amount was based on fair value less costs to sell, a 10% decrease in the valuation of the brokers would have the following effect:

	<b>Decrease on Carrying amount of Vessels and profit for the year</b>
<hr/>	
<u>Year Ended 31 December 2016</u>	
10% decrease in brokers valuation	(949)
<u>Year Ended 31 December 2015</u>	
10% decrease in brokers valuation	(11 065)

### (b) Tax legislation

Tax legislation is subject to varying interpretations. Refer to Note 28.

### (c) Insurance claim receivables

At balance sheet date, the Group has booked USD 295 (2015: USD 812) as amounts recoverable from insurance companies.

Such claims are filed following insurance policies and fall in two categories: Loss of hire and Hull & Machinery. Loss of hire pertains to claims made when a technical issue prevents the vessels' ability to be on hire. Hull & Machinery pertains to reimbursement of actual expenses incurred to repair the problem.



There is an element of judgment when deciding which expenses can be claimed and whether it is virtually certain that the amounts will be recovered, but the Group follows the policies and the advice of external consultants before submitting any claim.

#### **(d) Residual values and Useful economic life**

The Group follows the guidance of IAS 16 on determining the useful economic life of its vessel. In making this judgment, the Group evaluates, among other factors, the period over which an asset is expected to be available for use by an entity, which is based on management's intentions and past experience with similar assets.

Furthermore management estimates the residual value of the vessels to be Nil as the selling price is estimated to equal the selling/dismantling costs of the vessel at the end of its useful economic life.

#### **(e) Impairment of investment in Joint Ventures, impairment of loan receivable and financial guarantees**

As at 31 December 2015, the Group has tested for impairment its net investment in DESS BTG, the loans receivable from DESS BTG and has assessed the fair value of the financial guarantees provided in relation to a bank loan of one of the DESS BTG companies.

As a result of the impairment test carried out at 31 December 2015, the recoverable amount of the net investment in DESS BTG was estimated at USD31,637 using value in use estimates and an impairment loss of USD30,894 was recognised in the consolidated income statement. No further impairment was estimated to be required in respect of the loans receivable from the DESS BTG companies, amounting to USD15,000 as at 31 December 2015, as the loans receivable had priority over the equity investment.

In addition, as disclosed in Note 29.2, in 2015 the Group has provided a financial guarantee for the bank borrowings of Deep Sea Supply Navegação Marítima Ltda. As at 31 December 2015, the maximum exposure under this guarantee was the outstanding amount of the loan at year end amounting to USD 53,913. The bank borrowings were also secured by a first-priority mortgage over a vessel owned by this company. In addition BTG Pactual Group issued a counter indemnity in favor of the Company, whereby BTG Pactual Group would indemnify the Company for any claims exceeding 50% of the total liability under the guarantee given under the BNDES Facility. Taking into account the probability assessment above and the estimated value of the other securities over this bank loan, the Management did not expect a liability to arise to the Group in relation to this financial guarantee and estimates its fair value as insignificant.

On 15 September 2016, the Group acquired the remaining 50% of DESS BTG companies and the previously held interest was remeasured at fair value (Note 30).

#### **(f) Business Combination – Fair value of vessels included in the Purchase price allocation (PPA)**

As part of the acquisition of the remaining 50% of DESS BTG (Note 30) the Group has performed a PPA. The fair value of the vessels included in the PPA was calculated using discounted cash-flows, calibrated using professional valuations obtained from two different independent brokers and adjusting them to incorporate specific characteristics that market participants consider when pricing the asset, which include but are not limited to, charter commitments and costs relating to reusing laid up vessels.

The fair value of the vessels included in the PPA using the maximum of the professional valuations obtained from the two different independent brokers would be USD 422,000. If the Group used these valuations, the acquisition would result to a negative goodwill of USD 38,868.

The fair value of the vessels included in the PPA using the minimum of the professional valuations obtained from the two different independent brokers would be USD 340,000. If the Group used these valuations, the acquisition would result to a positive goodwill of USD 43,132.

## 4.2 Critical judgments in applying the group's accounting policies

#### **(a) Classification of acquired leases as finance leases**

Management exercised its judgement and followed guidance of IAS 17 "Leases" in order to consider classification of the lease contracts which have been amended during 2016 as part of the acquisition of DESS BTG (Note 14 (b)). Management has considered that the Group has substantially all the risks and rewards incidental to the ownership and that the exercise of the call option to purchase the vessels at the end of the lease term is reasonably certain. Following this analysis the Group's management has concluded that the lease contracts under the amendments are finance leases and are accounted under the accounting policy defined in Note 2.

#### **(b) Acquisition of DESS BTG**

The Group has assessed that the acquisition of 50% DESS BTG qualified as a business combination by applying the definition in IFRS 3 "Business Combination" with acquisition date 15 September 2016.



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**(c) Amendment of DESS BTG loan/lease agreements**

The Group has reached an agreement with certain banks and Ship Finance International Ltd ("SFI") for amendment of loan and lease agreements as part of the arrangement of the acquisition of the remaining 50% of DESS BTG. The amendments of the loan and lease agreements were treated as occurring concurrently with the acquisition and hence are part of the PPA, despite that the legal documents which included the amended loan and lease terms were signed on 30 September 2016 and 29 September 2016.

**(d) Sale of Sea Bear and Sea Lynx**

In February 2016, the vessel Sea Lynx and the finance lease vessel Sea Bear were sold to a third party for a selling price significantly lower than the fair value of these vessels (Note 6). On the basis of management's judgement, the selling price was not considered to be the fair value of the vessels as at 31 December 2016 and 31 December 2015 as defined by IFRS 13, as the sales were assessed as distressed sales since management agreed to sell these vessels at a significantly lower price than their brokers valuations in order to preserve the liquidity position of the Group. In this respect, the Management considers this transaction as non-orderly and the transaction price as outlier and hence the selling price was not taken into account in the fair value considerations when estimating the recoverable amount of these and other vessels during their impairment assessment as at 31 December 2016 and 31 December 2015.

**(e) Going Concern basis**

These consolidated financial statements were prepared in accordance with IFRS, as adopted by EU, on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. The Board of Directors is confident that the Group will continue as a going concern and in making this judgment the Board considered the Group's financial position, current intentions, profitability of operations and access to financial resources, as well as its analysis of the impact of the ongoing conditions and uncertainties in the markets which the Group operates.

The Group incurred a net loss of USD168,103 during the year ended 31 December 2016 (2015: USD 151,522) and as of that date, the Group's current liabilities totaled USD44,160 (2015:104,670) while its current assets totaled USD75,645 (2015: USD 107,969).

When examining the Group's ability to continue as a going concern, the Board of Directors has considered the following factors:

- The Group's cash flow forecasts and projections which are used for managing liquidity indicate that the Group would be able to meet its short term obligations and contractual commitments in the foreseeable future.
- Management has a successful track record in obtaining finance and refinancing financial facilities if the need arises.
- A variety of other factors which can improve liquidity if needed, including control over discretionary spending, disposing of assets and monitoring of the economic conditions in the markets where the Group operates.

Taking into account the above, the Board of Directors has assessed that the going concern basis in preparing the consolidated financial statements is appropriate and that there is no material uncertainty over the basis of preparation in this respect.

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## 5. Segment reporting

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### 5.1 Income statement / balance sheet and cash flow

DEEP SEA SUPPLY Plc ("Company" or "DESS") is a ship owner and operator of Anchor Handling Tug Supply vessels (AHTS) and Platform Supply Vessels (PSV). The Group has a worldwide operation, with particular focus on Brazil, North Sea, South East Asia, Australia and Africa. Since its foundation in 2004, Deep Sea has built a supply ship fleet with AHTSs and PSVs operating worldwide, with the aim of becoming one of the leading owners and operators of supply vessels on a global basis. As part of this strategy, the Group has sought to collaborations with foreign partners, which has resulted in an exclusive partnership agreement with two Malaysian partners in 2010 (associated entities); and the partnership with BTG Brasil (joint venture entities – DESS BTG). DESS's operations have traditionally been managed by the Board of Directors by reviewing information by area of operation; and by type of vessel (AHTS, PSV).

Management continues to review detailed information about its operations in Brazil as for all other Group operations and as such segment reporting is presented as follows:

- Without taking into consideration the impact of presentation for discontinued operations and therefore adding discontinued operations line by line, facilitating comparison with previous periods; however by taking into consideration the non depreciation of vessels



- since classified as held for sale for consistency to presentation in the primary statements.
- By removing the impact of equity accounting for the joint venture entities and by adding line by line the proportion of DESS participation (alike proportionate consolidation) in the Joint Venture entities in the income statement; balance sheet; and cash flows up to the date of purchase of the remaining 50% of DESS BTG on 15 September 2016 (Note 30).
  - Following 15 September 2016 when the companies of DESS BTG became fully owned subsidiaries, the Group presents balance sheet, income statement and cash flows including 100% the results of the ex DESS BTG companies.

Management uses a measure of adjusted operating profit before depreciation and impairments (segmental EBITDA), to assess the performance of the Group including the Joint venture entities.

These principles are applied when the board (Chief operating decision maker) of the Company reviews the results on a periodic basis. In addition the board reviews the results based on the geographic area where the vessels are located and per type of vessel (as shown in 5.2).

The chief operations decision maker of the Group is the Board of Directors.

## Consolidated income statement

All amounts in USD 1,000

	YTD 2016	YTD 2015
Sales-freight revenue	47 559	132 425
Operating expenses vessels	(35 213)	(55 009)
Other operating expenses	(9 340)	(11 117)
Other gains/losses - net	7 496	1 912
Loss from sale of vessels	(17 337)	-
<b>Operating (loss)/profit before depreciation and impairments (Segmental EBITDA)</b>	<b>(6 835)</b>	<b>68 211</b>
Depreciation and impairment	(138 188)	(164 803)
Impairment of investment in Joint Venture (Note 4.1(e))	-	(30 894)
<b>Operating loss (EBIT)</b>	<b>(145 023)</b>	<b>(127 486)</b>
Financial income	571	653
Financial expenses	(23 761)	(20 969)
Currency losses	(459)	(2 988)
Net financial items	(23 649)	(23 304)
<b>Loss before income tax</b>	<b>(168 672)</b>	<b>(150 790)</b>
Income tax expenses	569	(732)
<b>Loss for the year</b>	<b>(168 103)</b>	<b>(151 522)</b>

Reconciliation of segmental revenue to revenue as per consolidated income statement is as follows:

	2016	2015
Total segmental revenue	47 559	132 425
Less: Revenue 50% proportion of DESS in the Joint Venture Entities	(14 965)	(62 270)
<b>Revenue as per consolidated income statement</b>	<b>32 594</b>	<b>70 155</b>

Reconciliation of segmental EBITDA to EBITDA as per consolidated income statement is as follows:

	2016	2015
Total segmental EBITDA	(6 835)	68 211
Less: EBITDA 50% proportion of DESS in DESS BTG included in segmental EBITDA	(660)	(32 149)
Add: Share of Loss from DESS BTG	(19 351)	(60 924)
<b>EBITDA as per consolidated income statement</b>	<b>(26 846)</b>	<b>(24 862)</b>



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## Consolidated balance sheet

All amounts in USD 1,000

	31.12.2016	31.12.2015
<b>Non-current assets</b>		
Vessels cost*	702 536	683 606
Equipment	798	745
<b>Total property, plant and equipment</b>	<b>703 334</b>	<b>684 351</b>
CIRR deposit	9 459	13 258
<b>Total non-current assets</b>	<b>712 793</b>	<b>697 609</b>
<b>Current assets</b>		
Inventories	3 538	3 374
Loans to related parties	1 424	15 000
Other short term receivables	6 264	9 780
CIRR deposit	3 366	2 684
Freight income not received	9 852	15 286
Cash and cash equivalents	51 202	87 079
<b>Total current assets</b>	<b>75 646</b>	<b>133 203</b>
<b>Total assets</b>	<b>788 439</b>	<b>830 812</b>
<b>Long term liabilities</b>		
Borrowings	604 921	345 678
Loans from related parties	-	7 500
CIRR loan	9 459	13 258
Deferred gain	299	401
<b>Total long term liabilities</b>	<b>614 679</b>	<b>366 837</b>
<b>Short term liabilities</b>		
Borrowings	24 822	156 146
CIRR loan	3 366	2 684
Trade and other payables	15 852	13 218
Deferred gain	120	122
Financial derivatives	-	221
<b>Total short term liabilities</b>	<b>44 160</b>	<b>172 391</b>
<b>Total liabilities</b>	<b>658 839</b>	<b>539 228</b>
<b>Net assets</b>	<b>129 600</b>	<b>291 584</b>
<b>Shareholders equity</b>		
Share capital, share premium and treasury shares	213 313	207 507
Retained earnings and other reserves	(83 713)	84 077
<b>Total shareholders equity</b>	<b>129 600</b>	<b>291 584</b>

\* In 2015, the amount of USD 30,894, being impairment of investment in Joint venture as per note 4.1(e) has been deducted from the book value of the vessels.



## Consolidated statement of cash flows for segmental information purposes

All amounts in USD 1,000

	Year ended Dec 16	Year ended Dec 15
<b>Cash flows from operating activities</b>		
Cash generated from operations	13 295	77 543
<b>Net cash generated from operations</b>	<b>13 295</b>	<b>77 543</b>
<b>Cash flows from investing activities</b>		
Acquisitions and upgrades of property, plant and equipment	(2 829)	(5 553)
Net cash effect from acquisition of joint venture	386	-
<b>Net cash used in investing activities</b>	<b>(2 443)</b>	<b>(5 553)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(20 185)	(17 861)
Interest received	494	777
Loans to related parties	(1 424)	10 000
Increase in share capital	(19 241)	-
Repayments of borrowings	(6 373)	(39 666)
<b>Net cash used in financing activities</b>	<b>(46 729)</b>	<b>(46 750)</b>
<b>Total changes in liquidity in the year</b>	<b>(35 877)</b>	<b>25 240</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>87 079</b>	<b>61 839</b>
<b>Cash and cash equivalents at end of year</b>	<b>51 202</b>	<b>87 079</b>





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## 5.2 Result per geographical area and type of vessel

The segment results for the year ended 31 December 2016 are as follows:

	South America	North sea	Australia	Russia	Mediterranean and Black Sea	Caribbean	Africa	Asia	Un-allocated	Total
<b>AHTS</b>										
Operating revenues	14 353	1 537	-	-	-	-	8	621	-	16 519
Vessel operating expenses	(10 653)	(1 277)	-	-	-	-	-	(2 403)	-	(14 333)
<b>GROSS OPERATING PROFIT AHTS</b>	<b>3 700</b>	<b>260</b>	-	-	-	-	<b>8</b>	<b>(1 782)</b>	-	<b>2 186</b>
<b>MARGIN AHTS</b>	<b>26 %</b>	<b>17 %</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>100 %</b>	<b>N/A</b>	<b>N/A</b>	<b>13 %</b>
<b>PSVs</b>										
Operating revenues	1 391	13 901	6 004	4 612	3 466	1 915	298	(547)	-	31 040
Vessel operating expenses	(3 002)	(8 307)	(16)	(1 683)	(2 560)	(1 150)	(1 774)	(2 388)	-	(20 880)
<b>GROSS OPERATING PROFIT PSVs</b>	<b>(1 611)</b>	<b>5 594</b>	<b>5 988</b>	<b>2 929</b>	<b>906</b>	<b>765</b>	<b>(1 476)</b>	<b>(2 935)</b>	-	<b>10 160</b>
<b>MARGIN PSVs</b>	<b>N/A</b>	<b>40 %</b>	<b>100 %</b>	<b>64 %</b>	<b>26 %</b>	<b>40 %</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>33 %</b>
<b>AHTS &amp; PSVs</b>										
Operating revenues	15 744	15 438	6 004	4 612	3 466	1 915	306	74	-	47 559
Vessel operating expenses	(13 655)	(9 584)	(16)	(1 683)	(2 560)	(1 150)	(1 774)	(4 791)	-	(35 213)
<b>GROSS OPERATING PROFIT AHTS &amp; PSVs</b>	<b>2 089</b>	<b>5 854</b>	<b>5 988</b>	<b>2 929</b>	<b>906</b>	<b>765</b>	<b>(1 468)</b>	<b>(4 717)</b>	-	<b>12 346</b>
<b>MARGIN AHTS &amp; PSVs</b>	<b>13 %</b>	<b>38 %</b>	<b>100 %</b>	<b>64 %</b>	<b>26 %</b>	<b>40 %</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>26 %</b>
Other operating expenses	-	-	-	-	-	-	-	-	(9 340)	(9 340)
Other gains/(losses) - net	-	-	-	-	-	-	-	-	7 496	7 496
Loss from sale of vessels	-	-	-	-	-	-	-	-	(17 337)	(17 337)
<b>EBITDA</b>	<b>2 089</b>	<b>5 854</b>	<b>5 988</b>	<b>2 929</b>	<b>906</b>	<b>765</b>	<b>(1 468)</b>	<b>(4 717)</b>	<b>(19 181)</b>	<b>(6 835)</b>

The corresponding segment results for the year ended 31 December 2015 are as follows:

	South America	North sea	Australia	Russia	Mediterranean and Black Sea	Caribbean	Africa	Asia	Un-allocated	Total
<b>AHTS</b>										
Operating revenues	31 734	2 814	-	-	4 040	-	(43)	11 007	-	49 552
Vessel operating expenses	(13 694)	(3 714)	-	-	(825)	-	(313)	(5 369)	-	(23 915)
<b>GROSS OPERATING PROFIT AHTS</b>	<b>18 040</b>	<b>(900)</b>	-	-	<b>3 215</b>	-	<b>(356)</b>	<b>5 638</b>	-	<b>25 637</b>
<b>MARGIN AHTS</b>	<b>57 %</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>80 %</b>	<b>N/A</b>	<b>N/A</b>	<b>51 %</b>	<b>N/A</b>	<b>52 %</b>
<b>PSVs</b>										
Operating revenues	12 960	22 503	29 474	-	11 054	-	7 033	(151)	-	82 873
Vessel operating expenses	(9 526)	(9 677)	(703)	-	(4 092)	-	(5 454)	(1 642)	-	(31 094)
<b>GROSS OPERATING PROFIT PSVs</b>	<b>3 434</b>	<b>12 826</b>	<b>28 771</b>	-	<b>6 962</b>	-	<b>1 579</b>	<b>(1 793)</b>	-	<b>51 779</b>
<b>MARGIN PSVs</b>	<b>26 %</b>	<b>57 %</b>	<b>98 %</b>	<b>N/A</b>	<b>63 %</b>	<b>N/A</b>	<b>22 %</b>	<b>N/A</b>	<b>N/A</b>	<b>62 %</b>
<b>AHTS &amp; PSVs</b>										
Operating revenues	44 694	25 317	29 474	-	15 094	-	6 990	10 856	-	132 425
Vessel operating expenses	(23 220)	(13 391)	(703)	-	(4 917)	-	(5 767)	(7 011)	-	(65 009)
<b>GROSS OPERATING PROFIT AHTS &amp; PSVs</b>	<b>21 474</b>	<b>11 926</b>	<b>28 771</b>	-	<b>10 177</b>	-	<b>1 223</b>	<b>3 845</b>	-	<b>77 416</b>
<b>MARGIN AHTS &amp; PSVs</b>	<b>48 %</b>	<b>47 %</b>	<b>98 %</b>	<b>N/A</b>	<b>67 %</b>	<b>N/A</b>	<b>17 %</b>	<b>35 %</b>	<b>N/A</b>	<b>58 %</b>
Other operating expenses	-	-	-	-	-	-	-	-	(11 117)	(11 117)
Other gains/(losses) - net	-	-	-	-	-	-	-	-	1 912	1 912
<b>EBITDA</b>	<b>21 474</b>	<b>11 926</b>	<b>28 771</b>	-	<b>10 177</b>	-	<b>1 223</b>	<b>3 845</b>	<b>(9 205)</b>	<b>68 211</b>



## 5.3 Revenue from single customers concentration

Segment revenue includes the following concentrations from single customers from which revenue is in excess of 10% of revenue of the Group plus 50% of revenue of DESS BTG (on a proportionate consolidation basis) up until 15 September 2016:

	Year	Group	Joint Venture	Total	Type of vessel		Area of operations		
					AHTS	PSVs	North Sea	South America	Australia
Customer 1	2016	8 347	4 372	12 719	-	12 719	12 719	-	-
	2015	10 095	4 230	14 325	-	14 325	14 325	-	-
Customer 2	2016	2 488	21 184	23 672	20 087	3 585	-	23 672	-
	2015	-	36 915	36 915	24 107	12 808	-	36 915	-
Customer 3	2016	606	-	606	-	606	-	-	606
	2015	17 988	4 788	22 776	-	22 776	-	-	22 776
Customer 4	2016	5 400	-	5 400	-	5 400	-	-	5 400
	2015	6 519	534	7 053	-	7 053	-	-	7 053

## 6. Property, Plant and Equipment

	Vessels*	Finance lease vessels*	Vehicles & equipment	Total
<b>Opening net book value as at 1 January 2015</b>	<b>519 074</b>	<b>22 420</b>	<b>519</b>	<b>542 013</b>
Additions	3 103	27	99	3 229
Vessels relocation cost capitalized	1 176	-	-	1 176
Vessel impairment (Note 4.1 (a))	(52 802)	(4 095)	-	(56 897)
Depreciation and amortisation	(24 035)	(2 017)	(225)	(26 277)
<b>Closing net book value as at 31 December 2015</b>	<b>446 516</b>	<b>16 335</b>	<b>393</b>	<b>463 244</b>
<b>At 31 December 2015</b>				
Cost	565 807	47 316	1 319	614 442
Accumulated depreciation	(63 213)	(16 259)	(926)	(80 398)
Accumulated impairment	(56 078)	(14 722)	-	(70 800)
<b>Closing net book amount</b>	<b>446 516</b>	<b>16 335</b>	<b>393</b>	<b>463 244</b>
<b>Opening net book value as at 1 January 2016</b>	<b>446 516</b>	<b>16 335</b>	<b>393</b>	<b>463 244</b>
Acquisitions due to business combination (Note 30)	317 952	73 399	580	391 931
Additions	2 079	23	63	2 165
Vessels relocation cost capitalized	662	-	-	662
Disposal of vessels**	(15 964)	(16 335)	-	(32 299)
Vessel impairment (Note 4.1 (a))	(87 786)	(4 575)	-	(92 361)
Depreciation and amortisation	(27 887)	(1 883)	(238)	(30 008)
<b>Closing net book value as at 31 December 2016</b>	<b>635 572</b>	<b>66 964</b>	<b>798</b>	<b>703 334</b>
<b>At 31 December 2016</b>				
Cost	870 536	104 403	1 962	976 901
Accumulated depreciation	(91 100)	(18 142)	(1 164)	(110 406)
Accumulated impairment	(143 864)	(19 297)	-	(163 161)
<b>Closing net book amount</b>	<b>635 572</b>	<b>66 964</b>	<b>798</b>	<b>703 334</b>

\*Vessels and finance lease vessels include drydock costs with a carrying value of USD 16,294 (2015: USD 12,726) as at 31 December 2016.

All vessels under category "Vessels" above are secured with a first priority mortgage for the Group's borrowings. (Note 14).



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## \*\*Disposal of vessels

The Group has sold two AHTS vessels "Sea Lynx" and "Sea Bear". The loss on disposal of these vessels net of gains on associated liabilities was USD 17,337. "Sea Bear" was owned by Ship Finance International Limited ("SFI") and leased to the Group under a 12 year sale and finance leaseback agreement. Upon disposal of the vessel, the liability to SFI was converted into a Promissory Note to the amount of USD 14.6 million and as a result, a gain on termination of USD 9.9 million was recognized.

## Laid up vessels

As a consequence of the weak market, DESSC has laid up several vessels. The total carrying amount of the laid up vessels is as follows:

	At 31 December 2016	At 31 December 2015
Carrying amount of laid up vessels	334 578	153 054

## Impairment of vessels

The Group performs an impairment test when there are indicators for impairment in accordance with the relevant accounting policy. The Group compares the carrying amount of the vessels with the recoverable amount, being the higher of the fair value less costs to sell and the value-in-use calculation. Management estimates the fair value less costs to sell by obtaining third party professional valuations for all vessels from two different valuers and calculating the average and adjusting to incorporate specific characteristics that market participants consider when pricing the asset, which include, but are not limited to, charter commitments and costs relating to lay-up vessels.

### 31 December 2016

The recoverable amounts of the vessels has been determined based on fair value less costs to sell for some vessels and value in use calculations for other vessels. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management and past performance.

An impairment charge of USD 92,361 arose for 32 vessels of the Group resulting in the carrying amount of the vessels being written down to their recoverable amounts.





The impairment and recoverable amounts of the impaired vessels are as follows:

Vessel name	Impairment	Recoverable amount	Determined based on	Type of Vessel
Sea Ocelot	(4 575)	14 476	Value in use	AHTS
Sea Eagle	(5 793)	17 321	Value in use	AHTS
Sea Badger	(3 223)	7 643	Value in use	AHTS
Sea Panther	(1 293)	9 949	Value in use	AHTS
Sea Leopard	(3 112)	7 069	Value in use	AHTS
Sea Cheetah	(564)	19 186	Value in use	AHTS
Sea Jaguar	(295)	19 476	Value in use	AHTS
Sea Fox	(1 330)	7 544	Value in use	AHTS
Sea Jackal	(877)	7 712	Value in use	AHTS
Sea Vixen	(1 403)	7 557	Value in use	AHTS
Sea Stoat	(940)	7 560	Value in use	AHTS
Sea Angler	(5 218)	9 665	Value in use	PSV
Sea Witch	(6 301)	10 291	Fair value less costs to sell	PSV
Sea Trout	(5 697)	10 405	Value in use	PSV
Sea Tantalus	(4 714)	23 477	Value in use	PSV
Sea Titus	(4 707)	23 844	Value in use	PSV
Sea Tortuga	(3 869)	24 786	Value in use	PSV
Sea Triumph	(3 692)	25 061	Value in use	PSV
Sea Falcon	(5 776)	26 838	Value in use	PSV
Sea Flyer	(4 863)	31 500	Value in use	PSV
Sea Supra	(4 692)	27 208	Value in use	PSV
Sea Surfer	(4 082)	27 315	Value in use	PSV
Sea Swan	(5 218)	27 255	Value in use	PSV
Sea Swift	(4 264)	28 813	Value in use	PSV
Sea Halibut	(130)	10 698	Value in use	PSV
Sea Pike	(473)	10 536	Value in use	PSV
Sea Bass	(1 422)	10 039	Value in use	PSV
Sea Pollock	(1 448)	10 613	Value in use	PSV
Sea Turbot	(692)	10 821	Value in use	PSV
Sea Brasil	(1 430)	56 117	Value in use	PSV
Sea Frost	(186)	26 387	Value in use	PSV
Sea Springer	(82)	26 483	Value in use	PSV
	<b>(92 361)</b>			

For the vessels whose recoverable amounts were determined based on fair values less costs to sell, inputs from independent valuers were used (Note 3.3: Level 2). The valuers determine the fair value based on the evaluation of comparable transactions: through an analysis of recent arm's length transactions of similar vessels (like dead weight, age, shipyards, class and other specifications) in the market. If there are no relevant transactions with comparable assets, such transactions will normally be given significant weight in the valuation. Special circumstances relating to the transaction (forced sale etc.) may also be factors that are included in the assessment of the comparability of the transaction. Valuers have access to the bid / ask prices for each type of ship, the purchase - and sales mandates for individual ship-owners. Range of buy and sell mandates for each type of ship gives an indication of what a price between a willing buyer and a willing seller would be if the transaction is completed. For the vessels on layup, on determining the fair value less costs to sell, estimated lay-up costs were deducted. For vessels that are in contracts maturing post year end the value of the firm contract was added to the fair value less costs to sell. For all vessels, a 1% cost to sell was also deducted.

For the vessels whose recoverable amounts were determined based on the Value in use calculations, the management of the Group has assumed a weak market for 2017-2019 and normalization of results from 2020 onwards. For vessels on layup the costs to bring back the vessel to operations was taken into account for the value in use calculations. The following key assumptions were used in the calculations:

#### Utilization

For vessels currently on layup, a 0% utilization was assumed for year 2017, increasing to 55% and 60% for AHTS and PSVs



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respectively in 2018. In 2019, a range of 50%-65% was assumed for AHTS and 60%-65% for PSVs. The percentage of utilization was based on the expectations of management on prospective jobs.

For vessels currently in contracts 95%-99% utilization was assumed for the remaining period of the contract. From completion of the contract up to 2019 a utilization of 50%-65% was assumed, depending on the status of the vessel as per expectations from management.

For vessels on spot market a utilization of 50%-70% was assumed for years 2017 to 2019.

From 2020 and onwards an average utilization of 77% was assumed depending on the type of the vessel.

### Daily Income

The daily income of the vessels is based on current market conditions, expectations from management and financial budgets approved by management.

The average daily income for vessels assumed to be in operations (not layup) for years 2017 to 2019 was a range of USD 17-18 for time chartered AHTS, USD 6 for bareboat PSVs and a range of USD 9-15 for time chartered PSVs.

The average daily income for year 2020 is assumed to increase to USD 15 for time chartered AHTS and USD 18 for time chartered PSVs.

The daily income is assumed to increase by 1.4% annually from 2020 onwards based on long-term growth expectations from management.

### Daily operating expenses

The daily operating expenses of the vessels were based on past performance and financial budgets approved by management. It is assumed nil during bareboat contracts, USD 1 to USD 1.7 for vessels in cold layup and USD 1.7-2.8 for vessels in hot layup. For the rest of the vessels it ranges from USD 4.5 to USD 10.5 depending on the type and area of each vessel. The daily operating expenses are assumed to increase 1.4% annually from 2018 onwards based on expectations of management.

### Discount Rate

The discount rate used was 9.24% for Brazilian vessel (Sea Brasil) and 8.24% for the other international vessels based on Weighted Average Cost of Capital (WACC) calculations.

### 31 December 2015

The recoverable amounts of the vessels has been determined based on fair value less costs to sell for some vessels and value in use calculations for other vessels. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management and past performance.

An impairment charge of USD 56,897 arose for 12 vessels of the Group resulting in the carrying amount of the vessels being written down to their recoverable amounts.

The impairment and recoverable amounts of the impaired vessels were as follows:

Vessel name	Impairment	Recoverable amount	Determined based on	Type of Vessel
Sea Lynx	(2 391)	15 964	Fair value less costs to sell	AHTS
Sea Bear	(4 096)	16 335	Fair value less costs to sell	AHTS
Sea Ocelot	(6 820)	19 800	Fair value less costs to sell	AHTS
Sea Eagle	(7 614)	23 713	Value in use	AHTS
Sea Badger	(1 591)	11 261	Fair value less costs to sell	AHTS
Sea Witch	(572)	16 765	Value in use	PSV
Sea Trout	(4 571)	16 559	Value in use	PSV
Sea Falcon	(4 129)	33 012	Value in use	PSV
Sea Supra	(5 774)	32 542	Value in use	PSV
Sea Surfer	(6 240)	31 999	Fair value less costs to sell	PSV
Sea Swan	(5 582)	33 094	Value in use	PSV
Sea Swift	(7 518)	31 999	Fair value less costs to sell	PSV
	<b>(56 897)</b>			



For the vessels whose recoverable amounts were determined based on fair values less costs to sell, inputs from independent valuers were used (Note 3.3: Level 2). The valuers determine the fair value based on the evaluation of comparable transactions; through an analysis of recent arm's length transactions of similar vessels (like dead weight, age, shipyards, class and other specifications) in the market. If there are no relevant transactions with comparable assets, such transactions will normally be given significant weight in the valuation. Special circumstances relating to the transaction (forced sale etc.) may also be factors that are included in the assessment of the comparability of the transaction. Valuers have access to the bid / ask prices for each type of ship, the purchase - and sales mandates for individual ship-owners. Range of buy and sell mandates for each type of ship gives an indication of what a price between a willing buyer and a willing seller would be if the transaction is completed. For the vessels on layup, on determining the fair value less costs to sell, estimated lay-up costs were deducted. For all vessels, a 1% cost to sell was also deducted.

For the vessels whose recoverable amounts were determined based on the Value in use calculations, the management of the Group has assumed a weak market for 2016-2018 and normalization of results from 2019 onwards. For vessels on layup the costs to bring back the vessel to operations was taken into account for the value in use calculations. The following key assumptions were used in the calculations:

#### Utilization

For vessels that were on layup, 0% utilization was assumed for years 2016 and 2017 increasing to 50%-75% from 2017 to 2018 depending on expectations of management on prospective jobs.

For vessels that had contracts, 97%-100% utilization was assumed for the remaining period of the contract. From completion of the contract up to 2018 a utilization of 50%-73% was assumed.

For vessels on spot market a 60% utilization was assumed for years 2016 to 2018.

From 2019 and onwards a 75% utilization was assumed for all vessels.

#### Daily Income

The daily income of the vessels was based on current market conditions, expectations from management and financial budgets approved by management. The average daily income for years 2016 to 2018 was USD 14 for time chartered AHTS, USD 11 for bareboated PSVs and USD 14 for time chartered PSVs.

The average daily income for year 2019 is assumed to increase to USD 16 for time chartered AHTS and USD 19 for time chartered PSVs.

The daily income is assumed to increase by 1% annually from 2020 onwards based on long-term growth expectations from management.

#### Daily operating expenses

The daily operating expenses of the vessels were based on past performance and financial budgets approved by management. It is assumed nil during bareboat contracts, and USD0.6-0.7 for vessels on layup. For the rest of the vessels it ranges from USD 4 to USD 6. The daily operating expenses are assumed to increase 1% annually based on expectations of management.

#### Discount Rate

The discount rate used was 7.98% based on Weighted Average Cost of Capital (WACC) calculations.

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## 7. Pensions

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As of the 1st January 2016 the Group terminated the defined benefit plan and all the employees were moved to a defined contribution plan.

See Note 2.28 for further information on the defined contribution plan.

The amounts recognised in the balance sheet are determined as follows:

	2016	2015
Present value of funded obligation	-	(1 107)
Fair value of plan assets	-	1 152
<b>Asset in the balance sheet</b>	<b>-</b>	<b>45</b>



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The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation	Fair Value of plan assets	Total
<b>At 1 January 2015</b>	<b>1 411</b>	<b>(1 192)</b>	<b>219</b>
Current service costs	362	-	362
Interest expenses/(Income)	29	(21)	8
	<b>391</b>	<b>(21)</b>	<b>370</b>
Employer contribution	(57)	(407)	(464)
Employer benefits paid	-	-	-
Remeasurements loss/(gain)	(385)	280	(105)
Exchange difference	(253)	188	(65)
<b>At 31 December 2015</b>	<b>1 107</b>	<b>(1 152)</b>	<b>(45)</b>
<b>At 1 January 2016</b>	<b>1 107</b>	<b>(1 152)</b>	<b>(45)</b>
Current service costs	-	-	-
Interest expenses/(Income)	-	-	-
	-	-	-
Past service cost	46	-	46
Settlement	(869)	1 177	308
Employer contribution	-	-	-
Employer benefits paid	-	-	-
Remeasurements loss/(gain)	(308)	-	(308)
Exchange difference	24	(25)	(1)
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>

For 31 December 2015 the plan was related to employees in Norway, and there were only active employees in the plan.

The significant actuarial assumptions were as follows:

	2016	2015
Discount rate	n/a	2,3%
Expected return on plan assets	n/a	2,3%
Future salary increase	n/a	2,8%
Future pension increases	n/a	0,0%
Mortality table	n/a	K2013BE

For 31 December 2015 assumptions regarding future mortality were set based on actuarial advice in accordance with published statistics and experience.

As a result of the change of the pension plan from defined benefit to defined contribution, a loss of USD 308 previously recognized in other comprehensive income due to premeasurement of the defined benefit plan, was released in the profit and loss and is included in other operating expenses (Note 20).



## 8. Derivative financial instruments

	2016		2015	
	Asset	Liability	Asset	Liability
<b>Current portion</b>				
Interest rate swaps - cash flow hedge	-	-	-	221
<b>Total</b>	-	-	-	<b>221</b>

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

### Interest rate swaps

During the year ended 31 December 2016 interest rate swaps have expired.

The nominal principal amounts of the outstanding interest rate swaps at 31 December 2015 were USD100.000.

At 31 December 2015, the fixed interest rate of interest rate swap used was 0,955% and the floating rate was 3-month LIBOR. Gains and losses were recognized in the hedging reserve in equity on interest rate swap contract as of 31 December 2015.

These losses were released in 2016 to profit or loss within 'finance cost'.

## 9. Trade receivables

	As at 31 December 2016	As at 31 December 2015
Trade receivables	10 011	10 328
Less: Provision for impairment of receivables	(159)	(316)
<b>Trade receivables -Net</b>	<b>9 852</b>	<b>10 012</b>

Trade receivables that are less than four months due are not considered impaired. As of 31 December 2016 trade receivables of USD 3,238 (2015:USD 2,580) were past due but not impaired. These relate to a number of independent customers for which there has been no case of default in 2016 or 2015. None of the receivables due for more than four months are considered impaired with the exception of disputed amounts and amounts specifically provided for (see further below). The aging analysis of trade receivables is as follows:

Aging	As at 31 December 2016	As at 31 December 2015
Up to one month	5 167	6 409
One to four months	1 447	1 022
More than four months	3 238	2 581
<b>Total</b>	<b>9 852</b>	<b>10 012</b>

The carrying amount of the Group's trade receivables are denominated in the following currencies:

Currency	As at 31 December 2016	As at 31 December 2015
United States Dollars (USD)	6 952	7 806
Brazilian Real (BRL)	2 474	193
Great British Pounds (GBP)	384	1 304
Singaporean Dollars (SGD)	37	191
Euro (EUR)	5	506
Norwegian Kroner (NOK)	-	12
<b>Total</b>	<b>9 852</b>	<b>10 012</b>



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Movements on the Group provision for impairment of trade receivables are as follows:

	2016	2015
At 1 January	316	459
Allowance for impairment of trade receivables	(158)	(143)
<b>Total</b>	<b>158</b>	<b>316</b>

During the year, the Group has written down an amount of USD 1,514 (2015: USD 240) from trade receivables and other short term receivables due to disputed amounts in addition to the release of the provisions for the impaired receivables, resulting to a total loss from impairment of receivables of USD 1,356 (2015: USD 659). These are classified as "other write-offs" in the consolidated income statement. The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 10. Inventories

	2016	2015
Bunkers	1 811	1 432
Lub oil	1 639	646
Spare parts and consumables	88	30
<b>Total</b>	<b>3 538</b>	<b>2 108</b>

The cost of bunkers recognized as a reduction of vessels operating revenues, amounted to USD 3,401 (2015: USD 3,075).

The cost of luboil consumed is recognized as expense and included in vessels' operating expenses amounted to USD 362 (2015: 484).

## 11. Cash and cash equivalents

	2016	2015
Cash at bank and in hand	51 202	74 186
<b>Total as per balance sheet</b>	<b>51 202</b>	<b>74 186</b>
<b>Specification of restricted deposits</b>		
Bank deposits	(3 702)	(110)
<b>Total as per cash flow statement</b>	<b>47 500</b>	<b>74 075</b>

The carrying amounts of cash approximate fair value. Currently, there is no undrawn credit facility for the Group. Restricted bank deposits are for employee tax withholdings, repayment of loan interest and installments USD 3,702 (2015: USD 110).

Cash and cash equivalents are denominated in the following currencies:

Currency	As at 31 December 2016	As at 31 December 2015
United States Dollars (USD)	44 132	67 779
Great British Pounds (GBP)	2 871	3 170
Norwegian Kroner (NOK)	2 857	715
Euro (EUR)	709	2 391
Brazilian Real (BRL)	355	-
Malaysian Ringgit (MYR)	145	33
Singaporean dollars (SGD)	131	98
Ukrainian Hryvnia (UAH)	2	-
	<b>51 202</b>	<b>74 186</b>



According to the loan agreement and corresponding covenants regulations, the Group has to maintain, at all times, a minimum cash amount of USD 20 million.

#### Principal non-cash transaction

As part of the consideration for the purchase of 50% of DESS BTG by the Group in 2016 (Note 30) the Company issued 30,133,022 new common shares in the Company and 10,000,000 warrants.

The proceeds from disposal of vessel "Sea Bear" were netted-off with the finance lease liability to SFI to an amount of USD 5 million (Note 6). The transaction had no cash effect to the Group.

The principal non-cash transaction during 2015 was the settlement of the loan receivable from Deep Sea Supply Navegação Marítima Ltda amounting to USD7,087 via the subscription of the additional 55,681,522 shares (Note 24).

## 12. Share capital

	Number of Shares (thousands)	Share Capital	Reorganization reserve	Share premium reserve	Other paid-in capital	Total
<b>Opening balance as at 1 January 2015</b>	261 197	5 224	(123 386)	324 182	1 654	207 674
Valuation of share option scheme	-	-	-	-	(168)	(168)
<b>At 31 December 2015</b>	261 197	5 224	(123 386)	324 182	1 486	207 506
<b>Opening balance as at 1 January 2016</b>	261 197	5 224	(123 386)	324 182	1 486	207 506
Increase of share capital	30 133	603	-	4 544	-	5 147
Issue of warrants	-	-	-	-	638	638
Valuation of share option scheme	-	-	-	-	21	21
<b>At 31 December 2016</b>	291 330	5 827	(123 386)	328 726	2 145	213 312

The total authorised number of ordinary shares as per 31 December 2016 is 375,000,000 (2015: 375,000,000) shares with a par value of US 2 cents per share. The Company does not own any share of its own. All issued shares are fully paid.

On 15 September 2016, as part of the consideration for purchase of 50% of DESS BTG (Note 30), the Group issued 30,133,022 ordinary shares of US 2 cents at a price of US 17 cents each. The share premium arising from this issue was USD 4,544.

Part of the purchase consideration was also the issue of 10,000,000 warrants. For each warrant, DPC (Note 30) is entitled to exercise the right to subscribe for one new share in the Company for the exercise price of NOK 1.24 at any time within the exercise period which is for 3 years from issue date 15 September 2016.

#### Share option scheme

The Board of Directors of the Company has approved a share option scheme for directors and certain employees. The exercise price of the granted options is equal to the market price of the shares at date granted plus 10%. All options have expired in 2016.

Movements in the number of shares options and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price NOK per share	Options	Average exercise price NOK per share	Options
At 1 January	8,49	98 333	10,60	276 668
Expired	8,49	(98 333)	11,76	(178 335)
<b>At 31 December</b>	-	-	<b>8,49</b>	<b>98 333</b>



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Share options outstanding at the end of the year 2015 had the following expiry date and exercise prices:

Expiry date (as per year ended 31 December 2015) :

	Exercise price in NOK	Shares
2016	8,49	98 333
<b>At 31 December</b>		<b>98 333</b>

The value of the option was estimated by Hull & White's implementation (2002) for employee stock options of the binomial tree model for the pricing of early exercise equity options.

## 13. Trade and other payables

	2016	2015
Trade payables	7 547	2 713
Social Security and other taxes	327	281
Accrued expenses	7 304	2 618
Payables from related parties (Note 24)	674	588
<b>Total</b>	<b>15 852</b>	<b>6 200</b>

Fair value of trade and other payables equal their carrying amounts.

Trade and other payables are denominated in the following currencies:

Currency	2016	2015
Brazilian Real (BRL)	7 383	-
United State Dollars (USD)	6 346	3 433
Norwegian Kroner (NOK)	1 095	1 648
Singapore dollar (SGD)	631	203
Euro (EUR)	230	588
Great British Pounds (GBP)	167	250
Danish Kroner (DKK)	-	78
	<b>15 852</b>	<b>6 200</b>



## 14. Borrowings

	2016	2015
<b>Non-current</b>		
Bank borrowings (a)	518 020	185 415
Finance lease liabilities (b)	74 663	20 825
Loans from third parties (d)	12 238	-
CIRR loan (c)	9 459	13 258
	<b>614 380</b>	<b>219 498</b>
<b>Current</b>		
Bank borrowings (a)	22 271	91 378
Finance lease liabilities (b)	1 207	4 065
Loans from third parties (d)	1 344	-
CIRR loan (c)	3 366	2 684
	<b>28 188</b>	<b>98 127</b>
<b>Total Borrowings</b>	<b>642 568</b>	<b>317 625</b>

The carrying amounts of the group's borrowings are denominated in the following currencies:

	2016	2015
US Dollars	629 743	301 683
Norwegian Kroner	12 825	15 942
	<b>642 568</b>	<b>317 625</b>

The fair value of both current and non-current borrowings are not materially different from their carrying amount.

Currently there is no undrawn credit facility for the Group.

### (a) Bank borrowings

Bank borrowings comprise of loans secured with the following:

1. First priority mortgage in the financed vessels
2. First priority assignment of insurances agreements
3. First priority receivable floating charges
4. First priority hedging assignment agreement
5. First priority share pledge of share in Group companies

In 2016 the Group has agreed with its senior lenders for extensive amendments to the Group's debt facilities. The amendments include:

- Commencing from 31 May 2016, the Group will not pay scheduled loan instalments for all bank facilities except 2 facilities held by 2 individual banks. This will apply until 31 March 2018 and loan instalments will be deferred until this date. As at 31 December 2016, the Group has deferred an amount of USD 23,615.
- The Group will continue to pay interest following the original repayment schedules. Interest will be calculated using LIBOR + 2.25%, LIBOR + 2.5%, LIBOR + 2.75%, LIBOR + 3.25% and Libor + 3.40% . Repayment of interest will be quarterly and semi-annually.
- The Group will also pay interest on deferred instalments. Deferred instalments bear interest of LIBOR+4.25%. Repayment of interest will be quarterly and semi-annually.
- Loan facilities of USD 160 million maturing in October 2016 has been extended until October 2018. These facilities will follow the same terms as described above.
- In addition to the above the Group has secured a waiver on the minimum value adjusted equity ratio and value adjusted equity covenant. Also minimum consolidated free cash covenant will be reduced to USD 20 million and the minimum value covenant will be reduced to 100% until 31 March 2018.

The weighted average effective interest rate of the Group's bank borrowings is 3.98% (2015:2.72%).



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Long term bank borrowings have the following expiration dates:

Falling due between	2016	2015
1-3 Years	478 166	14 445
3-5 Years	7 032	170 970
>5 Years	32 822	-
<b>Total</b>	<b>518 020</b>	<b>185 415</b>

In February 2016, vessel Sea Lynx was sold to a third party and the associated bank loan was fully repaid.

#### (b) Finance lease liabilities

In the years 2007/2008, the Group and DESS BTG entered into a sale and leaseback transaction for six vessels. One vessel was sold and leased-back by a subsidiary of the Group while five vessels were sold and leased-back by a subsidiary of DESS BTG companies. The management has assessed that the leaseback is a finance lease since it considered that the Group and DESS BTG retained substantially all the risks and rewards incidental to ownership and it was assessed as reasonably certain that the Group and DESS BTG will exercise their call options to purchase back the vessels at the end of their lease-term (12 years).

In February 2016, the vessel which was leased-back by the Group under the above arrangement was disposed and the lease agreement was terminated and replaced by a Promissory Note (see Note 14(d)).

On 30 September 2016 and as part of the acquisition of the 50% of DESS BTG (Note 30), the terms of the five leases held by the subsidiary of DESS BTG under the above arrangement have been modified. As part of the restructured lease arrangements, it was agreed to reduce the charter rates in the lease agreement until May 2018, to extent the charter period by further 3 years and to introduce a 50/50 profit share on profits earned by the vessels for a period of time. DESS BTG companies have a call option to buy the vessels at a predetermined price.

The finance lease liability amounting to USD 24,512 at date of sale was replaced by a promissory note amounting to USD 14,589 which was undertaken by the Company (see Note 14(d) below). The finance lease liabilities as presented in the consolidated balance sheet as at 31 December 2016 relate to finance lease liabilities acquired on business combination (Note 4.2).

#### Finance lease liabilities - minimum lease payments:

	2016	2015
Not later than 1 year	8 492	4 264
Later than 1 year and not later than 5 years	54 474	23 602
Later than 5 years	49 810	-
	<b>112 776</b>	<b>27 866</b>
Future finance charges of finance leases	(36 968)	(2 976)
Present value of finance lease liabilities	75 808	24 890

#### The present value of finance lease liabilities is as follows:

	2016	2015
No later than 1 year	606	3 148
Later than 1 year and no later than 5 years	28 586	21 742
Later than 5 years	46 616	-
	<b>75 808</b>	<b>24 890</b>

#### (c) CIRR Deposit/Loan

Since the year ended 31 December 2008 the Group obtained two Commercial Interest Reference Rate (CIRR) loans from the Norwegian Export Credit Agency. The amount of the loans was NOK 132 million (USD 19 million) and NOK 216 million (USD 31 million). The duration of the loans is 12 years and the cash proceeds from the loans have been deposited in a fixed deposit account with a Norwegian bank earning a higher interest rate than the interest payable under loans. The agreed period of the deposits is identical with the one of the loans. The loans and the interest thereof are repaid from the deposit accounts and the difference has been recognised as deferred gain and is amortised over the period of the life of the deposit.



The loan is denominated in NOK and is subject to currency fluctuations against the USD.

The funds received from deposits under CIRR arrangement during the year were NOK 29,005 (USD 3,425) and the funds paid to the loans under the CIRR arrangement during the year were NOK 29,005 (USD 3,425). These amounts are netted-off for the purposes of the statement of cash flows within "Cash flows from financing activities".

#### (d) Loans from third parties

Loans from third parties represent a promissory note issued to SFI further to the disposal of the vessel "Sea Bear" and termination of the finance lease liability. The promissory note bears interest at 7.25% per annum and is repayable by monthly installments until 7 January 2022.

#### (e) Loan covenants

Under the bank borrowings and third party loans, the Group is required to comply with certain financial and non-financial covenants. The main financial covenants include:

- Minimum liquidity of not less than US\$20 million combined at Group level; and
- Minimum market value on certain group vessels of not less than 100% of the total debt.

If any of the loan covenants are breached, this could depending on the terms of each loan agreement constitute an event of default and in certain cases the repayment of the loan can be accelerated by the lender or in other cases the Group would need to take actions to remedy such breaches. As at 31 December 2016, the Group was in breach of certain loan covenants under 3 separate loan agreements which did not give rise to events of default which would trigger acceleration of all the loan facilities and classify them as current as at the balance sheet date. As a result of these breaches, the Group has classified an amount of USD 17.7 million as current.

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## 15. Income tax expense

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	2016	2015
Current tax	(154)	(175)

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## 16. Provisions for other liabilities and charges

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#### Bonus agreement

All employees of Deep Sea Supply Management AS and Deep Sea Supply Management (Cyprus) Ltd have performance bonus agreements with the Group based on comparison with peer group companies.

No bonus was granted during the year ended 31 December 2016 as the relevant criteria were not met.

<b>At 1 January 2015</b>	<b>162</b>
Charged/(Credited) to the income statement	-
Paid during the year	(162)
Provision made during the year	-
<b>At 31 December 2015</b>	<b>-</b>



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## 17. Other (losses)/gains - net

	2016	2015
Net gain from business combination (Note 30)	8 219	-
Impairment of receivables (Note 9)	(1 356)	(659)
Other gains	112	401
<b>Total</b>	<b>6 975</b>	<b>(258)</b>

## 18. Employee benefit expenses

	2016	2015
Wages and salaries	4 664	5 077
Social security costs	779	816
Pension costs – defined benefit plans (Note 7)	-	370
Other benefits	55	145
<b>Total</b>	<b>5 498</b>	<b>6 408</b>
Number of employees as per year end.*	58	43

The above excludes crew short employee benefit expenses which are included in operating expenses vessels (Note 19).

\*For 2015 the number of employees at DESS BTG were excluded.

## 19. Operating expenses vessels

	2016	2015
Crew expenses	12 973	17 086
Insurance	1 874	2 116
Repairs and maintenance	2 889	3 099
Administration expenses	121	54
Provisions, stores, lubrication oil, administration of operations and miscellaneous	5 445	4 999
<b>Total</b>	<b>23 302</b>	<b>27 354</b>

## 20. Other operating expenses

	2016	2015
Salary related expenses of onshore employees	5 600	6 032
Audit/Legal/Tax and Accounting fees	1 505	1 221
Office related expenses	805	794
IT and communication	505	625
Travel Expenses	346	369
Sundry	340	478
<b>Total</b>	<b>9 101</b>	<b>9 519</b>



## 21. Earnings per share

### Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Total number of outstanding shares as per year-end 2016 was 291,330,216 (2015: 261,197,194).

	2016	2015
Loss attributable to equity holders of the company	(168 103)	(151 522)
Weighted average number of ordinary shares (thousands)	270 007	261 197
<b>Basic earnings per share (USD per share)</b>	<b>(0,623)</b>	<b>(0,580)</b>

### 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's only category of dilutive potential to ordinary shares is the warrants issued as part of the consideration for purchase of 50% of DESS BTG Group (Note 30). As at 31 December 2016 there was a dilutive effect of the warrants as they were in the money using average price. As at December 2015, the only category of dilutive potential to the ordinary shares was the share options. Share options were granted to the Board of Directors and management, and as per year end 2015 there were totaling 98,333 share options outstanding. The share options were not included in the diluted number of shares as at 31 December 2015 because they were out of the money.

	2016	2015
Loss attributable to equity holders of the company	(168 103)	(151 522)
Weighted average number of ordinary shares diluted (thousands)	270 683	261 197
<b>Diluted earnings per share (USD per share)</b>	<b>(0,621)</b>	<b>(0,580)</b>

## 22. Cash generated from operations

	2016	2015
<b>Loss before tax</b>	<b>(167 949)</b>	<b>(151 347)</b>
Adjustments for:		
-Depreciation (Note 6)	30 008	26 277
-Impairment (Note 6)	92 361	56 897
-Share of loss from associates / JVs net of deferred gain	19 351	60 924
-Impairment of investment in JV (Note 4.1(e))	-	30 894
-Amortization of deferred gain (Note 17)	(102)	(337)
-Finance costs - net	17 639	11 122
-Effect of gain on business combination (Note 29)	(8 219)	-
-Loss on disposal (Note 6)	17 337	-
-Exchange gains	-	(293)
<b>Changes in working capital</b>		
(excluding the effects of acquisition and exchange differences on consolidation)		
-Inventories	949	214
-Trade and other receivables	8 738	12 635
-Trade and other payables	(30)	(5 484)
-Effect from financial derivatives	(221)	(22)
-Restricted cash (Note 11)	(3 592)	598
<b>Cash generated from operations</b>	<b>6 270</b>	<b>42 078</b>



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## 23. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### Trade Receivables

Out of the USD 6,614 (2015:USD 7,431) which were neither past due nor impaired USD 6,139 (2015 :USD 5,851) is with existing customers for more than 6 months with no defaults in the past and USD 474 (2015:USD 1,579) is with new customers.

### Cash and cash equivalent

The ratings for the banks where the Group holds its cash at bank and short-term bank deposits are as follows:

#### As at 31 December 2016

Credit rating	Amount
A1	3 259
A3	145
Aa1	17
Aa2	42 982
Aa3	4 405
Ba3	353
Caa2	38
	<b>51 197</b>

#### As at 31 December 2015

Credit rating	Amount
Aa1	51
A2	1 688
Aa2	42 736
A3	33
Aa3	29 628
Caa3	45
	<b>74 182</b>

The credit rating for CIRR deposit as at 31 December 2016 and 31 December 2015 was Aa2.

Ratings shown above were issued by the credit agency of Moody's as at 31/12/2016 and 31/12/2015, respectively.

The rest of the balance sheet item 'cash and cash equivalent' amounting to USD 5 (2015: 4) is cash in hand.

## 24. Related party transactions

### Key management compensation

Key management for 2016 and 2015 includes the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chartering and Marketing Director, the Technical director and the Accounting director of the Group and the Board of Directors.

The total compensation to the key management of the Group amounted to USD 871 as of 31 December 2016. The corresponding amount as of 31 December 2015 was USD 1,098.

The key management has no other form of compensation, except salary, share options scheme mentioned in note 12 and the bonus agreement mentioned in note 16. There are no loans to the employees of the Group as per 31 December 2016 and per 31 December 2015.



## Remuneration to the board

The remuneration to the Board in 2016 is USD 96 (NOK 816), whereof USD 41 (NOK 350) is payment to the chairman. In 2015 payment to the board was USD 95 (NOK 750), whereof USD 44 (NOK 350) was payment to the Chairman.

## Other transactions with related parties

In 2015 the Group rented offices from a company controlled by a party exercising significant influence over the Group. The rent agreement has been terminated in 2015 and no rent was charged in 2016. The amount charged in 2015 was USD 36.

The Group rents part of its offices to a company controlled by a party exercising significant influence over the Group. The amount charged in 2016 was USD 11 (2015: USD 2).

The Group received consultancy services from a company controlled by a party exercising significant influence over the Group in 2016 that amounted to USD 50 (2015: USD 50).

## Transactions with DESS BTG Companies before BTG Roll up (Note 30)

The Group has performed the following transactions during 2016 and 2015 with companies that belong to the DESS BTG Group:

### Vessels management income

The Group has entered into agreement with the DESS BTG Group where by it provides management services for the vessels of the joint venture. The total amount for 2016 was USD 927 (2015: USD 1,025) and is included in "Management fee income from related parties".

### Administrative income

The Group has entered into an agreement with DESS BTG Group for the provision of various services such as:

- Financial and accounting services / Vessels technical related services / Business development / Handling of insurance related matters / Administrative services

The fee for the services for 2016 was USD 1,424 (2015: USD 2,013) and is included in "Management fee income from related parties" in the income statement. The amount was calculated by adding a markup element of 5.25% to the expected costs of the Group for providing those services.

### Balances with JV Group

The total year end balance with JV companies excluding loans (see further below) as at 31 December 2015 was a payable of USD 588.

## Transactions with DESS Aquaculture Companies

### Administrative income

The Group has entered into an agreement with DESS Aquaculture Group for the provision of various services such as:

- Financial and accounting services / Vessels technical related services / Business development / Handling of insurance related matters / Administrative services

The fee for the services for 2016 was USD 325 (2015: Nil) and is included in "Management fee income from related parties" in the income statement. The amount was calculated by adding a markup element of 5.25% to the expected costs of the Group for providing those services.

## Loans to related parties

	2016	2015
<u>Loans to companies under Joint Venture</u>		
At 1 January	15 000	42 870
Loans advanced during the year	11 424	-
Loan repayments received	-	(20 000)
Settled on business combination*	(25 000)	-
Loan and interest converted into equity	-	(7 737)
Interest charged	768	990
Interest received	(768)	(1 123)
<b>At 31 December</b>	<b>1 424</b>	<b>15 000</b>

\*The loans advanced to DESS BTG were eliminated on consolidation during 2016 as part of the business combination (Note 30).

In 2016 the Group has provided a loan of USD 1,424 to DESS Aqua. The loan bears no interest and will be converted into equity in 2017.



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#### Financial guarantees to related parties

31 December 2015

The Group acted as a guarantor in relation to bank borrowings of Deep Sea Supply Navegação Marítima Ltda for the bank borrowings of a company in the Joint Venture (Note 29.2).

## 25. Other short term receivables

	2016	2015
VAT & taxes receivables	3 464	145
Prepaid vessel insurances	1 239	1 184
Other receivables	879	658
Other deposits with maturity over 3 months	382	370
Claims from insurance companies	272	812
Receivable from related party (Note 24)	28	-
Guarantee receivables	-	491
Net pay (Norway) recoverable	-	319
	<b>6 264</b>	<b>3 979</b>

## 26. Auditors remuneration

Remuneration to the statutory auditors in the financial statements for 2016 equals USD 161 (2015: USD 94) for audit services, USD 62 (2015: Nil) for other assurance services and USD 43 (2015: 43) for non-assurance services.





## 27. Financial instruments by category

Setting out below is a comparison by category for carrying amounts and fair values of all of the group's financial instruments that are carried in the financial statements.

31 December 2016	Receivables	Loans and Total
<b>Assets as per balance sheet</b>		
Trade and other receivables	10 497	10 497
Loans to related parties	1 424	1 424
CIRR Deposits	12 825	12 825
Cash and cash equivalents	51 202	51 202
<b>Total</b>	<b>75 948</b>	<b>75 948</b>

	Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>		
Borrowings	540 291	540 291
Finance lease liabilities	75 870	75 870
CIRR Loans	12 825	12 825
Trade and other payables	15 852	15 852
<b>Total</b>	<b>644 838</b>	<b>644 838</b>

31 December 2015	Loans and Receivables	Total
<b>Assets as per balance sheet</b>		
Trade and other receivables	12 244	12 244
Loans to related parties	15 000	15 000
CIRR Deposits	15 942	15 942
Cash and cash equivalents	74 186	74 186
<b>Total</b>	<b>117 372</b>	<b>117 372</b>

	Derivatives used for hedging	Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>			
Borrowings	-	276 793	276 793
Finance lease liabilities	-	24 890	24 890
CIRR Loans	-	15 942	15 942
Derivative financial instruments	221	-	221
Trade and other payables	-	6 200	6 200
<b>Total</b>	<b>221</b>	<b>323 825</b>	<b>324 046</b>

## 28. Contingencies & commitments

### (a) Tax legislation

The Group is subject to taxes in several jurisdictions, where significant judgement is required in calculating the tax provision for the Group. There are many transactions for which the ultimate tax determination is uncertain and for which the Group makes provisions based on an assessment of internal estimates, tax treaties and tax regulations in the different countries where the Group is operating.



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and appropriate external advice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the tax charge in the period in which the outcome is determined. The management estimates that no material liability will arise from uncertain tax positions.

**(b) Operating leased commitments – Group as lessor**

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

	2016	2015
No later than 1 year	36 056	23 108
Later than 1 year and no later than 5 years	22 094	16 005
	<b>58 150</b>	<b>39 113</b>

**(c) Operating Environment of the Group**

The demand for offshore supply vessels depends on the level of activity in the offshore oil industry, which is significantly affected by, among other things, volatile oil prices and may be materially and adversely affected by the current significant decline in prices. Declines in oil prices for an extended period of time could continue to negatively affect the Group's business; reduced demand for vessels which could result in vessels being idle for long periods of time and put in lay-up.

Management believes that the market for OSV will become highly competitive in the short to medium term due to these events. Management estimates that the vessels put in lay up will remain in this state until 2020 when the market is expected to recover.

The operating vessels are being marketed and the Group is actively participating in various tenders in order to secure employment of its vessels.

The Group's management has assessed:

- (1) Whether recognition of impairment provisions are deemed necessary for the Group's vessels as explained in detail in Note 6; and
- (2) The ability of the Group continue as a going concern as explained further in Note 4.2(e).

The Group's management is unable to accurately predict the future developments in the industry, and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current challenging business and economic environment.

**(d) Financial guarantees**

The Group has issued guarantees as described in Note 29.2.

## 29. Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2016	2015
Joint ventures	-	31 637
<b>At 31 December</b>	<b>-</b>	<b>31 637</b>

The amounts recognised in the income statement are as follows:

	2016	2015
<b>Share of profit/(loss):</b>		
Joint ventures	(19 351)	(60 924)
<b>Impairment</b>		
Joint ventures	-	(30 894)
<b>Total</b>	<b>(19 351)</b>	<b>(91 818)</b>



## 29.1 Investment in Associate

### 31 December 2015

On 02 February 2015, DESSC commenced proceeding in the High court of Singapore against associated company Sea Weasel Ltd for unpaid management fees and disbursements. Vessel "Sea Weasel" owned by associate Sea Weasel Ltd was arrested on the same day. The Group has recognized a 100% impairment on the investment in associate in 2014.

On 30 September 2015 the court ordered that the Vessel "Sea Weasel" be sold to a third party and on 9 October 2015 the proceeds of the sale of the Vessel was paid into Court. The Group has obtained a final judgement in the High court of the republic of Singapore for the sum of USD 121 for unpaid management fees and disbursements, and USD 103 for unpaid crew wages. The Group has written off in 2015 all amounts that were considered non recoverable at an amount of USD 82.

## 29.2 Investment in Joint ventures

	2016	2015
<b>At 1 January</b>	<b>31 637</b>	<b>115 718</b>
Increase in share capital of JV companies	-	7 737
Investment in DESS Aqua*	3	-
Deferred gain amortized in year	-	1 756
Deferred gain released in year	-	6 520
Share of loss excluding deferred gain	(19 351)	(69 200)
Impairment of investment in JV (Note 4.1 (e) )	-	(30 894)
Acquisition of equity of Joint venture at 100% **	(12 289)	-
<b>At 31 December</b>	<b>-</b>	<b>31 637</b>

### \*Investment in DESS Aqua

The Group together with Marine Harvest ASA ("Marine Harvest") has established a 50/50 owned aquaculture shipping joint venture DESS Aquaculture Shipping AS ("DESS Aqua"). DESS Aqua will be engaged to build, own and operate aquaculture vessels. The share of loss from DESS Aqua for year ended 31 December 2016 has been restricted to the value of the investment in DESS Aqua as at 31 December 2016 before share of loss.

### \*\*Acquisition of equity of joint venture at 100%

In 2016, the Group reached an agreement with DPC Serviços de Óleo e Gás ("DPC") where the remaining 50% of DESS BTG was acquired by the Group. The transaction was closed on 15 September 2016 and from that date DESS BTG became a 100% subsidiary of the Group (Note 30).

### Nature of investment in joint ventures:

Name	Country of Incorporation	% Held	Measurement method
<b>31 December 2016</b>			
-DESS Aquaculture Shipping AS	Norway	50	Equity
<b>31 December 2015</b>			
-Deep Sea Supply Navegação Marítima Ltda	Brazil	50	Equity
-Deep Sea Supply Serviços Marítimos Ltda	Brazil	50	Equity
-Deep Sea Supply BTG AS	Norway	50	Equity



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## Summarized financial information for DESS BTG

Set out below are the combined summarized information for Deep Sea Supply Navegação Marítima Ltda, Deep Sea Supply Serviços Marítimos Ltda and Deep Sea Supply BTG A.S. group.

Summarised Balance sheet	2016	2015
<b>Assets and liabilities of jointly controlled entities</b>		
<u>Current Assets</u>		
Cash and Cash Equivalents	-	25 787
Trade & Other receivables	-	21 960
Inventory	-	2 630
<b>Total Current assets</b>	-	<b>50 377</b>
<u>Non Current Assets</u>		
Property plant and equipment	-	504 003
<b>Total non current assets</b>	-	<b>504 003</b>
<u>Current Liabilities</u>		
Borrowings	-	121 406
Borrowings from related parties	-	15 000
Trade and other payables	-	14 039
<b>Total current liabilities</b>	-	<b>150 445</b>
<u>Non current liabilities</u>		
Borrowings	-	278 874
<b>Total non-current liabilities</b>	-	<b>278 874</b>
<b>Net Assets</b>	-	<b>125 061</b>
50% of net assets	-	62 531
Impairment of investment in JV (Note 4.1 (e))	-	(30 894)
<b>Total amount</b>	-	<b>31 637</b>





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## Summarized statement of comprehensive income

	01 Jan to 15 Sep 2016	2015
Sales-freight revenue	29 929	124 540
Operating expenses vessels	(23 823)	(55 309)
Other operating expenses	(4 662)	(7 220)
Other (losses)/gains - net	(121)	(1 224)
<b>EBITDA</b>	<b>1 323</b>	<b>60 787</b>
Depreciation and impairment related to vessels	(31 489)	(176 080)
Other depreciation	(149)	(218)
<b>EBIT</b>	<b>(30 315)</b>	<b>(115 511)</b>
Finance income	71	(944)
Finance costs	(9 899)	(20 831)
<b>Net financial items</b>	<b>(9 828)</b>	<b>(21 775)</b>
<b>Loss before income tax</b>	<b>(40 143)</b>	<b>(137 286)</b>
Income tax credit/(expense)	1 445	(1 114)
<b>Loss for the year from continuing operations</b>	<b>(38 698)</b>	<b>(138 400)</b>
50 % of Loss	(19 349)	(69 200)
Deferred gain amortized in period	-	1 756
Deferred gain releases during period	-	6 520
<b>Amount recognized in consolidated income statement</b>	<b>(19 349)</b>	<b>(60 924)</b>

## Summarized financial information

	2016	2015
Opening net assets 01 January	125 063	247 712
Increase in Share capital	-	15 751
Loss for the period	(38 698)	(138 400)
<b>Closing net assets</b>	<b>86 365</b>	<b>125 063</b>
Interest in joint venture@50%	43 183	62 531
Deferred gain 01 January	-	(8 276)
Deferred gain amortized	-	1 756
Deferred gain released	-	6 520
Impairment of investment in JV (Note 4.1 (e))	(30 894)	(30 894)
Acquisition of equity in JV (Note 29)	(12 289)	-
<b>Carrying value</b>	<b>-</b>	<b>31 637</b>

### 31 December 2015

The Company has issued a parent company guarantee for the obligations of Deep Sea Supply Navegacao Maritima Ltda under the BNDES Facility Agreement for the financing of Sea Brasil for a maximum amount of USD53,913 being the 31 December 2015 outstanding amount of the BNDES loan. The bank borrowings were also secured by a first-priority mortgage over a vessel owned by Deep Sea Supply Navegacao Maritima Ltda.

As part of the BTG Pactual Group, BTG Brasil could not issue guarantees pursuant to internal restrictions, and was therefore not able to assume 50% of the guarantee obligations in connection with the establishment of the Joint Venture.

BTG Brasil has instead issued a counter indemnity in favour of the Company, whereby BTG Brasil indemnifies the Company for any claims exceeding 50% of the total liability under the guarantee given under the BNDES Facility. The Company was still the initial guarantor under the guarantee granted in favour of BNDES, and in the event BTG Brasil was not able to fulfil its obligations under the counter indemnity guarantee, the Company would be responsible for the full guarantee amount if BNDES called upon the guarantee, which could materially impact the financial condition of the Group. The obligations of BTG Brasil under the counter indemnity agreement were secured by way of a share pledge by BTG Austria over the shares in DESS BTG which are controlled by BTG. The Group was not expecting any financial impact from any of these guarantees (Note 4.1(e)).



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## Summarized financial information for DESS Aqua

Set out below are the consolidated summarized information for DESS Aquaculture Shipping AS Group.

<b>Summarised Balance sheet</b>	<b>2016</b>
<b>Assets and liabilities of jointly controlled entities</b>	
<u>Current Assets</u>	
Cash and Cash Equivalents	21
Trade & Other receivables	88
<b>Total current assets</b>	<b>109</b>
<u>Non Current Assets</u>	
Property plant and equipment	2 326
<b>Total non current assets</b>	<b>2 326</b>
<u>Current Liabilities</u>	
Borrowings from related parties	(2 785)
Trade and other payables	(214)
<b>Total current liabilities</b>	<b>(2 999)</b>
<b>Net Assets</b>	<b>(564)</b>
50% of net assets	(282)
<b>Total amount</b>	<b>(282)</b>
<b>Summarized statement of comprehensive income</b>	
	<b>2016</b>
Other operating expenses	(588)
<b>Loss for the year</b>	<b>(588)</b>
<b>50 % of Loss</b>	<b>(294)</b>
Restricted to Investment in JV	291
<b>Amount recognized in consolidated income statement</b>	<b>(3)</b>

## Reconciliation of summarized financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture:

<b>Summarized financial information</b>	<b>2016</b>
Establishment - Share capital contribution	3
Loss for the year	(588)
Foreign currency translation reserve	20
<b>Closing net assets</b>	<b>(565)</b>
Interest in joint venture@50%	(283)
Restricted to Investment in JV	283
<b>Carrying value</b>	<b>-</b>

## 30. Business combinations

### 30.1 Purchase price allocation

In 2016, the Group reached an agreement with DPC Serviços de Óleo e Gás ("DPC") where 50% of DESS BTG group (previously owned 50%; Note 29.2) was acquired by the Group in exchange for 30,133,022 new common shares in the Company, 10,000,000 warrants (Note 12) and a cash payment of USD 2,000. The transaction was completed on 15 September 2016 and there was an excess of the fair value of the net identifiable assets acquired over the purchase consideration ("Negative goodwill") of USD 12,723. This gain is included in Other (losses)/gains-Net (Note 17).

The Group purchased the remaining 50% of the following entities (Note 1) of DESS BTG:

- Deep Sea Supply Navegação Marítima Ltda.
- Deep Sea Supply Serviços Marítimos Ltda
- Deep Sea Supply AS (formerly Deep Sea Supply BTG AS): which owns 100% of the following entities:
  - Deep Sea Supply Shipowning I AS
  - Deep Sea Supply Shipowning II AS
  - Deep Sea Supply Shipowning II AS

As part of the acquisition of DESS BTG, the Group reached an agreement with its senior lenders, securing extensive amendments to certain DESS BTG group debt facilities including finance leases. The restatement of loans/lease balances to their fair value as a result of the updated terms, was treated as part being of the acquisition (Note 4.2c)

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	USD
Cash paid	2 000
Ordinary shares issued	5 147
Warrants issued	638
<b>Purchase consideration given to DPC</b>	<b>7 785</b>

The fair value of the 30,133,022 shares issued as part of the consideration paid for DESS BTG (5,147 USD) was based on the published price on 15 September 2016 of 0.17 USD (1.41 NOK) per share.





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The fair value of the 10,000,000 warrants issued as part of the consideration paid for DESS BTG (638 USD) was calculated based on the Black-Scholes option model.

The fair value of the net identifiable assets of DESS BTG recognized at the date of acquisition are as follows:

	Fair value USD
Cash	14 773
Trade and other receivables	11 787
Inventories	2 557
Vessels (Note 6)	391 351
Equipment and vehicles (Note 6)	580
Borrowings	(280 296)
Finance lease liabilities	(78 745)
Trade and other payables	(33 714)
<b>Net identifiable assets 100%</b>	<b>28 293</b>
<b>Calculation of negative goodwill:</b>	<b>USD</b>
Fair value of consideration paid	7 785
Fair value of existing 50%	7 785
<b>Fair value of 100% based on consideration paid</b>	<b>15 570</b>
<b>Fair value of net identifiable assets acquired</b>	<b>28 293</b>
<b>Negative goodwill</b>	<b>12 723</b>
<b>Effect of remeasurement of investment in joint venture</b>	
Book value at acquisition date (Note 29)	12 289
Remeasured value	7 785
<b>Loss on remeasurement of existing investment in joint venture</b>	<b>(4 504)</b>
<b>Net gain from transaction</b>	<b>8 219</b>

The excess of the fair value of the net identifiable assets over the purchase consideration was recognized directly in profit or loss as a bargain purchase ("Negative goodwill"). The bargain purchase was attributed to the financial position of DESS BTG and adverse market conditions in Brazil.

The acquired business contributed revenues of USD 6,454 and a net loss of USD 92,064 (including vessels impairment) to the Group for the period 15 September 2016 to 31 December 2016.

If the acquisition occurred on 1 January 2016, consolidated proforma revenue and loss for the year ended 31 December 2016 would have been USD 62,523 and USD 253,737.

### 30.2 Purchase consideration – Cash outflow

	USD
<b>Outflow of cash to acquire subsidiaries net of cash acquired</b>	
Cash considerations	2 000
Less: Balances Acquired	(14 773)
<b>Net inflow of cash - investing activities</b>	<b>(12 773)</b>



## 31. Events after the balance sheet date

On 6 February 2017, Farstad Shipping ASA ("FAR"), Aker Capital AS ("Aker"), Hemen Holding Limited ("Hemen"), FAR's largest lenders (the "Lenders"), a major part of FAR's bondholders (the "Bondholders"), as well as F-Shiplease AS signed an extensive and fully financed restructuring agreement (the "Restructuring Agreement") of the FAR Group (the "FAR Restructuring"). The FAR Restructuring was completed 9 March 2017. Aker, Hemen, the Lenders and the Bondholders as well as SOFF Invest AS and Ivan II AS and Tyrholm & Farstad AS, Tyrholm & Farstad Invest AS, Sverre A. Farstad and Jan H. Farstad also announced on 6 February 2017 that they agreed to work for a merger between Solstad Offshore ASA ("SOFF"), FAR and DESSC after the completion of FAR Restructuring (the "Combination").

The board of directors of SOFF, FAR and DESSC are of the opinion that a consolidation in the industry is required. After concluding the Restructuring Agreement the board of directors of the mentioned companies have discussed the possibilities for a merger of the operations of the three companies and have concluded that such merger will be advantageous for all companies. The Combination will result in the incorporation of a world leading OSV company, with a fleet of totally 154 vessels. The merged group will operate a fleet consisting of 33 CSV, 66 PSV and 55 AHTS vessels.

As part of the Combination, a cross-border merger will take place between the Company and Solship Sub AS, a Norwegian entity recently incorporated and wholly owned subsidiary of Solship Invest 3 AS ("Solship Invest 3"), which again is a recently incorporated wholly owned subsidiary of SOFF. Solship Sub AS will be the surviving company of the merger.

The statutory merger plans have been approved and signed by the boards of Solstad, Farstad, DESSC and Solstad's relevant subsidiaries, into which Farstad and DESSC will be merged, as at 24 March 2017.

To facilitate the combination of the three companies, the board of directors of SOFF, FAR, DESSC and Solstad's relevant subsidiaries, into which FAR and DESSC will be merged, have agreed on 24 March 2017 on the following merger plans:

(i) merger plan between SOFF, FAR and SOFF's wholly owned subsidiary Solship Invest 2 AS ("Solship Invest 2") to merge FAR with Solship Invest 2 with the latter as the surviving entity and with settlement in ordinary SOFF shares to the shareholders of FAR (the "SOFF-Farstad Merger");

(ii) merger plan between DESSC and Solship Sub AS ("Solship

Sub"), a wholly owned subsidiary of SOFF's wholly owned subsidiary Solship Invest 3 AS ("Solship Invest 3"), to merge

DESSC with Solship Sub in a cross border merger with the latter as the surviving entity and with settlement in shares in Solship Sub to the shareholders of DESSC (the "DESSC Merger 1"); and

(iii) merger plan between SOFF, Solship Invest 3 and Solship Sub to merge Solship Sub with Solship Invest 3 with the latter as the surviving entity and with settlement in ordinary SOFF shares to the shareholders of Solship Sub (the "DESSC Merger 2").

The three mergers are collectively referred to as the "Mergers". Completion of the Mergers shall take place in parallel, and completion of each of the mergers is dependent upon completion of the other two mergers.

As a condition for completion of the Mergers, a NOK 200 million private placement of SOFF shares shall be directed towards Hemen Holding Ltd ("Hemen") (a company indirectly controlled by trusts established by John Fredriksen for the benefit of his immediate family) at a subscription price of NOK 12.50 per share, implying a subscription by Hemen of 16,000,000 new SOFF shares. Furthermore, SOFF's existing NOK 250 million convertible loan from Aker Capital AS ("Aker"), a wholly owned subsidiary of Aker ASA, shall be converted to shares or discharged by exercise of warrants, in each case at a subscription price of NOK 12.50, resulting in 20,000,000 new shares for Aker. In addition, SOFF's class A and class B shares shall be converted into one class of ordinary shares.

Other conditions for completion of the Mergers include, among other things, the receipt of all required consents from bank lenders, bondholders (as applicable) and other contracting parties, necessary approvals from competition and other regulatory authorities, the harmonisation of existing financing agreements of SOFF and DESSC with the amended financing terms of FAR's financing agreements, as well as the continued listing of SOFF on the Oslo Stock Exchange.

The board of directors of the Company have sent a notice for an Extraordinary General Meeting on 25 April 2017 for the shareholders to consider the approval of DESSC Merger 1, the associated director's report, the expert's statement from FGH Revisjon AS and the dissolution of the Company without liquidation, as a consequence of and following the merger.



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## Independent Auditor's Report To the Members of Deep Sea Supply Plc

Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the accompanying consolidated financial statements of Deep Sea Supply Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

### What we have audited

We have audited the consolidated financial statements which are presented on pages 15 to 69 and comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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## Emphasis of Matter

We draw attention to Note 31 of the consolidated financial statements, which describes the effects of the proposed transaction between the Company, Farstad Shipping ASA and Solstad Offshore ASA which was announced on 6 February 2017. Our opinion is not modified in respect of this matter.

## Our audit approach

### Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



### Materiality

Overall group materiality: US\$2,6 million

The overall materiality represents 4% of the Group's loss before tax for the year as adjusted for significant changes in the circumstances of the Group in 2016.

### Audit scope

We conducted full scope audit work covering the significant components and the consolidation process.

Analytical review or specified procedures were performed for the remaining non-significant components.

### Key Audit Matters

We have identified the following key audit matters:

- Impairment assessment of vessels
- Business combinations – purchase price allocation
- Loan covenants



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## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	US\$2,6 million
How we determined it	4% of loss before tax for the year as adjusted. Loss before tax was adjusted for the impact of significant changes in the circumstances of the Group in 2016 and by normalising the loss before tax from continuing operations. The adjustments to the loss before tax relate to vessels impairment losses, gains recognised as a result of the Business Combination and losses arising from the disposal of vessels and termination of the related sale and leaseback arrangements.
Rationale for the materiality benchmark applied	<p>We chose adjusted loss before tax as the materiality benchmark because in our view:</p> <ul style="list-style-type: none"><li>• Profit/Loss before tax is one of the benchmarks against which the performance of the Group is most commonly assessed and is a generally accepted benchmark; and</li><li>• Adjustments were necessary to take into consideration the business developments of the Group in 2016.</li></ul> <p>We chose 4% threshold which is within the range of acceptable quantitative materiality thresholds.</p>

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above US\$130 thousands, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### How we tailored our group audit scope

Deep Sea Supply Plc is the parent company of a group of entities. The financial information of this group (consisting of various entities/ components) is included in the consolidated financial statements of Deep Sea Supply Plc.



Considering our ultimate responsibility for the opinion on the Group financial statements we are responsible for the direction, supervision and performance of the Group audit. We tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the Group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group's operations are made up of operating businesses situated in a number of territories. We performed an audit of the complete financial information of all significant components, which were selected either due to their size, or their risk characteristics. For other non-significant components we have either audited specific account balances or performed Analytical Review over specific financial statement lines so as to ensure we obtain sufficient audit evidence on individual financial statement line items. The Group consolidation and consolidated financial statement disclosures are audited by the Group engagement team.

For significant components not audited by us we used PricewaterhouseCoopers network firms that are familiar with the local laws and regulations to perform the audit work. Where the work was performed by component auditors, we as group engagement team determined the level of involvement we needed to have in the audit work at those components to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group consolidated financial statements as a whole.

Our involvement in the work performed by other auditors of the significant components included, amongst others, regular calls with the auditors; discussion and agreement for the nature, timing and extent of the work; and review of the work performed by these component auditors for high risk areas.

By performing the procedures above at components level, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><i>Impairment assessment of vessels</i></p> <p>Refer to Note 6 – Property, Plant and Equipment, of the consolidated financial statements.</p>	<p>We obtained management's impairment models prepared as of 31 December 2016 and evaluated the valuation inputs and assumptions, methodologies and calculations applied by management and approved by the Company's Board of Directors.</p>



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Key audit matter	How our audit addressed the Key audit matter
<p>In line with the Group's accounting policy for impairment of non-financial assets, as disclosed in Note 2 of the consolidated financial statements, the Board of Directors has assessed that there impairment indicators were present for the Group's vessels as of 31 December 2016 and has carried out an impairment test. Each individual vessel was assessed as a separate cash generating unit ("CGU").</p> <p>We focused on this area given the relative size of Property, Plant and Equipment and given that the assessment of the recoverable amount is complex and involves significant judgement.</p> <p>The value-in-use ("VIU") of the vessels was estimated using discounted cash flows for each vessel.</p> <p>The fair value less costs ("FVLCS") to sell was estimated by obtaining professional valuations for each vessel from two different independent, third party brokers, and adjusting them to incorporate specific characteristics that market participants consider when pricing the asset, which include, but are not limited to, charter commitments and costs relating to reusing laid-up vessels.</p> <p>Based on the results of the impairment tests carried out, an impairment charge of US\$92,4 million was recognised in 2016 resulting in the carrying amount of the vessels impacted being written down to their recoverable amount.</p>	<p>We challenged management's key assumptions underlying the cash flow forecasts, such as the projected vessels utilization, daily income, daily operating expenses and discount rates, and compared to management's internal forecasts and long term strategic plans that were approved by the Group's Board of Directors. We considered publicly available information, in particular in relation to estimates for macroeconomic assumptions.</p> <p>We evaluated the competency and objectivity of the external brokers used by the Company and we compared the range of values derived from the 2 independent brokers with the VIU estimates for reasonability.</p> <p>For all CGUs, we assessed management's sensitivity analysis and modelled potential alternative outcomes to assess the potential impact on the overall conclusion in the event of different outcomes, focusing on those assumptions that created the most variability on the overall model results.</p> <p>We lastly evaluated the adequacy of the disclosures made in Notes 4 and 6 of the consolidated financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions.</p>
<p><i>Business Combination - Purchase Price Allocation</i></p>	
<p>Refer to Note 30 - Business Combination, of the consolidated financial statements.</p> <p>We focused on this area due to the significant financial impact of the acquisition in the consolidated financial statements for the year ended 31 December 2016.</p>	<p>We have evaluated the management's assessment that the acquisition should be accounted for as business combination in accordance with the definition set out in IFRS 3.</p>



Key audit matter	How our audit addressed the Key audit matter
<p>Management assessed that the acquisition qualify as business combination by applying the definition in IFRS 3 - Business Combinations ("IFRS 3").</p> <p>The fair value of the purchase consideration was estimated at US\$ 15,6 million as follows:</p> <ul style="list-style-type: none"> <li>• 30.133.022 Company's ordinary shares with an estimated fair value of US\$5,2 million;</li> <li>• 10.000.000 warrants with an estimated fair value of US\$0,6 million;</li> <li>• US\$2 million cash; and</li> <li>• US\$7,8 million being the estimated fair value of the previously held interest in the acquiree.</li> </ul> <p>Management has estimated the value of each vessel acquired using internal valuation estimates for each vessel based on discounted cash-flow forecasts.</p> <p>Management has also obtained professional valuations for each vessel acquired from two different independent, third party brokers, and adjusted them to incorporate specific characteristics that market participants consider when pricing the asset, which include, but are not limited to, charter commitments and costs relating to reusing laid-up vessels.</p> <p>Management has determined that the fair value of the net identifiable assets acquired was US\$28,3 million.</p> <p>As at the date of acquisition the impact on the consolidated income statement was the following:</p> <ul style="list-style-type: none"> <li>• An excess of the Group's share of identifiable net assets acquired over consideration paid (negative goodwill) which was recognized in the consolidated income statement amounting to US\$12,7 million.</li> <li>• A fair value loss of the previously held interest in the acquiree was recognized in the consolidated income statement amounting to US\$4,5 million.</li> </ul>	<p>We have evaluated the management's procedures for determining the fair value of the consideration and the net identifiable assets acquired. We have performed additional audit procedures to assess the appropriateness of identifiable assets acquired and liabilities assumed at the acquisition dates.</p> <p>We challenged management's key assumptions underlying the cash flow forecasts, such as the projected vessels utilization, daily income, daily operating expenses and discount rates.</p> <p>We evaluated the competency and objectivity of the external brokers used by the Company and we compared the range of values derived from the 2 independent brokers with the cash-flow estimates for reasonability.</p> <p>We evaluated the adequacy of the disclosures made in Notes 4 and 30 of the consolidated financial statements regarding the business combination and the critical estimates and assumptions used.</p>



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Key audit matter	How our audit addressed the Key audit matter
<p>We focused on property, plant and equipment valuation as part of determination of the fair value of net identifiable assets in the business combination as a significant area of judgement. The valuation methodology, as well as the inputs and assumptions in the valuation models, will affect the fair values of the net identifiable assets.</p>	
<p><i>Loan covenants</i></p> <p>Refer to Note 14 – Borrowings, of the consolidated financial statements.</p> <p>We focused on this area due to the size of borrowings of the Group and the impact these may have on the financial statements.</p> <p>Under the bank borrowings and third party loans, the Group is required to comply with certain financial and non-financial covenants. If any of the loan covenants are breached, this could, depending on the terms of each loan agreement, constitute an event of default and in certain cases the repayment of the loan can be accelerated by the lender or in other cases the Group would need to take actions to remedy such breaches. As at 31 December 2016, the Group was in breach of certain loan covenants under 3 separate loan agreements which did not give rise to events of default which would trigger acceleration of all the loan facilities and classify them as current as at the balance sheet date.</p>	<p>We have reviewed the loan agreements and discussed and challenged the conclusions reached by the Board of Directors.</p> <p>We lastly evaluated the adequacy of the disclosures made in Note 14 of the consolidated financial statements.</p>

*Other information*

The Board of Directors is responsible for the other information. The other information comprises the Management Report and the Company's complete Annual Report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### Auditors responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



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- Conclude on the appropriateness of the Board of Directors' 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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

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#### *Report on other legal and regulatory requirements*

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.



- In our opinion, the management report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the [consolidated] financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

*Other matter*

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Yiangos Kaponides.

Yiangos Kaponides  
Certified Public Accountant and Registered Auditor  
for and on behalf of

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,  
CY-3032 Limassol, Cyprus  
P O Box 53034, CY-3300 Limassol, Cyprus  
12 April 2017

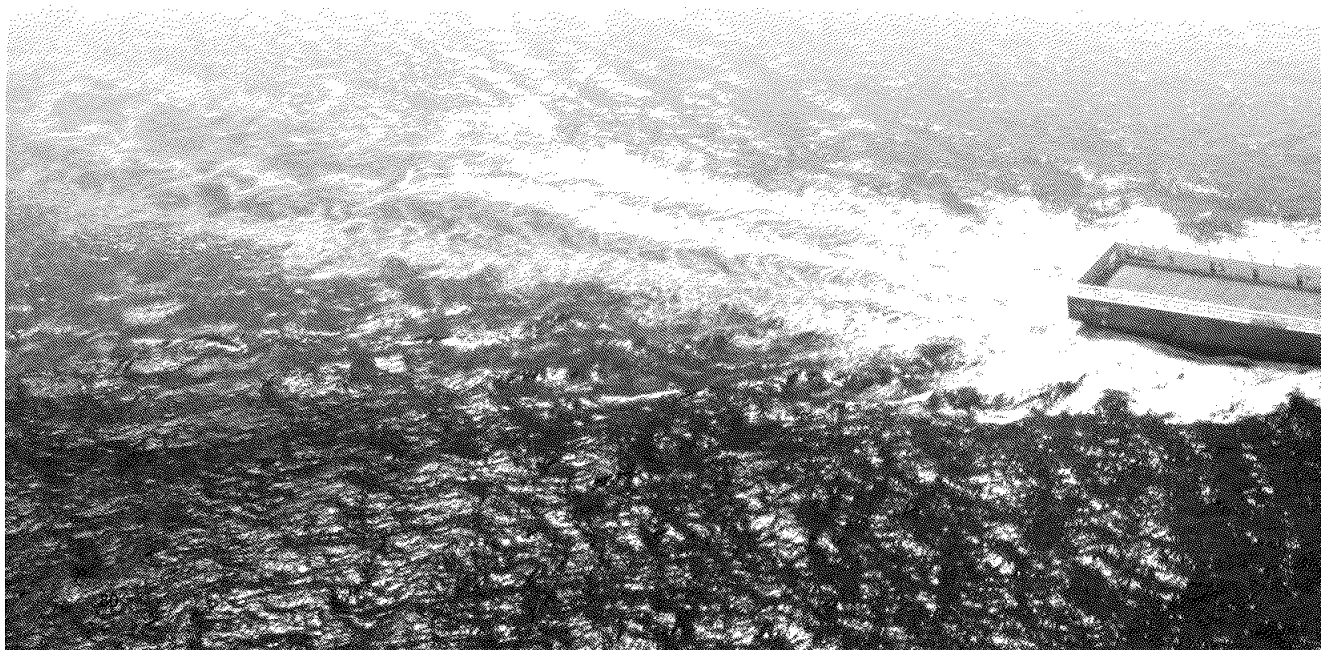


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## Shareholders registered in VPS

*The Largest Shareholders As Per 31 Dec 2016 Registered In VPS*

Name	Citizen	No. of shares:	%
HEMEN HOLDING LIMITED	CYP	91 543 853	31,42 %
DNB NOR MARKETS, AKSJEHAND/ANALYSE	NOR	39 083 864	13,42 %
UBS AG	GBR	30 133 022	10,34 %
SKAGEN KON-TIKI	NOR	17 250 931	5,92 %
UBS SWITZERLAND AG	CHE	8 034 135	2,76 %
SKANDINAVISKA ENSKILDA BANKEN AB	SWE	5 047 321	1,73 %
THE BANK OF NEW YORK MELLON N.V.	BEL	4 600 075	1,58 %
J.P. MORGAN BANK LUXEMBOURG S.A.	GBR	4 070 274	1,40 %
KLP ALFA GLOBAL ENERGI	NOR	3 465 104	1,19 %
CENTRA INVEST AS	NOR	3 157 853	1,08 %
ARCTIC FUNDS PLC	BEL	2 935 604	1,01 %
KLP AKSJENORGE	NOR	1 586 800	0,54 %
NORDEA BANK SVERIGE AB	SWE	1 582 000	0,54 %
NORDNET LIVSFORSIKRING AS	NOR	1 240 159	0,43 %
STATOIL PENSJON	NOR	1 213 306	0,42 %
DEUTSCHE BANK AG	GBR	1 106 589	0,38 %
KOMMUNAL LANDSPENSJONSKASSE	NOR	1 008 200	0,35 %
HAGA PER	GBR	1 000 000	0,34 %
KAUSERUD JOSTEIN	NOR	1 000 000	0,34 %
SOLØST KNUT OVE	NOR	1 000 000	0,34 %
<b>Total 20 largest shareholders:</b>		<b>220 059 090</b>	<b>75,54 %</b>
<b>Total other shareholders:</b>		<b>70 968 597</b>	<b>24,36 %</b>
<b>Total number of shares:</b>		<b>291 330 216</b>	<b>100,00 %</b>





## Shareholders registered in VPS

*The Largest Shareholders As Per 12 April 2017 Registered In VPS*

Name	Citizen	No. of shares:	%
HEMEN HOLDING LIMITED	CYP	91 543 853	31,42 %
DNB NOR MARKETS, AKSJEHAND/ANALYSE	NOR	39 613 724	13,60 %
UBS AG	GBR	30 133 022	10,34 %
SKAGEN KON-TIKI	NOR	17 250 931	5,92 %
UBS SWITZERLAND AG	CHE	8 168 239	2,80 %
THE BANK OF NEW YORK	BEL	5 872 037	2,02 %
SKANDINAVISKA ENSKILDA BANKEN AB	SWE	5 047 321	1,73 %
J.P. MORGAN BANK LUXEMBOURG S.A.	GBR	4 444 200	1,53 %
CENTRA INVEST AS	NOR	3 157 853	1,08 %
ARCTIC FUNDS PLC	BEL	2 935 604	1,01 %
SPECTATIO FINANS AS	NOR	2 500 000	0,86 %
HAUG ODD ROAR	NOR	2 271 601	0,78 %
NORDEA BANK SVERIGE AB	SWE	1 600 000	0,55 %
NORDNET BANK AB	SWE	1 520 232	0,52 %
STATOIL PENSJON	NOR	1 213 306	0,42 %
NORDNET LIVSFORSIKRING AS	NOR	1 149 172	0,39 %
HAGA PER	GBR	1 000 000	0,34 %
TEMPO PRIMO HOLDING AS	NOR	1 000 000	0,34 %
SOLØST KNUT OVE	NOR	1 000 000	0,34 %
BANK OF AMERICA, N.A.	NOR	926 550	0,32 %
<b>Total 20 largest shareholders:</b>		<b>222 347 645</b>	<b>76,32 %</b>
<b>Total other shareholders:</b>		<b>68 982 571</b>	<b>23,68 %</b>
<b>Total number of shares:</b>		<b>291 330 216</b>	<b>100,00 %</b>





DEEP SEA SUPPLY

## Corporate governance

*Deep Sea Supply Plc* ("DESSC" or the "Company" on a consolidated basis) principles for Corporate Governance are based on the "Norwegian Code of Practice for Corporate Governance" issued on 30 October 2014. Listed companies are expected to practice Corporate Governance that regulates the division of roles between Shareholders, the Board of Directors and the Executive Management more comprehensively than is required by the legislation.

The code of practice intends to strengthen the confidence in listed companies providing the highest possible value creation benefiting shareholders, employees and others. As DESSC is a Cyprus registered company, "Norwegian Code of Practice for Corporate Governance" can only be adopted as long as the recommendation is in accordance with Cyprus Companies Law, Cap 113. The Board of the Company is not aware of any differences between the content of the "Norwegian Code of Practice for Corporate Governance" and Cyprus Companies Act. DESSC's management has presented "The Norwegian Code of practice for Corporate Governance" for the Board. The following elements underpin the Company's Corporate Governance Policy:

- DESSC will maintain an open and reliable communication with the public about its business activities and conditions related to corporate governance.
- DESSC's Board will be autonomous and independent of the Company's Management.
- DESSC will attach importance to avoid conflicts of interest between the owners, the Board and the Management.
- DESSC will have a clear division of responsibilities between the Board and the Management.
- All shareholders will be treated equally.

The Company has established its own corporate Code of Ethics. Compliance with and follow up of the Code of Ethics have been discussed and presented thoroughly in-house. For more detailed information about the Company's Code of Ethics, please see our corporate website at [www.deepseasupply.no](http://www.deepseasupply.no).

### Company Background

Deep Sea Supply Plc was established on 7 November 2006 for the purpose of acquiring all shares of Deep Sea Supply ASA following an initiative by the Board of Deep Sea Supply ASA to change the domicile of the ultimate parent company to Cyprus.

### Business

The Company's business objective is defined in Section 3 of the Memorandum of Association, and includes, inter alia, the following: "To engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore anchor handling

and supply vessel business, and to do all such acts and things as are related thereto, including without limitation the acquisition, construction, leasing, chartering, operation and manning of such vessels and everything incidental thereto."

The Company's primary aims are to meet the demand from markets that require modern and advanced supply vessels. DESSC seeks investments in the perspective of providing attractive financial returns to its shareholders. The Company will actively consider possibilities to participate in industry consolidation, mergers and acquisitions, and will position itself to be part of such consolidation.

### Equity and dividend

#### Equity

The Company's book equity as per 31 December 2016 was USD 129.6 mill The Board considers this to be an acceptable level. The Board evaluates continuously the Company's equity in light of the overall goals, strategy, risk profile and market.

#### Dividend policy

The Company will actively use the capital market when doing investments, and does not intend to hold significant liquid reserves for investments. Retained earnings will, to the extent permitted under operational constraints, financial covenants, committed capital expenditures and with due regard to appropriate working capital requirements be paid out as dividends.

In 2016, no dividend has been distributed. See Board of Directors report for details on the considerations made with regards to dividend payments in 2016.

#### Purchase of treasury shares

The Board has been granted an authorization to acquire treasury shares, including acquisition of security rights. Authorization to acquire treasury shares is based on the assumption that acquisitions will be conducted at normal market conditions. DESSC did not own any own shares in 2016.

#### Major Shareholders

The major shareholder of the Company is Hemen Holding Limited with an ownership of 31.4%.

#### Class of shares

All shares in DESSC are equal. The Articles of Association place no restrictions on voting rights or rights of receiving dividends.

#### Trading in treasury shares

The Board's authorization to acquire treasury shares is based on the assumption that acquisitions will be conducted at normal market conditions.



#### **Transactions between related parties:**

Related parties are considered to be the Board members (including associated companies) and the Management (including associated companies).

#### **Freely negotiable**

The shares are freely negotiable.

#### **General meetings**

By virtue of the Annual General Meeting (AGM), the shareholders are guaranteed participation in the Company's supreme governing body. Shareholders representing at least 10 per cent of the shares can call for an extraordinary general meeting. The AGM shall be held at the place of establishment of the Company (Cyprus).

#### **Convening letter**

The notifications to the AGM are distributed to all shareholders minimum 21 days in advance. It is considered important that the documents contain all relevant documentation so that the shareholders can take a position on all items up for discussion. The Finance Calendar is published on the Company's web page and distributed via Oslo Stock Exchange.

#### **Participation**

It is possible to register for the AGM by ordinary mail, telefax or e-mail. The Board will attend the AGM. As a minimum, the management is represented by the CEO and the CFO.

#### **Agenda and execution**

The agenda is set by the Board, and the main items are specified in the Company's Articles of Association. The Chairman of the Board will chair the AGM.

#### **Nomination and Audit Committees**

In accordance with the Articles of Association, the Company shall have a nomination committee consisting of the Chairman of the Board and two members elected by the AGM. In connection with the election of Directors and election of the members to the Nomination Committee, the Nomination Committee shall in connection with the summons for the General Meeting provide its recommendations for candidates. The nomination committee shall also propose the remuneration to the Board members. The Board has established an Audit Committee who had four meetings in 2016. The meetings were held with together with the Management and the Company's Auditors.

## **Board of Directors**

#### **Composition and independence**

As per April 2017 the DESSC Board consists of four board members and two alternate directors.

#### **Election of the Board of Directors**

The Board members are elected by the AGM based on a recommendation prepared and presented by the Nomination Committee. The recommendation is distributed to the shareholders along with the convening letter to the AGM. Decisions on the composition of the Board require a simple majority. Directors are elected for two-year terms and can be re-elected.

#### **Composition of the Board**

Emphasis is made on selecting board members with relevant competence. According to the Articles of Association, the Board shall have from three to seven board members. The Company's CEO is not member of the Board.

#### **The Board's autonomy**

The Board considers itself autonomous and independent of the Company's executive management and main shareholders. Emphasis is made that there should exist no conflicts between the Board, the Management and the Company's shareholders. The corporate Code of Ethics discusses this topic under the heading "Conflict of interest".

#### **Director's ownership of shares**

By year-end 2016, the majority of the members of the Board either owned shares in the Company or represented significant shareholders. Reference is furthermore made to the separate presentation of the Board Members in the Annual Report.

## **Board work**

#### **Board responsibilities**

The Board bears the ultimate responsibility for running the Company and supervising routine management and business activities. The Board primarily looks after the interests of all the shareholders, but is also responsible for the Company's other stakeholders.

The Board has made an annual plan for the board meetings. The Board's main tasks are developing and determining the Company's strategy, performing the required control functions and advice the executive management. The Board is responsible for employing the Company's CEO and to draw up his/her job description. The Board members receives a fixed compensation. DESSC's Board of Directors consists of 1 Cyprus, 1 UK, 2 Norwegian and 2 Brazilian residents.

#### **Remuneration to leading employees**

The remuneration for the CEO is decided by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. An incentive scheme for the management is established. Bonus scheme is linked to the development of the stock price of the Company based on comparison with peer company companies. The terms are described in the notes of the annual financial statements.



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## Remuneration to the members of the Board

The AGM approves the Board's remuneration each year. The remuneration to the Board in 2016 breaks down as follows: NOK 350,000 for the Chairman and NOK 200,000 for each Director.

No Director is engaged in any paid consultancy work or other assignments for the Company.

### Change of control

Certain benefits for the management will come into effect at a change of control in the Company (in excess of 30%).

### Information and communication

The Company considers an open and frequent communication as important to its shareholders and other related parties. The Company's Financial Calendar is published on the Company's website and communicated via Oslo Stock Exchange.

The Company's web-site contains financial and other information relevant for its shareholders and related parties.

Open presentations are made to present the quarterly financial statements. Present at these presentations are the CEO and the CFO. The financial information is simultaneously made available on the Company's web-site.

It is considered essential to keep owners and investors informed about the Company's progress and financial status. Emphasis is made on presenting the same information to the entire equity market at the same time.

## Internal control environment and audit committee

The Company has established the necessary set of processes and systems to ensure proper internal controls. An audit committee, established in 2009, holds oversight of all financial reporting and disclosure. The audit committee meets with the management and the auditors prior to publishing quarter and annual results to the stock exchange.

## Take-over regulation

There are no defense mechanisms against take-over bids in the Company's Article of Associations, and the Company has not implemented other measures to limit the opportunity to acquire shares in the Company.

The EU Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on take-over bids is implemented in Norway through the Securities Trading Act of 29 June 2007 no. 79 (the "Norwegian Securities Trading Act") and in Cyprus through Cypriot Law 41 (I)/2007 on Takeover Bids. A brief summary of the take-over rules applicable to the Company is included below.

Any person, entity or group acting in concert that acquires 30% or more of the voting rights of the Company is required to make an unconditional general offer for the purchase of the remaining shares in the Company. The offer is subject to approval by Oslo Stock Exchange, in its capacity as competent take-over authority of Norway. The offer price per share must be at least as high as the highest price paid or agreed by the offeror in the six-month period prior to the date the 30% threshold was reached, however equal to the market price if the market price was higher at that time. In the event that the acquirer thereafter, but prior to the expiration of the acceptance period acquires, or agrees to acquire, additional shares at a higher price, the acquirer is obliged to restate its offer at that higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered. Payment of the offer price must be guaranteed by a bank. Certain provisions regarding mandatory offers will also apply with respect to so called voluntary offers (i.e. offers that will trigger the mandatory offer obligation should the offer be accepted by the eligible shareholders.)

## Auditor

The Company emphasizes a frequent and open dialogue between the Company and its auditor. The Company's auditor participates in the board meetings where the annual financial statements are discussed. At such meetings, the auditor is briefing the Board on the annual accounts and any other issues of particular concern to the auditor. At least once a year the auditor presents to the Board a written report of the Company's accounting policies, risk areas and internal control routines.

The auditor submits the main features of the plan for the audit of the Company to the Board annually. The auditor annually presents for the Board a written confirmation that the auditor continues to satisfy the requirements for independence. At least one meeting a year will be held between the auditor and the Board without the presence of the CEO or other executive managers.

The Company's auditor is Pricewaterhousecoopers Limited. There has been no change in audit firm after the Company was established.





DEEP SEA SUPPLY PLC

## Management report

The Board of Directors presents its report together with the audited parent company financial statements of Deep Sea Supply Plc ("the Company") for the year ended 31 December 2016.

### Principle activities

Deep Sea Supply PLC's ("the Company") principal activity, which is unchanged from last year, is the holding of investments.

### Principal risks and uncertainties

As the Company's main income is dividend received from its subsidiaries and jointly controlled entities the Company is exposed to the performance of those entities. The Company's subsidiaries and jointly controlled entities operate in the international offshore supply vessel business and in the aquaculture shipping business respectively and hence exposed to charter rate risk.

### Going concern

The financial statements are prepared on a going concern basis. More details are disclosed in Note 4 of the parent company financial statements.

### Changes in group structure

During the year ended 2016, the company reached an agreement with DPC Serviços de Óleo e Gás ("DPC") where 50% of DESS BTG was acquired by the Company in exchange for 30,133,022 new common shares in the Company, 10,000,000 warrants and a cash payment of USD 2.0 mill. The warrants will be exercisable into common shares in the Company at any time during a period of 36 months at an exercise price of NOK 1.24 per share.

In addition, during 2016 the Company has established with Marine Harvest ASA a 50/50 owned aquaculture shipping joint venture (the "JV" or "DESS Aqua") that is to build, own and operate aquaculture vessels.

### Results, review of developments, position and performance of the Company's business

#### Income statement

The main income for the period was dividend received from the subsidiaries of the Company totaling USD 18.4 mill (2015: USD 41.0 mill).

As a result of dividends paid out, and reduced market valuations of vessels owned by subsidiaries, the recoverable amounts of certain subsidiaries have been reduced by USD 185.5 mill (2015: USD 114.2 mill). In addition, in the year ended 31 December 2015, an impairment loss of USD 162.9 million was recognized in relation to jointly controlled entities (JVs) which are included within subsidiaries in 2016. More details are disclosed in Note 5 of the financial statements. The Company's net result for the year is set out at page 88.

#### Balance Sheet

Investment in subsidiaries and joint ventures was USD 194.7 mill (2015: USD 350.6 mill). The movements are explained in

Note 5 and Note 12 of the financial statements. Current assets were USD 0.1 mill (2015: USD 0.5 mill). Net assets for the company at year end were USD 131.5 mill (2015: USD 297.3 mill).

#### Financing – Bank facilities

In November 2011, the Company refinanced its senior loan facility with a syndicate consisting of leading international shipping banks. The loan has a repayment profile of 18 years for the new vessels, 14/15 years for the 2007/2008-built vessels and 7 years for the 1998/1999-built vessels. The senior loan facility is secured with a 1st priority mortgage in the financed vessels. This facility originally included 15 vessels, of which 9 were sold to DESS BTG in 2013. These 9 vessels were carved out from the existing 15 vessel facility to a new facility, keeping both profile and remaining term from existing facility.

As per year-end 2016, the outstanding loan for 6 remaining vessels was USD 44.5 mill and total deferred installments were USD 3.4 mill. In September 2016 a deferral of installments was obtained for period up to 31 March 2018 and the maturity of the senior loan has been extended to October 2018.

In February 2016, a vessel which was on finance lease by one of the subsidiaries of the Company was disposed and the lease agreement was terminated and replaced by a Promissory Note issued to the Company with a 6 year term and repayment profile. As per 31 December 2016, total outstanding amount of the promissory note was USD 13.6 mill.

#### Principal risks and uncertainties

The principal risk and uncertainties faced by the Company are disclosed in Notes 3, 4 and 19 of the financial statements.

#### Use of financial instruments by the Company

The detailed analysis of the Company's exposure to financial risks as at the balance sheet date and the measures taken by the Management in order to mitigate those risks, including the use of financial derivatives for hedging purposes, are disclosed in Note 3 of the consolidated financial statements.

#### Future developments of the Company

There were significant developments for the Company after the balance sheet date. These are described in section "Events after the balance sheet date" of this management's report.

#### Dividends

Due to the uncertain market outlook in the oil service and offshore supply market, the Board of Directors decided to be cautious and not to distribute any dividend to shareholders in relation to 2016.



## Board of directors

The members of the Board of Directors at 31 December 2016 and at the date of this report are shown on page 12. All of them were members of the Board throughout the year 2016 except Mr. Edwyn Neves who was elected as member of the Board of Directors for a period of 2 years from August 2016. On the same date Mr. Daniel Pegorini was elected as Alternate Director of the Company for the same period.

There were no changes to the responsibilities of the Board of Directors in 2016.

Remuneration to the Board is described in Note 14 of the financial statements.

## Share capital

All changes in share capital composition including new shares issued during 2016 are disclosed in Note 7 of the financial statements.

## Branches

The Company did not operate through any branches during the year.

## Events after the balance sheet date

### Merger of Deep Sea Supply Plc with Farstad Shipping ASA and Solstad Offshore ASA

On 6 February 2017, Farstad Shipping ASA ("FAR"), Aker Capital AS ("Aker"), Hemen Holding Limited ("Hemen"), FAR's largest lenders (the "Lenders"), a major part of FAR's bondholders (the "Bondholders"), as well as F-Shipline AS signed an extensive and fully financed restructuring agreement (the "Restructuring Agreement") of the FAR Group (the "FAR Restructuring"). The FAR Restructuring was completed 9 March 2017. Aker, Hemen, the Lenders and the Bondholders as well as SOFF Invest AS and Ivan II AS and Tyrholm & Farstad AS, Tyrholm & Farstad Invest AS, Sverre A. Farstad and Jan H. Farstad also agreed to work for a merger between Solstad Offshore ASA ("SOFF"), FAR and DESSC after the completion of FAR Restructuring (the "Combination").

The boards of directors of SOFF, FAR and DESSC are of the opinion that a consolidation in the industry is required. After concluding the Restructuring Agreement the boards of directors of the mentioned companies have discussed the possibilities for a merger of the operations of the three companies and have concluded that such merger will be advantageous for all companies. The Combination will result in the incorporation of a world leading OSV group,

with a fleet of totally 154 vessels. The merged group will operate a fleet consisting of 33 CSV, 66 PSV and 55 AHTS vessels.

As part of the Combination, a cross-border merger will take place between the Company and Solship Sub AS, a Norwegian entity recently incorporated and wholly owned subsidiary of Solship Invest 3 AS ("Solship Invest 3"), which again is a recently incorporated wholly owned subsidiary of SOFF. Solship Sub AS will be the surviving company of the merger.

The statutory merger plans have been approved and signed, by the boards of Solstad, Farstad, DESSC and Solstad's relevant subsidiaries, into which Farstad and DESSC will be merged, as at 24 March 2017.

The material post balance sheet events which have a bearing on the understanding of the financial statements, are disclosed in Note 20 of the financial statements.

## Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

## Responsibility statement

In accordance with Article 9, sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law"), we the members of the Board of Directors and the other responsible persons for the financial statements of the Company for the year ended 31 December 2016 confirm that, to the best of our knowledge:

- a) The annual financial statements that are presented on pages 88 to 110:
  - i. were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Article 9, section (4) of the Law, and
  - ii. give a true and fair view of the assets and liabilities, the financial position and the profit or losses of the Company, and
- b) the directors' report gives a fair view of the developments and performance of the business as well as the financial position of the Company, together with a description of the principal risks and uncertainties that it is facing.

Limassol, 12th April 2017  
The Board of Deep Sea Supply Plc

**Harald Thorstein**  
Chairman

**Neofytos Neofytou   Hans Petter Aas   Edwyn Neves**

**Jon Are Gummedal**  
Chief Executive Officer

**Anders Hall Jomaas**  
Chief Financial Officer



DEEP SEA SUPPLY PLC

## Statement of comprehensive income

### Deep Sea Supply PLC (parent company)

*(All amounts in USD 1,000)*

	Note	2016	2015
Dividend income	14	18 402	41 000
Other income		-	249
Impairment of investment in subsidiaries	5	(185 514)	(114 232)
Impairment of investment in joint ventures	12	-	(162 967)
Administrative expenses	13	(1 329)	(1 158)
Other gains/(losses) - net		(154)	-
Change in financial derivatives value		(121)	(527)
<b>Operating loss</b>		<b>(168 716)</b>	<b>(237 636)</b>
Currency items		5	26
Financial expenses	18	(2 906)	(2 087)
<b>Finance and currency items</b>		<b>(2 901)</b>	<b>(2 061)</b>
<b>Loss before income tax</b>		<b>(171 617)</b>	<b>(239 697)</b>
Income tax	15	-	-
<b>Loss and other comprehensive loss for the year</b>		<b>(171 617)</b>	<b>(239 697)</b>

Losses per share for profit attributable to the equity holders of the Company, expressed in USD per share:

- Basic	16	(0,636)	(0,918)
- Diluted	16	(0,634)	(0,918)

The notes on pages 92 to 110 form an integral part of these financial statements.





## Balance sheet Deep Sea Supply PLC (parent company)

(All amounts in USD 1,000)

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investments in subsidiaries	5	194 671	321 616
Investments in joint ventures	12	2	29 003
<b>Total non current assets</b>		<b>194 673</b>	<b>350 619</b>
<b>Current assets</b>			
Other short term receivables		-	430
Amounts due from related parties	14	12	-
Cash and cash equivalents	6	59	27
<b>Total current assets</b>		<b>71</b>	<b>457</b>
<b>Total assets</b>		<b>194 744</b>	<b>351 076</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the company</b>			
Share Capital	7	5 827	5 224
Share premium	7	328 727	324 183
Other paid in capital	7	2 218	1 559
Retained earnings		(205 236)	(33 619)
<b>Total equity</b>		<b>131 536</b>	<b>297 347</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	8	55 213	-
Financial derivatives		-	221
<b>Total non current liabilities</b>		<b>55 213</b>	<b>221</b>
<b>Current Liabilities</b>			
Amounts due to related parties	14	1 607	4 749
Borrowings	8	6 260	48 630
Other short term payables	11	128	130
<b>Total current liabilities</b>		<b>7 995</b>	<b>53 509</b>
<b>Total liabilities</b>		<b>63 208</b>	<b>53 730</b>
<b>Total equity and liabilities</b>		<b>194 744</b>	<b>351 076</b>

The notes on pages 92 to 110 form an integral part of these financial statements.



DEEP SEA SUPPLY PLC

## Statement of changes in equity Deep Sea Supply Plc (parent company)

(All amounts in USD 1,000)

	Share Capital	Share premium reserves	Other paid- in-capital	Retained earnings	Total
<b>Balance at 1 January 2015</b>	5 224	324 183	1 727	206 079	537 213
<b>Comprehensive Income</b>					
Loss for the year	-	-	-	(239 697)	(239 697)
<b>Total Comprehensive Loss</b>	-	-	-	(239 697)	(239 697)
<b>Transactions with owners</b>					
Value of share option scheme	-	-	(168)	-	(168)
<b>Total transactions with owners</b>	-	-	(168)	-	(168)
<b>Balance at 31 December 2015</b>	5 224	324 183	1 559	(33 619)	297 347
<b>Balance at 1 January 2016</b>	5 224	324 183	1 559	(33 619)	297 347
<b>Comprehensive Income</b>					
Loss for the year	-	-	-	(171 617)	(171 617)
<b>Total Comprehensive Loss</b>	-	-	-	(171 617)	(171 617)
<b>Transactions with owners</b>					
Share capital increase (Note 7)	603	4 544	-	-	5 147
Issue of warrants (Note 7)	-	-	638	-	638
Value of share option scheme	-	-	21	-	21
<b>Total transactions with owners</b>	603	4 544	659	-	5 806
<b>Balance at 31 December 2016</b>	5 827	328 727	2 218	(205 236)	131 536

The notes on pages 92 to 110 form an integral part of these financial statements.





Deep Sea Supply Plc Annual report 2016

## Statement of Cash Flows Deep Sea Supply Plc (parent company)

(All amounts in USD 1,000)

	Note	Year ended 31 December	
		2016	2015
<b>Cash flows from operating activities</b>			
Loss before income tax		(171 617)	(239 697)
Impairment of investments in subsidiaries	5	185 514	114 232
Impairment of investments in joint ventures	12	-	162 967
Dividend income receivable	14	(18 402)	(41 000)
Interest expense		2 477	2 255
Amortization of borrowing costs	18	429	508
Cancellation of share option Scheme		21	-
<b>Changes in working capital</b>			
Changes in balances with related parties		(3 154)	1 206
Change in value of financial derivatives		(221)	(165)
Trade and other payables		(2)	(90)
Trade and other receivables		2 246	(210)
<b>Cash (used in)/generated from operations</b>		<b>(2 709)</b>	<b>7</b>
<b>Cash flow from investing activities</b>			
Acquisitions of shares in wholly owned subsidiaries		(7 449)	(40 000)
Cash effect of acquisition of jointly controlled company		(1 750)	-
Contributions in jointly controlled companies		(2)	(651)
Dividends received		16 597	41 000
<b>Net cash generated from investing activities</b>		<b>7 396</b>	<b>349</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings and borrowing costs		(2 145)	(4 552)
Interest paid		(2 510)	(2 425)
<b>Net cash used in financing activities</b>		<b>(4 655)</b>	<b>(6 977)</b>
<b>Total changes in liquidity in the year</b>		<b>32</b>	<b>(6 622)</b>
Cash and cash equivalents at beginning of year		27	6 649
<b>Cash and cash equivalents at end of the year</b>		<b>59</b>	<b>27</b>

The notes in pages 92 to 110 form an integral part of these financial statements.



DEEP SEA SUPPLY PLC

## Notes to the Parent Company Financial Statements

### 1. General information

Deep Sea Supply PLC's ("Company") principal activities are to engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore supply vessel business. The Company and its subsidiaries are collectively referred to as "the Group".

The Company was incorporated as a public limited liability company on 7 November 2006 and is domiciled in Cyprus in accordance with the provisions of the Companies Law, Cap. 113. Its registered office is at John Kennedy, Iris House, 7th Floor, Limassol, Cyprus.

The Company has its primary and only listing on the Oslo Stock Exchange and trades under the symbol DESSC.

These parent's separate financial statements have been approved for issue by the Board of Directors on 12 April 2017.

These financial statements are prepared for the year ending 31 December 2016 as separate financial statements. The Company has prepared these separate financial statements to comply with the Cyprus Transparency Requirements (securities admitted to Trading on Regulated Markets) laws of 2007 to 2016 as amended (the "Law") and the Cyprus Income Tax Laws and Regulations.

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU for the Company and its subsidiaries (the "Group"). The consolidated financial statements can be obtained from the Company's registered office.

Users of these parent's separate financial statements should read them together with the Company's consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

### 2. Accounting principles

#### 2.1 Statement of compliance and basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities, including derivative financial instruments at fair value through profit or loss.

#### Adoption of new and revised IFRSs

The adoption of new and revised IFRSs at 1 January 2016 did not have any material impact on the Company's separate financial statements.

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below:

- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016\*). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

\* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

The Company is assessing the impact of the amendment on its financial statements after its endorsement by the European Union.

#### 2.2 Underlying concepts

The financial statements are prepared on the going concern basis using accrual accounting.



Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to set off exists and the intention is either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the IFRS standards. If no such guidance is given, they are applied retrospectively, unless it is impracticable to do so, in which case they are applied prospectively.

## 2.3 Investments in subsidiary undertakings

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Investments in subsidiary undertakings are stated at cost and provision is only made where, in the opinion of the Directors, there is impairment in their value.

## 2.4 Investments in Joint Ventures

Investments in joint ventures are stated at cost and provision is only made where, in the opinion of the Directors, there is impairment in value.

## 2.5 Revenue recognition

### Dividend income

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

### Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

## 2.6 Recognition of assets and liabilities

Assets are only recognized if they meet the definition of an asset, it is probable that future economic benefits associated with the asset will flow to the Company and the cost or fair value can be measured reliably.

## 2.7 Foreign exchange translation

### (i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States dollars (US\$), which is the Company's functional and presentation currency. All amounts in these financial statements are in US\$1,000 unless otherwise stated.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

## 2.8 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

### (a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management, and they meet certain criteria (IAS 39.9). Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. The company did not hold any investments in this category.

### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date. The company did not hold any investments in this category.



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Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other (losses)/gains – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Company's right to receive payment is established.

#### d) Held to maturity financial assets

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity that do not meet the definition of loans and receivables. During the year, the Company did not hold any investments in this category.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

## 2.9 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

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

The fair values of various derivative instruments used for

hedging purposes are disclosed in note 10. Movements on the hedging reserve in other comprehensive income are shown in Statement of Changes of Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### Cash flow hedge

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

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

When the Company provides guarantees to parties outside the Group for any losses suffered in derivatives due to breach of contract, a provision is made for the fair value of the derivative when the loss becomes probable.

## 2.10 Cash and cash equivalents

Cash and cash equivalents, includes cash in hand and deposits held at call with banks.

## 2.11 Share capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

## 2.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement over the period of the borrowings using the effective



interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalized as part of the cost of the asset.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss on extinguishment is recognised in profit or loss except to the extent that it arises as a result of transactions with shareholders acting in their capacity as shareholders when it is recognised directly in equity. The terms are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

## 2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2.14 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In these cases, the tax is also recognized in equity.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## 2.15 Provisions

Provisions represent liabilities of uncertain timing or amount.

Provisions are recognized when the Company has a present legal or constructive obligation, as a result of past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2.16 Dividend income

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

## 2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders until payment is made.

## 2.18 Earnings per share

Earnings per share are calculated by dividing the net profit/loss for the Company by the average weighted number of outstanding shares over the period in question. Diluted earnings per share include the effect of the assumed conversion of potentially dilutive instruments such as stock options.



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## 2.19 Statement of cash flows

The statement of cash flows is presented in accordance with the indirect method.

## 2.20 Share based payments

Employees of the subsidiaries of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments such as options to buy shares of the Company. The cost of equity-settled transactions is measured by reference to the fair value at the date on which the award is granted. The fair value is determined using appropriate valuation models.

The cost of equity settled transactions is recognised as an

expense, together with a corresponding increase in reserves within equity, over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period the entity revises the estimates of the number of options that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. Where the terms of the share option scheme is modified to be settled in cash rather than in equity instruments, the entity measures the liability initially using the modification date fair value of the equity-settled award based on the elapsed portion of the vesting period. This amount is then recognized as a credit to liability and a debit to equity. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognized in profit and loss.

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## 3. Financial risk management

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The Company's normal business exposes it to various financial risks.

### 3.1 Market risk

#### Currency rate risk

One risk is the foreign exchange risk. The Company is exposed to that risk mainly due to the amounts due to and from related parties. The main currencies that the Company is exposed to are Norwegian Kroner (NOK) and Euro (EUR). A variation of +/- 10% in the rate of exchange of USD/NOK would affect the Company by USD 58 in 2016 (2015: USD 21). A variation of +/- 10% in the rate of exchange of USD/EUR would affect the Company by USD 13 in 2016 (2015: USD 22).

#### Interest rate risk

The Company is exposed to interest rate risk due to borrowings and cash at banks. The risk due to cash held at banks is immaterial as the Company does not intend to hold material liquid reserves in fixed deposits. The impact of interest rate fluctuations is USD 48 if interest rates fluctuate by +/- 10 basis points (2015: USD 49).

#### Liquidity risk

The Company monitors its risk to a shortage of funds by closely monitoring the projected cash flow from operations, financial expenses and investment expenditure. The Company maintains sufficient cash for its daily operations via short term cash deposits at banks.

The table below analyses the company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.



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	Less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
<b>At 31 December 2016</b>						
Interest bearing loans and borrowings	989	7 854	51 077	6 949	589	67 458
Trade and other payables	32	96	-	-	-	128
	<b>1 021</b>	<b>7 950</b>	<b>51 077</b>	<b>6 949</b>	<b>589</b>	<b>67 586</b>

	Less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
<b>At 31 December 2015</b>						
Interest bearing loans and borrowings	1 495	48 748	-	-	-	50 243
Derivative financial instruments	138	322	-	-	-	460
Trade and other payables	32	98	-	-	-	131
	<b>1 665</b>	<b>49 168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50 833</b>

The company also has financial guarantees with related party as disclosed in Note 14.

### 3.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

There were no derivatives as at 31 December 2016.

#### 31 December 2015

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives used for hedging	-	221	-	221
	<b>-</b>	<b>221</b>	<b>-</b>	<b>221</b>

### 3.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The Gearing Ratios at 31 December 2016 and 31 December 2015 were as follows:

	2016	2015
Total Borrowings (Note 8)	61 473	48 630
Less: Cash and bank balances (Note 6)	(59)	(27)
<b>Net Debt</b>	<b>61 414</b>	<b>48 602</b>
Total Equity	131 536	297 347
<b>Total Capital as defined by management</b>	<b>192 950</b>	<b>345 949</b>
	32 %	14 %



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## 4. Critical Accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Impairment of subsidiaries

The Company performs an impairment test of its subsidiaries when there are indicators for impairment in accordance with the relevant accounting policy. When estimating the recoverable amounts of the subsidiaries the Management has considered the recoverable amounts of the underlying vessels owned by the subsidiaries.

For subsidiaries where the recoverable amount was estimated using value in use, the value in use of the investment was estimated based on the Company's share of the present value of the subsidiary's estimated cash flows less the fair value of the outstanding debt. The key assumptions used for the value in use estimates was the utilisation rate, daily income, daily operating expenses and the discount rate.

For subsidiaries where the recoverable amount was estimated using fair value less costs to sell, the fair value was estimated based on the fair value of the underlying vessels less the fair value of the outstanding debt. The fair value of the underlying vessels was estimated by obtaining third party professional valuations from two different independent valuers and by adjusting to incorporate specific characteristics that market participants consider when pricing the asset, which include, but is not limited to, capital commitments and costs relating to reusing laid-up vessels. For vessels that are in contracts maturing post-year end, the value of the firm contract was added to the fair value less costs to sell.

Based on the above, the recoverable amount of the Company's subsidiaries at 31 December 2016 and 31 December 2015 was lower than balance sheet value and an impairment charge of USD 185,514 (2015: USD 114,232) was recognised in the statement of comprehensive income as disclosed in Note 5.

A 10% change in the main assumptions used in the impairment testing of the subsidiaries whose recoverable amount was based on the value in use of the underlying vessels would have the following effect on carrying amounts of subsidiaries and profit for the year:

	<b>Decrease on Carrying amount of subsidiaries &amp; profit for the year</b>
<b>Year Ended 31 December 2016</b>	
10% decrease in utilization	(17 870)
10% increase in daily operating expenses	(16 723)
10% increase in discount factor	(15 547)
10% decrease in revenue growth	(4 726)
<b>Year Ended 31 December 2015</b>	
10% decrease in utilization	(7 047)
10% increase in daily operating expenses	(6 931)
10% increase in discount factor	(6 664)
10% decrease in revenue growth	(2 152)



For the subsidiaries for which the recoverable amount was based on fair value less costs to sell of the underlying vessels, a 10% decrease in the valuation of the brokers would have the following effect:

	<b>Decrease on Carrying amount of subsidiaries &amp; profit for the year</b>
<b>Year Ended 31 December 2016</b>	
10% decrease in brokers valuation	(949)
<b>Year Ended 31 December 2015</b>	
10% decrease in brokers valuation	(11 065)

#### **(b) Impairment of investment in Joint Ventures and financial guarantees**

As at 31 December 2015, the Company has tested for impairment its investment in its joint ventures being the companies Deep Sea Supply AS and Deep Sea Supply Servicos Maritimos, hereby collectively referred to as "DESS BTG" and has assessed the fair value of the financial guarantees provided in relation to a bank loan of one of the DESS BTG Companies.

As a result of the impairment test carried out at 31 December 2015, the recoverable amount of the investment in DESS BTG was estimated at USD29,003 and an impairment loss of USD162,967 was recognised in the statement of comprehensive income.

In addition, within 2015, the Company has provided a financial guarantee for the bank borrowings of Deep Sea Supply Navegação Marítima Ltda, the JV company owned by one of the Company's subsidiaries. The maximum exposure under this guarantee was the outstanding amount of the loan at year end 31 December 2015 amounting to USD 53,913. The bank borrowings were also secured by a first-priority mortgage over a vessel owned by this JV company. In addition BTG Brasil issued a counter indemnity in favour of the Company, whereby BTG Brasil would indemnify the Company for any claims exceeding 50% of the total liability under the guarantee given under the BNDES Facility. Taking into account the probability assessment above and the estimated value of the other securities over this bank loan, the Management did not expect a liability to arise to the Company in relation to this financial guarantee and estimates its fair value as insignificant.

## **4.2 Critical judgments in applying the Company's accounting policies**

#### **(a) Going concern basis**

The financial statements were prepared in accordance with IFRS, as adopted by EU, on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

The Board of Directors is confident that Norwegian company surviving the merger (Note 20) will continue as a going concern and in making this judgment the Board considered the Company's financial position, current intentions, profitability of operations and access to financial resources, as well as its analysis of the impact of the ongoing conditions and uncertainties in the markets which the Company operates.

The Company incurred a net loss of USD171,617 during the year ended 31 December 2016 and, as of that date, the Company's current liabilities totaled USD 7,995 while its current assets totaled USD71.

When examining the Company's ability to continue as a going concern, the Board of Directors has considered the following factors:

- The Company's cash flow forecasts and projections which are used for managing liquidity indicate that the Company would be able to meet its short term obligations and contractual commitments in the foreseeable future.
- Management has a successful track record in obtaining finance and refinancing financial facilities if the need arises.
- A variety of other factors and maintains flexibility to take other steps to improve liquidity if needed, including control over discretionary spending, disposing of assets and monitoring of the economic conditions in the markets where the Company operates.

Taking into account the above, the Board of Directors has assessed that the going concern basis in preparing the financial statements is appropriate and that there is no material uncertainty over the basis of preparation in this respect.



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## 5. Investment in subsidiaries

	Principal activity	01	2015		31	2016		31
		January 2015	Additions	Impairment	December 2015	Additions	Impairment	December 2016
<b>Cyprus based companies</b>								
DESS Cyprus Ltd	Shipowning	17 724	-	(17 724)	-	-	-	-
DESS PSV Ltd	Shipowning	90 011	-	(40 056)	49 955	-	(28 569)	21 386
DESS Finance Ltd	Financing	33 201	40 000	-	73 201	20 536	(16 652)	77 085
Deep Sea Supply								
Management (Cyprus) Ltd	Management	15	-	(15)	-	950	(243)	707
DESS Sea Eagle Ltd	Shipowning	1	-	-	1	-	(1)	-
DESS Invest Ltd	Investment holding	22 904	-	(10 170)	12 734	-	(12 734)	-
DESS PSV II Ltd	Shipowning	67 341	-	-	67 341	-	(28 688)	38 653
DESS PSV III Ltd	Shipowning	36 990	1	(1 931)	35 060	-	(14 836)	20 224
DESS PSV IV Ltd	Shipowning	75 001	1	(26 907)	48 095	-	(25 106)	22 989
<b>Norwegian based companies</b>								
Deep Sea Supply								
Management AS	Management	52 525	-	(17 429)	35 096	-	(22 574)	12 522
Deep Sea Supply AS*	Investment holding	-	-	-	-	35 815	(35 815)	-
<b>Singapore based companies</b>								
Deep Sea Supply Managemet								
Singapore Pte Ltd	Management	133	-	-	133	544	(296)	381
<b>Brazilian based companies</b>								
Deep Sea Servicos Maritimos*	Management	-	-	-	-	723	-	723
<b>Total</b>		<b>395 847</b>	<b>40 002</b>	<b>(114 232)</b>	<b>321 616</b>	<b>58 567</b>	<b>(185 514)</b>	<b>194 671</b>

All subsidiaries are 100% owned.

\* In 2016, an agreement was reached with DPC Servicos de Oleo e Gas ("DPC") to acquire 50% of the companies Deep Sea Supply AS and Deep Sea Supply Servicos Maritimos. The Company owned 50% of these companies as at 31 December 2015 and the carrying amounts previously included as interest in joint ventures are reclassified as "Additions" during 2016 (Note 12). The consideration paid by the Company for this acquisition was settled through a cash consideration of USD 1,750, issue of share capital to DPC of 30,133,022 ordinary shares and issue of 10,000,000 warrants to DPC at a total value of USD 5,785 (Note 7).

## 6. Cash and cash equivalents

	2016	2015
Cash at bank	59	27
<b>Total bank deposits</b>	<b>59</b>	<b>27</b>

Currency	2016	2015
United State Dollars (USD)	39	-
Norwegian Kroner (NOK)	8	1
Great British Pound (GBP)	11	15
Euro (EUR)	1	11
<b>Total</b>	<b>59</b>	<b>27</b>



## Principal non-cash transactions

The Company had the following non cash transactions in 2016:

- As part of the consideration for the acquisition of the remaining 50% of Deep Sea Supply AS from DPC (Note 5), on 15 September 2016 the Company issued to DPC share capital of 30,133,022 shares and 10,000,000 warrants (Note 7).
- A subsidiary of the Company disposed of a finance leased vessel. Upon disposal, the finance lease was terminated and the finance lease liability of the subsidiary was replaced by a promissory note issued to the Company amounting to USD14,589 bearing interest at 7.25% per annum. The borrowings movement and the corresponding movement in the intercompany balances was excluded from the cash flow statement.
- The Company has subscribed to the share capital issued by subsidiaries as follows:
  - DESS Finance Ltd at an amount of USD 20,536. Out of this amount only USD 6,500 was settled in cash and the remaining amount was used to settle intercompany balances with the Company.
  - Deep Sea Supply Management Singapore Pte Ltd at an amount of USD 544 (Note 5). The whole amount was used to settle the balance with the Company.
- The company had dividend income (Note 14) from subsidiary DESS PSV Ltd at an amount USD 12,805. Out of this amount, USD 11,000 was settled in cash. The remaining amount was used to settle the balance with the Company.

## 7. Share Capital

	Number of Shares (thousands)	Share Capital	Share premium	Other paid- in-capital	Total
Opening balance as at 1 January 2015	261 197	5 224	324 183	1 727	331 133
Valuation of share option scheme	-	-	-	(168)	(168)
<b>At 31 December 2015</b>	<b>261 197</b>	<b>5 224</b>	<b>324 183</b>	<b>1 559</b>	<b>330 965</b>
Opening balance as at 1 January 2016	261 197	5 224	324 183	1 559	330 966
Increase of share capital	30 133	603	4 544	-	5 147
Issue of warrants	-	-	-	638	638
Valuation of share option scheme	-	-	-	21	21
<b>At 31 December 2016</b>	<b>291 330</b>	<b>5 827</b>	<b>328 727</b>	<b>2 218</b>	<b>336 772</b>

The total authorised number of ordinary shares as per 31 December 2016 is 375,000,000 (2015: 375,000,000) shares with a par value of US 2 cents per share. The Company does not own any share of its own. All issued shares are fully paid.

On 15 September 2016, as part of the consideration for purchase of 50% of Deep Sea Supply AS (Note 12), the Company has issued 30,133,022 ordinary shares of US 2 cents at a price of US 17 cents each (total issue was USD 5,147). The share premium arising from this issue was USD 4,544.

Part of the purchase consideration was also the issue of 10,000,000 warrants. For each warrant, DPC is entitled to exercise the right to subscribe for one new share in the Company for the exercise price of NOK 1.24 at any time within the exercise period which is for 3 years from issue date 15 September 2016. The fair value of the warrants as at issue date was USD 638.

### Share option scheme

The board of directors of the Company has approved a share option scheme for directors and certain employees. The exercise price of the granted options is equal to the market price of the shares at date granted plus 10%. All options have expired in 2016.



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Movements in the number of shares options and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price NOK per share	Options	Average exercise price NOK per share	Options
At 1 January	8,49	98 333	10,60	276 668
Expired	8,49	(98 333)	11,76	(178 335)
<b>At 31 December</b>	-	-	<b>8,49</b>	<b>98 333</b>

Share options outstanding at the end of the year had the following expiry date and exercise prices:

Expiry date (as per year ended 31 December 2015)	Exercise price in NOK		Shares
2016		8,49	98 333
<b>At 31 December</b>			<b>98 333</b>

The value of the option is estimated by Hull & White's implementation (2002) for employee stock options of the binomial tree model for the pricing of early exercise equity options.

## 8. Borrowings

	As at 31 December 2016	As at 31 December 2015
<b>Non-current</b>		
Bank borrowings (a)	42 975	-
Loans from third parties (b)	12 238	-
<b>Total Non-current borrowings</b>	<b>55 213</b>	<b>-</b>
<b>Current</b>		
Bank borrowings (a)	4 916	48 630
Loans from third parties (b)	1 344	-
<b>Total Current borrowings</b>	<b>6 260</b>	<b>48 630</b>
<b>Total Borrowings</b>	<b>61 473</b>	<b>48 630</b>

The outstanding loan of the Company's borrowings are denominated in the following currencies :

	As at 31 December 2016	As at 31 December 2015
<b>Borrowings</b>		
USD	61 473	48 630
	<b>61 473</b>	<b>48 630</b>

The maturity of non-current borrowings is as follows :

	As at 31 December 2016	As at 31 December 2015
<b>Borrowings</b>		
Between 1 and 3 years	48 267	-
Between 3 and 5 years	6 364	-
Over 5 years	582	-
	<b>55 213</b>	<b>-</b>



## (a) Bank borrowings

Bank borrowings comprise of loans secured with the following:

- A first priority mortgage in the financed vessels of subsidiaries of USD 390,000 (2015: 390,000).
- Security agreements in relation to the vessels of subsidiaries
- Receivables charges
- Hedging assignment agreement
- Intra-group receivables assignment agreement
- Share pledge agreements in relation to the shares of DESS Cyprus Ltd and DESS PSV Ltd
- Corporate guarantees by Deep Sea Supply PLC, Deep Sea Supply Management AS, DESS Cyprus Ltd and DESS PSV Ltd

The carrying value of borrowings approximate their fair value.

In 2016, the Company has agreed with its senior lender for extensive amendment to its debt facility. The amendments include:

- Commencing from 31 May 2016, the Company will not pay scheduled loan instalments until 31 March 2018 and loan instalments will be deferred until this date. As at 31 December 2016, the Company has deferred instalments of USD 3,414.
- The Company will continue to pay interest following the original repayment schedules. Interest will be calculated using LIBOR + 2.5%
- The Company will also pay interest on deferred instalments. Deferred instalments bear interest of LIBOR+4.25%. Repayment of interest will be quarterly.
- Loan facility of USD 47,916 maturing in October 2016 has been extended until October 2018. This facility will follow the terms described above.
- In addition to the above, the Company has secured a waiver on the minimum value adjusted equity ratio and value adjusted equity covenant. Also minimum consolidated free cash covenant will be reduced to USD 20 million and the minimum value covenant will be reduced to 100% until 31 March 2018.

The effective interest rate of company's bank borrowings is 4.32% (2015: 2,86%).

## (b) Loans from third parties

During 2016, a subsidiary of the Company disposed of a finance leased vessel. Upon disposal, the finance lease was terminated and the finance lease liability of the subsidiary was replaced by a promissory note issued to the Company amounting to USD14.589 bearing interest at 7.25% per annum. Payments of interest and instalments for this promissory note, are on a monthly basis and is fully repayable by 07 January 2022.

## (c) Loan covenants

Under the bank borrowings and third party loans, the Company is required to comply with certain financial and non-financial covenants. The main financial covenants include:

- Minimum liquidity of not less than US\$20 million combined at Group level; and
- Minimum market value on certain group vessels of not less than 100% of the total debt.

If any of the loan covenants are breached, this could depending on the terms of each loan agreement constitute an event of default and in certain cases the repayment of the loan can be accelerated by the lender or in other cases the Company would need to take actions to remedy such breaches. As at 31 December 2016, the Company was in breach of the loan covenants under 2 separate loan agreements which did not give rise to events of default which would trigger acceleration of all the loan facilities and classify them as current as at the balance sheet date. As a result of these breaches the Company has classified an amount of USD 4.9 million as current.



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## 9. Credit quality of financial assets

### Cash at bank

The ratings for the banks where the Company holds its cash at bank and short term deposits are as follows:

#### For the year ended 31 December 2016:

Credit Rating	Amount
Aa2	59
<b>Total</b>	<b>59</b>

#### For the year ended 31 December 2015:

Credit Rating	Amount
Aa2	27
<b>Total</b>	<b>27</b>

Ratings shown above were issued by the credit agency of Moody's as at 31 December 2016.

## 10. Financial instruments by category

31 December 2016	Loans and Receivables	Total
<b>Assets as per balance sheet</b>		
Trade and other receivables	12	12
Cash and cash equivalents	59	59
<b>Total</b>	<b>71</b>	<b>71</b>

	Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>		
Borrowings	61 473	61 473
Trade and other payables	1 735	1 735
<b>Total</b>	<b>63 208</b>	<b>63 208</b>

31 December 2015	Loans and Receivables	Total
<b>Assets as per balance sheet</b>		
Trade and other receivables	430	430
Cash and cash equivalents	27	27
<b>Total</b>	<b>457</b>	<b>457</b>

	Derivatives used for hedging	Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>			
Borrowings	-	48 630	48 630
Derivative financial instruments	221	-	221
Trade and other payables	-	4 879	4 879
<b>Total</b>	<b>221</b>	<b>53 509</b>	<b>53 730</b>



## 11. Other short term payables

	2016	2015
Trade payables	128	130
<b>Total</b>	<b>128</b>	<b>130</b>

Trade and other payables are denominated in the following currencies:

Currency	2016	2015
United State Dollars (USD)	9	123
Norwegian Kroner (NOK)	77	1
Euro (EUR)	42	6
Great British pound (GBP)	-	-
<b>Total</b>	<b>128</b>	<b>130</b>

## 12. Investment in Joint Ventures

The Company's investment in Joint Ventures are:

	2016	2015
<b>Deep Sea Supply AS</b>		
Opening 01 January	28 281	190 186
Impairment	-	(161 907)
Additions	-	2
Reclassification to investment in subsidiaries (Note 5)	(28 281)	-
<b>Balance 31 December</b>	<b>-</b>	<b>28 281</b>
<b>Deep Sea Supply Servicios Ltda</b>		
Opening 01 January	723	1 133
Impairment	-	(1 060)
Additions	-	650
Reclassification to investment in subsidiaries (Note 5)	(723)	-
<b>Balance 31 December</b>	<b>-</b>	<b>723</b>
<b>DESS Aquaculture Shipping AS</b>		
Opening 01 January	-	-
Additions	2	-
<b>Balance 31 December</b>	<b>2</b>	<b>-</b>

### 31 December 2016

On 15 September 2016 the Company acquired the remaining of 50% of Deep Sea Supply AS and Deep Sea Supply Servicios Ltda (Note 5).

The Company together with Marine Harvest ASA ("Marine Harvest") has established a 50/50 owned aquaculture shipping joint venture DESS Aquaculture Shipping AS ("DESS Aqua"). DESS Aqua will be engaged to build, own and operate aquaculture vessels.

### 31 December 2015

On 30 March 2015, the Company contributed to the increase in the share capital of Deep Sea Supply Servicios Ltda. The Company subscribed for 7,875,765 ordinary shares at a total cash consideration of USD 650.

On 23 September 2015, Deep Sea Supply BTG BV merged with the Norwegian company Deep Sea Supply BTG AS. The Company has contributed USD 2 as increase in equity of Deep Sea Supply BTG AS.



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## 13. Administrative expenses

	2016	2015
Audit fees	63	18
Consultancy fees	458	257
Management fees from subsidiaries	590	678
Other administration expenses	218	205
<b>Total</b>	<b>1 329</b>	<b>1 158</b>

## 14. Related party transactions

### Remuneration to the board

The remuneration to the Board in 2016 is USD 96 (NOK 0.816 million), whereof USD 41 (NOK 0.35 million) is payment to the Chairman. In 2015 payment to the board was USD 95 (NOK 0.75 million), where of USD 44 (NOK 0.35 million) was payment to the Chairman.

### Amounts due to related Parties

	2016	2015
Deep Sea Supply Labuan II Ltd	-	3 000
Deep Sea Supply Management AS	622	788
Deep Sea Supply Shipowning AS	300	691
DESS Finance Ltd	453	85
DESS PSV III Ltd	48	48
DESS Sea Eagle Ltd	-	46
Deep Sea Supply Management (Cyprus) Ltd	2	32
Deep Sea Supply Navegasao Maritima Ltda	-	24
DESS Cyprus Ltd	-	14
DESS Invest Ltd	8	9
DESS PSV II Ltd	171	5
DESS PSV Ltd	-	3
Deep Sea Supply AS (formerly Deep Sea Supply BTG AS)	3	3
DESS PSV IV Ltd	-	1
<b>Total</b>	<b>1 607</b>	<b>4 749</b>

The balances are payable on demand and are not secured.

### Interest on intercompany balances

	2016	2015
Interest expense	(57)	(16)
<b>Total</b>	<b>(57)</b>	<b>(16)</b>



## Amounts due from related parties

At 31 December 2016, DESS Aquaculture Shipping AS owed the Company USD 10 (2015: Nil). An amount of USD 2 (2015: Nil) was owed to the Company by other subsidiaries.

	Dividend received		Impairment of investment in subsidiaries	
	2016	2015	2016	2015
DESS Cyprus Ltd	-	-	-	(17 724)
DESS PSV Ltd	12 805	31 000	(28 569)	(40 056)
DESS Finance Ltd	1 500	-	(16 652)	-
DESS Sea Eagle Ltd	97	-	(1)	-
Deep Sea Supply Management AS	-	-	(22 574)	(17 429)
DESS PSV II Ltd	-	6 000	(28 688)	-
DESS PSV III Ltd	-	-	(14 836)	(1 931)
DESS PSV IV Ltd	-	4 000	(25 106)	(26 907)
DESS Invest Ltd	4 000	-	(12 734)	(10 170)
Deep Sea Supply Management (Cyprus) Ltd	-	-	(243)	(15)
Deep Sea Supply Management Singapore Pte Ltd	-	-	(296)	-
Deep Sea Supply AS	-	-	(35 815)	-
<b>Total</b>	<b>18 402</b>	<b>41 000</b>	<b>(185 514)</b>	<b>(114 232)</b>

## Management fees

For 2016, the Company recognized management fees charged from subsidiaries that amounted to USD 590 (2015: USD 678) (Note 13).

## Financial guarantees to related parties

The Company acts as a guarantor in relation to bank borrowings and finance lease liabilities on the liabilities of following companies:

- Deep Sea Supply Navegação Marítima Ltda
- DESS Labuan Ltd
- DESS PSV II Ltd
- DESS PSV III Ltd
- DESS PSV IV Ltd
- Deep Sea Supply Shipowning AS
- Deep Sea Supply Shipowning I AS
- Deep Sea Supply Shipowning II AS
- Deep Sea Supply Shipowning III AS

In accordance with the terms of the financial guarantee contracts, the Company is required to make payments to reimburse the counterparty upon failure of the above companies to make payments when due. The Management does not expect the Company to suffer any financial loss and accordingly no provision has been made in respect of this matter.

## 15. Income tax expenses

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2016	2015
Loss before tax	(171 617)	(76 731)
Tax calculated at the applicable corporation tax rate of 12,5%	(21 452)	(9 591)
Tax effect of expenses not deductible for tax purposes	31 914	18 650
Tax effect of allowances and income not subject to tax	(10 612)	(9 132)
Tax losses for which no deferred tax asset was recognised	150	73
<b>Total</b>	<b>-</b>	<b>-</b>



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## 16. Earnings per share

### Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Total number of outstanding shares as per year-end 2016 was 291,330,216 (2015: 261,197,194).

	2016	2015
Loss attributable to equity holders of the company	(171 617)	(239 697)
Weighted average number of ordinary shares (thousands)	270 007	261 197
<b>Basic earnings per share (USD per share)</b>	<b>(0,636)</b>	<b>(0,918)</b>

### 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's only category of dilutive potential to ordinary shares is the warrants issued as part of the consideration for purchase of 50% of Deep Sea Supply AS (Note 5). As at 31 December 2016 there was a dilutive effect of the warrants as they were in the money. As at December 2015, the only category of dilutive potential to the ordinary shares was the share options. Share options were granted to the Board of Directors and management, and as per year end 2015 there were totaling 98,333 share options outstanding. The share options were not included in the diluted number of shares as at 31 December 2015 because they were out of the money.

	2016	2015
Loss attributable to equity holders of the company	(171 617)	(239 697)
Weighted average number of ordinary shares (thousands)	270 683	261 197
<b>Diluted earnings per share (USD per share)</b>	<b>(0,634)</b>	<b>(0,918)</b>

## 17. Auditors remuneration

Remuneration to the statutory auditors in the financial statement for 2016 equals USD 82 (2015: USD 16) for audit services, USD 62 (2015: USD 30) for other assurance services and USD 8 (2015: Nil) for non-assurance services.

## 18. Financial expenses

	2016	2015
Interest on Bank Borrowings	1 556	1 468
Amortization of borrowing costs	429	508
Interest on promissory note (Note 8)	831	-
Other financial expenses	90	111
<b>2 906</b>	<b>2 906</b>	<b>2 087</b>

## 19. Contingencies & commitments

### (a) Operating environment of the Company

The Company's subsidiaries are operating offshore supply vessels. The demand for offshore supply vessels depends on the level of activity in the offshore oil industry, which is significantly affected by, among other things, volatile oil prices and may be materially and adversely affected by the current significant decline in prices. Declines in oil prices for an extended period of time could continue to negatively affect the Company's business; reduced demand for vessels which could result in vessels being idle for long periods of time and put in lay-up.

Management believes that the market for OSV will become highly competitive in the short to medium term due to these events. Management estimates that the vessels put in lay-up will remain in this state until 2020 when the market is expected to recover.

The operating vessels are being marketed and the Company is actively participating in various tenders in order to secure employment of the vessels of its shipowning subsidiaries.

The Company's management has assessed:

- (1) Whether recognition of impairment provisions are deemed necessary for the Company's ship owning subsidiaries; and
- (2) The ability of the Company to continue as a going concern as explained further in Note 4.

The Company's management is unable to accurately predict the future developments in the industry, and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company.

The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current challenging business and economic environment.

### (b) Guarantee disclosures

The Company's financial guarantees are disclosed in Note 14.





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## 20. Events after the balance sheet

On 6 February 2017, Farstad Shipping ASA ("FAR" or "Farstad"), Aker Capital AS ("Aker"), Hemen Holding Limited ("Hemen"), FAR's largest lenders (the "Lenders"), a major part of FAR's bondholders (the "Bondholders"), as well as F-Shiplease AS signed an extensive and fully financed restructuring agreement (the "Restructuring Agreement") of the FAR Group (the "FAR Restructuring"). The FAR Restructuring was completed 9 March 2017. Aker, Hemen, the Lenders and the Bondholders as well as SOFF Invest AS and Ivan II AS and Tyrholm & Farstad AS, Tyrholm & Farstad Invest AS, Sverre A. Farstad and Jan H. Farstad also announced on 6 February that they agreed to work for a merger between Solstad Offshore ASA ("SOFF" or "Solstad"), FAR and DESSC after the completion of FAR Restructuring (the "Combination").

The board of directors of SOFF, FAR and DESSC are of the opinion that a consolidation in the industry is required. After concluding the Restructuring Agreement the board of directors of the mentioned companies have discussed the possibilities for a merger of the operations of the three companies and have concluded that such merger will be advantageous for all companies. The Combination will result in the incorporation of a world leading OSV company, with a fleet of totally 154 vessels. The merged group will operate a fleet consisting of 33 CSV, 66 PSV and 55 AHTS vessels.

As part of the Combination, a cross-border merger will take place between the Company and Solship Sub AS, a Norwegian entity recently incorporated and wholly owned subsidiary of Solship Invest 3 AS ("Solship Invest 3"), which again is a recently incorporated wholly owned subsidiary of SOFF. Solship Sub AS will be the surviving company of the merger.

The statutory merger plans have been approved and signed by the boards of Solstad, Farstad, DESSC and Solstad's relevant subsidiaries, into which Farstad and DESSC will be merged, as at 24 March 2017.

To facilitate the combination of the three companies, the board of directors of SOFF, FAR, DESSC and Solstad's relevant subsidiaries, into which FAR and DESSC will be merged, have agreed on 24 March 2017 on the following merger plans:

(i) merger plan between SOFF, FAR and SOFF's wholly owned subsidiary Solship Invest 2 AS ("Solship Invest 2") to merge FAR with Solship Invest 2 with the latter as the surviving entity and with settlement in ordinary SOFF shares to the shareholders of FAR (the "SOFF-Farstad Merger");

(ii) merger plan between DESSC and Solship Sub AS ("Solship Sub"), a wholly owned subsidiary of SOFF's wholly owned subsidiary Solship Invest 3 AS ("Solship Invest 3"), to merge DESSC with Solship Sub in a cross border merger with the latter as the surviving entity and with settlement in shares in Solship Sub to the shareholders of DESSC (the "DESSC Merger 1"); and

(iii) merger plan between SOFF, Solship Invest 3 and Solship Sub to merge Solship Sub with Solship Invest 3 with the latter as the surviving entity and with settlement in ordinary SOFF shares to the shareholders of Solship Sub (the "DESSC Merger 2").

The three mergers are collectively referred to as the "Mergers". Completion of the Mergers shall take place in parallel, and completion of each of the mergers is dependent upon completion of the other two mergers.

As a condition for completion of the Mergers, a NOK 200 million private placement of SOFF shares shall be directed towards Hemen Holding Ltd ("Hemen") (a company indirectly controlled by trusts established by John Fredriksen for the benefit of his immediate family) at a subscription price of NOK 12.50 per share, implying a subscription by Hemen of 16,000,000 new SOFF shares. Furthermore, SOFF's existing NOK 250 million convertible loan from Aker Capital AS ("Aker"), a wholly owned subsidiary of Aker ASA, shall be converted to shares or discharged by exercise of warrants, in each case at a subscription price of NOK 12.50, resulting in 20,000,000 new shares for Aker. In addition, SOFF's class A and class B shares shall be converted into one class of ordinary shares.

Other conditions for completion of the Mergers include, among other things, the receipt of all required consents from bank lenders, bondholders (as applicable) and other contracting parties, necessary approvals from competition and other regulatory authorities, the harmonisation of existing financing agreements of SOFF and DESSC with the amended financing terms of FAR's financing agreements, as well as the continued listing of SOFF on the Oslo Stock Exchange.

The board of directors of the Company have sent a notice for an Extraordinary General Meeting on 25 April 2017 for the shareholders to consider the approval of DESSC Merger 1, the associated director's report, the expert's statement from FGH Revisjon AS and the dissolution of the Company without liquidation, as a consequence of and following the merger.





DEEP SEA SUPPLY PLC



## Independent auditor's report To the Members of Deep Sea Supply Plc

### Report on the audit of the parent company financial statements

#### Our opinion

In our opinion, the accompanying financial statements of parent company Deep Sea Supply Plc (the "Company"), give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

#### What we have audited

We have audited the financial statements which are presented on pages 88 to 110 and comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

#### Basis for opinion

We conducted our audit in accordance with 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### Emphasis of Matter

We draw attention to Note 20 of the financial statements, which describes the effects of the proposed transaction between the Group, Farstad Shipping ASA and Solstad Offshore ASA which was announced on 6 February 2017. Our opinion is not modified in respect of this matter.

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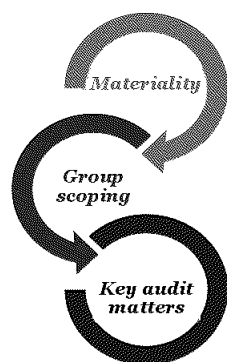
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## Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we considered the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## Overview



### Materiality

Overall materiality: US\$1,9 million that represents 1% of total assets.

### Audit scope

We audited the complete financial statements of parent company Deep Sea Supply Plc.

### Key Audit Matters

We have identified the following key audit matters:

- Impairment assessment of investments in subsidiaries
- Loan covenants

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



DEEP SEA SUPPLY PLC



Overall materiality	US\$1,9 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	<p>We chose total assets as the most appropriate benchmark, because, in our view:</p> <ul style="list-style-type: none"> <li>it is the benchmark against which the performance of the Company (the principal activity of the Company is the holding of investments) is most commonly measured by users; and</li> <li>it is a generally accepted benchmark.</li> </ul> <p>We chose 1% threshold which is within the range of acceptable quantitative materiality thresholds.</p>

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above US\$97 thousands, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**How we tailored our audit scope**

Our audit included full scope audit procedures on the financial statements of Deep Sea Supply Plc.

We have obtained sufficient and appropriate audit evidence regarding the financial information of the Company to provide a basis for our audit opinion on the financial statements.

**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.

Key audit matter	How our audit addressed the Key audit matter
<i>Impairment assessment of investments in subsidiaries</i>	
<p>Refer to Note 5 – Investments in subsidiaries.</p> <p>In line with the Company’s accounting policy for impairment of non-financial assets, as disclosed in Note 2 of the financial statements, the Board of Directors has assessed that there impairment indicators were present for the Company’s subsidiaries as of 31 December 2016 and has carried out an impairment test. Each individual subsidiary was assessed as a separate cash generating unit (“CGU”).</p>	<p>We obtained management’s impairment models prepared as of 31 December 2016 and evaluated the valuation inputs and assumptions, methodologies and calculations applied by management and approved by the Company’s Board of Directors.</p>



Key audit matter	How our audit addressed the Key audit matter
<p>We focused on this area given the relative size of investments in subsidiaries and given that the assessment of the recoverable amount is complex and involves significant judgement.</p> <p>For subsidiaries where the recoverable amount was estimated using value-in-use ("VIU"), the VIU of the investment was estimated based on the Company's share of the present value of the subsidiary's estimated cash flows less the fair value of the outstanding debt. The key assumptions used for the value in use estimates was the utilisation rate, daily income, daily operating expenses and the discount rate.</p> <p>For subsidiaries where the recoverable amount was estimated using fair value less costs to sell, the fair value was estimated based on the fair value of the underlying vessels less the fair value of the outstanding debt. The fair value of the underlying vessels was estimated by obtaining third party professional valuations from two different independent valuers, by calculating the average and by adjusting to incorporate specific characteristics that market participants consider when pricing the asset, which include, but is not limited to, charter commitments and costs relating to reusing laid-up vessels.</p> <p>Based on the results of the impairment tests carried out, an impairment charge of US\$185.5 million was recognised resulting in the carrying amount of the investments in subsidiaries being written down to their recoverable amount.</p>	<p>We challenged management's key assumptions underlying the cash flow forecasts, such as the projected vessels utilization, daily income, daily operating expenses and discount rates, and compared to management's internal forecasts and long term strategic plans that were approved by the Company's Board of Directors. We considered publicly available information, in particular in relation to estimates for macroeconomic assumptions.</p> <p>We evaluated the competency and objectivity of the external brokers used by the Company and we compared the range of values derived from the 2 independent brokers with the VIU estimates for reasonability.</p> <p>We assessed management's sensitivity analysis and modelled potential alternative outcomes to assess the potential impact on the overall conclusion in the event of different outcomes, focusing on those assumptions that created the most variability on the overall model results.</p> <p>We lastly evaluated the adequacy of the disclosures made in Note 4 of the financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions.</p>
<p><i>Loan covenants</i></p>	
<p>Refer to Note 8 – Borrowings.</p> <p>We focused on this area due to the size of borrowings of the Company and the impact these may have on the financial statements.</p>	<p>We have reviewed the loan agreements and discussed and challenged the conclusions reached by the Board of Directors.</p> <p>We lastly evaluated the adequacy of the disclosures made in Note 8 of the financial statements.</p>



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Key audit matter	How our audit addressed the Key audit matter
<p>Under the bank borrowings and third party loans, the Company is required to comply with certain financial and non-financial covenants. If any of the loan covenants are breached, this could, depending on the terms of each loan agreement, constitute an event of default and in certain cases the repayment of the loan can be accelerated by the lender or in other cases the Company would need to take actions to remedy such breaches. As at 31 December 2016, the Company was in breach of certain loan covenants under 2 separate loan agreements which did not give rise to events of default which would trigger acceleration of all the loan facilities and classify them as current as at the balance sheet date.</p>	

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management Report and the Company's complete Annual Report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors 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, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### 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 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 the 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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



DEEP SEA SUPPLY PLC



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given therein is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.



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Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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The engagement partner on the audit resulting in this independent auditor's report is Yiangos Kaponides.

Yiangos Kaponides  
Certified Public Accountant and Registered Auditor  
for and on behalf of

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

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12 April 2017



DEEP SEA SUPPLY

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RJ Brazil

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65009 Odessa  
Ukraine



## Directors' report 2016

### Background and activities

The company was established in October 2006 and became operational 1st of January 2007.

Deep Sea Supply Management AS ("The Company") is a management company performing management services on behalf of other companies in the Group of companies owned by Solship Invest 3 AS, a fully owned subsidiary of Solstad Offshore ASA, a public listed company in the Oslo Stock Exchange. The company was previously owned by Deep Sea Supply Plc. Deep Sea Supply Plc was a company domiciled in Limassol, Cyprus and listed on Oslo Stock Exchange and the owner of a fleet of Anchor handling vessels and Platform supply vessels. As of 22 June 2017, Deep Sea Supply PLC was merged with Solship Invest 3 AS. For more information you can visit <https://www.solstadfarstad.com/>.

Deep Sea Supply Management AS was merged with Deep Sea Supply AS in 2008. Deep Sea Supply Management is the owner of all shares in the Norwegian based subsidiary Deep Sea Supply Shipowning AS, and the owner of 50% of the shares in the Brazilian based subsidiary Deep Sea Supply Navegação Marítima Ltda. The Company is based in Grimstad.

The following services are performed by Deep Sea Supply Management AS; Chartering and Operations of vessels in cooperation with sister companies in Brazil and Singapore and in addition some administrative tasks. Consolidated financial Statements and reporting and other administrative services are performed by the company Deep Sea Supply Management (Cyprus) Ltd, domiciled in Cyprus.

Deep Sea Supply Management AS employed 15 people as per. 31.12.2016, 13 men and 2 women.

### Revenue and profit

The Company's revenues were mainly from Management fee from sister companies. The costs of the company are salary costs and other operating costs. The Company received a dividend from its wholly owned subsidiary, Deep Sea Supply Shipowning AS of MUSD 8.0. The company has a profit after tax of MUSD 8.3 in 2016.

The equity of the Company is MUSD14.9. The Board considers the equity size as satisfactory.

The Financial statement of 2016 gives a true and fair view of development and performance of the Company.

### Going concern

The financial statements are prepared on a going concern basis.



#### Financial risk

Below, we will explain some key risk factors;

#### Credit risk

The company's income derives from sister companies. A prolonged negative market development in anchor handling and supply vessels segment will weaken revenue for the whole group and thus their ability to service their debts to Deep Sea Supply Management AS.

#### Health, safety and environment

The working environment is considered to be very good and there have been no accidents at work of any kind during the year. There have been no long-term sick leave or injury during the year and the total sickness absence is very low. The company does not pollute the environment.

#### Equality

Of the company's 15 employees, 2 were women. The company does not discriminate between women and men in employment processes.

#### Allocation of Profit 2016 – Deep Sea Supply Management AS

Net profit after tax is MUSD 8.3. The profit will be transferred to other equity.

#### Events after the balance sheet date

The Company has sold its wholly owned subsidiary in 2017, for a sales price of MUSD 16.0 to Deep Sea Supply AS.

Grimstad, 28th June 2017

Anders Hall Jomaas

Jon Are Gummedal

Tallak Strandenæs

Chairman



## Deep Sea Supply Management AS

### Income Statement

(Amounts in USD 1000)

	Note	2016	2015
Operating Revenues	7	4 258	4 091
<b>Total Operating Revenues</b>		<b>4 258</b>	<b>4 091</b>
Salaries	9, 10	2 893	2 801
Depreciation	2	30	54
Impairment investments		0	9 700
Other Operating Expenses	9, 12	1 084	1 033
<b>Total Operating Expenses</b>		<b>4 007</b>	<b>13 687</b>
<b>Operating profit/loss</b>		<b>251</b>	<b>-9 496</b>
Interest income from group companies	13	189	54
Received dividend	13	8 000	0
Other financial income from group companies	13	0	178
Net currency items	13	260	0
Interest expenses from group companies	13	363	335
Other financial expenses	13	3	21
Other losses	13	61	1 025
<b>Ordinary Result before Taxes</b>		<b>8 273</b>	<b>-10 645</b>
Taxes	4	0	-98
<b>Ordinary Result after Taxes</b>		<b>8 273</b>	<b>-10 547</b>
<b>Net Income</b>		<b>8 273</b>	<b>-10 547</b>
<b>Transfers</b>			
Retained equity		8 273	-10 547
<b>Total transfers</b>		<b>8 273</b>	<b>-10 547</b>



## Deep Sea Supply Management AS

### BALANCE SHEET PR. 31.12

(Amounts in USD 1000)

Assets	Note	2016	2015
Operating movable property, furniture, tools, other	2	147	130
<b>Total tangible assets</b>		<b>147</b>	<b>130</b>
Investment in joint ventures	11	0	7 438
Investments in subsidiaries	11	12 761	3 573
<b>Total fixed financial assets</b>		<b>12 761</b>	<b>11 011</b>
			-
<b>Total Fixed Assets</b>		<b>12 908</b>	<b>11 141</b>
Other short-term receivables		86	7 832
Receivables group companies	6	4 321	0
<b>Total Receivables</b>		<b>4 407</b>	<b>7 832</b>
Cash and deposits	8	795	1 341
<b>Total Current Assets</b>		<b>5 202</b>	<b>9 173</b>
<b>TOTAL ASSETS</b>		<b>18 110</b>	<b>20 314</b>

**Deep Sea Supply Management AS****BALANCE SHEET PR. 31.12**

(Amounts in USD 1000)

<b>Equity and Liabilities</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Share Capital	5, 3	90	90
Share Premium reserve	3	283	283
<b>Total paid - in equity</b>		<b>373</b>	<b>373</b>
Retained Equity	3	14 544	6 270
<b>Total retained earnings</b>		<b>14 544</b>	<b>6 270</b>
<b>TOTAL EQUITY</b>	<b>3</b>	<b>14 917</b>	<b>6 643</b>
Pension Liabilities	10	0	-45
<b>Total allowances for liabilities</b>		<b>0</b>	<b>-45</b>
Trade creditors		776	718
Other current not interest-bearing debt	6	2 417	12 997
<b>Total current debt</b>		<b>3 193</b>	<b>13 716</b>
<b>TOTAL LIABILITIES</b>		<b>3 193</b>	<b>13 671</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18 110</b>	<b>20 314</b>

Grmstad, 28th June 2017

Anders Hall Jomaas  
ChairmanJon Are Gummedal  
DirectorTallak Strandenæs  
Director



Cash flow statement

Deep Sea Supply Management AS

	2016	2015
<b>Cash flow from operations</b>		
Profit/loss before income taxes	8 273	-10 645
Depreciation	30	54
Impairment of fixed assets	0	9 700
Difference between expensed pension and payment in the pension scheme	45	-312
Change in trade payables	58	645
Change in other provisions	-10 485	7 945
<b>Net cash flow from operations</b>	<b>-2 079</b>	<b>7 387</b>
<b>Cash flow from investments</b>		
Purchase of fixed assets	-47	-6
Payments on loan receivable group (short.t/long.t)	3 329	0
Purchase of shares, bonds/ group contributions	-1 750	-7 085
<b>Net cash flow from investments</b>	<b>1 533</b>	<b>-7 091</b>
<b>Cash flow from financing</b>		
<b>Net cash flow from financing</b>	<b>0</b>	<b>0</b>
<b>Net cash flow for the period</b>	<b>-546</b>	<b>296</b>
Cash and cash equivalents at the beginning of the period	1 341	1 045
<b>Cash and cash equivalents at the end of the period</b>	<b>795</b>	<b>1 341</b>
This consist of:		
Bank deposits etc:	795	1 341



Deep Sea Supply Management AS

Notes to the financial accounts per 31.12.2016

## Note 1 - Accounting Principles

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

### Revenues

Services are recognized in line with their execution. The share of sales revenue associated with future services is capitalized as unearned revenue at the point of sale and recognized thereafter when the service is rendered.

### Valuation and classification of assets and liabilities.

Assets intended for permanent use are classified as fixed assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. The classification of current and non-current liabilities is applied based on similar criteria. Current assets are considered at either cost or net realizable value, whichever is lowest. Certain other items are valued according to other principles below.

### Receivables

Receivables are recorded at nominal value less any losses. Provisions for losses are made on the basis of individual assessment of the individual items.

### Cash deposits and cash like equivalents

Cash and cash like equivalents includes cash, bank deposits and other monetary instruments with a maturity less than three months from acquisition.

### Shares in subsidiaries

Subsidiaries are valued at cost in the company accounts. The investment is valued at acquisition cost for the shares unless depreciation has been necessary. Group contributions to subsidiaries, net of tax, are recorded as an increased cost of the shares. Dividends / group contributions are recognized in the same year as appropriated in the subsidiary. If dividends / group contribution significantly exceeds the share of retained profit after the acquisition is considered, the excess amount represents repayment of invested capital and is deducted from the invested value in the balance sheet.

### Tangible assets

Tangible assets are recorded at cost and depreciated over the asset's estimated useful life. Depreciation is based on straight-line depreciation. If the fair value is less than the carrying value of an asset, and the impairment is not expected to be temporary, the fixed asset is written down to the estimated market value. Impairments are reversed if the impairment no longer exists.

### Taxes

Taxes in the income statement include tax payable and changes in deferred tax. Deferred tax is calculated at the relevant rate 24% (25% in 2015) on the basis of the temporary differences between accounting and tax values, as well as any tax loss carryforwards at the end of the fiscal year. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets arising from loss carryforwards are not capitalized, as there is uncertainty about future earnings.

### Currency

Monetary items denominated in foreign currencies are valued by the market price of the currency for price quotation on the last day of financial year. (USD/NOK = 8,62 - Norges bank)

### Pension

Pension costs and pension liabilities are calculated using a linear method based on assumptions about discount rates, future salary increases, pensions and social security benefits, the future return on pension assets and actuarial assumptions on mortality, voluntary retirement and so forth. Pension assets are valued at fair value and deducted from the net pension obligations balance. Changes in liabilities due to changes in pension plans are distributed over the estimated remaining service period. The same applies to estimate deviations to the extent in which they exceed 10% of the pension and pension funds (corridor). Payroll tax is expensed based on paid pension premiums for secured (collective) pension schemes.



(Amounts in USD 1000)

## Note 2 Fixed assets

Fixed assets	Operating movable property, furniture, tools, other	
	2016	2015
Purchase cost 01.01.	705	699
Additions	47	6
Disposals	0	0
Purchase cost 31.12.	752	705
Accumulated depreciation 31.12.	605	575
Net book value 31.12.	147	130
Depreciation in the year	30	54
Expected useful life	3-5 years	
Depreciation plan	Straight line	

## Note 3 Shareholders' equity

Equity changes in the year	Share capital	Share premium	Other paid-in equity	Other equity	Total
Equity 01.01.	90	283	0	6 270	6 643
Profit for the year	0	0	0	8 274	8 274
Equity 31.12.	90	283	0	14 544	14 917

## Note 4 Taxes

Calculation of deferred tax liabilities / assets	2016	2015
<b>Temporary differences</b>		
Fixed assets	44	52
Current assets	147	198
Net temporary differences	191	250
Carry forwards	1 076	0
Basis for deferred tax	1 266	250
24% / 25% Deferred tax	304	62
Of which no deferred tax asset	304	62
Deferred tax in the balance sheet	0	0

Deferred tax is not recognized when there is uncertainty about future earnings .

Basis for taxes, changes in deferred taxes and taxes payable		
Profit before tax	8 273	-10 645
Permanent exchange differences	-1 384	-5 588
Permanent differences	15	17 322
Basis for tax expense	6 905	1 089
Change in temporary differences	19	-196
Basis for tax expense after temporary differences	6 923	893
Losses carried forward	1 076	-296
Taxable income ( basis for tax payable in the balance sheet )	7 999	597

### Distribution of tax expenses

Current tax (25% of taxes payable in the income statement )	0	98
Total tax payable	0	98
Changes in deferred taxes	0	0
Income tax expense	0	98

### Income tax payable

Income tax payable (25%)	0	98
Income tax payable	0	98



## Note 5 Share capital and shareholder information

Deep Sea Supply Management AS are 100% owned by Deep Sea Supply PLC. The parent company has its registered offices in John Kennedy Ave, Iris House, 7th floor, Office no 740B, Limassol 3100, Cyprus. Deep Sea Supply PLC is listed on the Oslo stock exchange. The consolidated accounts are available from the company's webpage: [www.deepseasupply.no](http://www.deepseasupply.no)

	Number of shares	Ownership
Deep Sea Supply PLC	629	100 %

## Note 6 Balance with group companies, etc.

	2016	2015
<b>Other short-term debt to group companies</b>		
Sum	2 417	12 997
<b>Short-term receivables from group companies</b>		
Sum	4 321	7 651
<b>Short-term receivables group controlled and associated companies</b>		
Deep Sea Supply Management (Singapore) PTE Ltd	1	1
DESS Invest Ltd	2	2
Deep Sea Supply Navegacao Maritima Ltda	2	2
DESS PSV III Ltd	82	317
Deep Sea Supply Shiponwing II AS	117	6
Deep Sea Supply Shiponwing III AS	141	0
Deep Sea Supply Labuan Ltd	142	285
Deep Sea Supply Shiponwing I AS	193	11
DESS PSV II Ltd	223	483
DESS Cyprus Ltd	255	4 112
DESS PSV Ltd	284	291
Deep Sea Supply Labuan II Ltd	455	311
Deep Sea Supply Shiponwing AS	1 235	0
DESS PSV IV Ltd	665	267
DESS Plc	623	782
DESS Sea Eagle Ltd	0	302
DESS Management Cyprus Ltd	0	480
Sum	4 321	7 651
<b>Short-term debt group controlled and associated companies</b>		
Deep Sea Supply Shiponwing AS	0	6 963
DESS Finance Ltd	1 259	6 010
DESS Management Cyprus Ltd	736	0
Deep Sea Supply AS	423	19
DESS Sea Eagle Ltd	0	0
Deep Sea Supply Shiponwing III AS	0	6
Sum	2 417	12 997

## Note 7 Related-party transactions

Related-party transactions are considered to be between board members (including associated companies), management and its subsidiaries. Deep Sea Supply Management AS have invoiced management fees to its parent company and companies controlled by the group for a total of USD 4 258 357 in 2016 (USD 4 090 806 in 2015).

Remuneration to executives is disclosed in note 9, and the balances with group companies is disclosed in note 6.

## Note 8 Restricted bank deposits, overdraft facilities

	2016	2015
Restricted bank deposits		
Withheld employee taxes	129	117



## Note 9 Payroll expenses, number of employees, remunerations, loans to employees, etc.

Payroll expenses	2016	2015
Salaries/wages	2 070	1 951
Social security fees	435	470
Pension expenses	229	166
Other remuneration	160	214
<b>Total</b>	<b>2 893</b>	<b>2 801</b>

The number of employees in the accounting year has been: 16 15

There has been no remuneration paid to the board members in 2016

### Expensed audit fee

Statutory audit (incl. technical assistance with financial statements)	2016	2015
Tax advisory fee (incl. technical assistance with tax return)	77	52
<b>Total audit fees</b>	<b>79</b>	<b>64</b>

### Bonus

All employees in Deep Sea Supply Management AS have a bonus agreement based on the same agreement as in the parent company.

## Note 10 Pensions

The company has a defined-contribution scheme which was established in 2006 and is maintained by an insurance company (Storebrand). The defined-contribution scheme is expensed on an ongoing basis and is based on number of years work, payrate at pension age and national insurance contributions. The calculations below are in line with the standards of NRS 6A (IAS 19R). The company's pension schemes covers a total of 15 persons and meets the requirements of the law on compulsory occupational pension. The amounts recognised in the balance sheet are determined as follows:

	2016	2015
Present value of funded obligation	0	1 107
Fair value of plan assets	0	1 152
<b>Asset /Liability in the balance sheet</b>	<b>0</b>	<b>-45</b>

The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation	Fair Value of plan assets	Total
<b>01.01.2015</b>	<b>1 411</b>	<b>-1 192</b>	<b>219</b>
Current Service costs	362	0	362
Interest expenses/(Income)	30	-21	9
<b>Total</b>	<b>392</b>	<b>-21</b>	<b>370</b>
Employer contribution	-57	-407	-464
Employer benefits paid	0	0	0
Remeasurements loss (Gain)	-385	280	-105
Exchange difference	-253	188	-65
<b>31.12.2015</b>	<b>1 107</b>	<b>-1 152</b>	<b>-45</b>
<b>01.01.2016</b>	<b>1 107</b>	<b>-1 152</b>	<b>-45</b>
Current Service costs	0	0	0
Interest expenses/(Income)	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>
Employer contribution	46	0	46
Employer benefits paid	-1 177	1 177	0
Remeasurements loss (Gain)	0	0	0
Exchange difference	24	-24	0
<b>31.12.2016</b>	<b>0</b>	<b>0</b>	<b>0</b>

	2016	2015
Discount rate	0 %	2,70 %
Expected return on funds	0 %	2,70 %
Estimated salary increase	0 %	2,50 %
Expected payment percentage early retirement scheme	0 %	0,00 %
Life expectancy schedule	K2013BE	K2013BE

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience.

The defined benefit plan was terminated 01.01.2018.



## Note 11 Subsidiaries, associated companies, and joint ventures

Investments in subsidiaries, associated companies and joint ventures are booked according to the cost method.

Subsidiaries	Location	Ownership	Equity last year (100%)	Result last year (100%)	Balance sheet value
Deep Sea Supply Shipowning AS	Grimstad	100 %	12 913	-18 215	3 573
Deep Sea Supply Navegacao Maritima Ltda	Rio De Janeiro	100 %	3 643	0	9 186
<b>Balance sheet value 31.12.</b>			<b>16 556</b>	<b>-18 215</b>	<b>12 761</b>

## Note 12 Provisions for bad debt

There is reserved USD 0 for bad debt in 2016.

## Note 13 Specification of financial income and expenses

Financial income	2016	2015
Interest income from group companies	189	178
Other financial income	8 000	54
Net currency items	260	0
<b>Total financial income</b>	<b>8 449</b>	<b>231</b>
Financial expenses	2016	2015
Interest expenses to group companies	363	335
Other financial expenses	3	21
Other losses	61	1 025
<b>Total financial expenses</b>	<b>427</b>	<b>1 381</b>

## Note 14 Specification of financial income and expenses

In June 2017 the company sold its subsidiary Deep Sea Supply Shipowning AS to its sister company Deep Sea Supply AS. The company will book a gain of approximately MUSD 12,5 from the transaction in 2017.