



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2016 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 914 156 025
Organisasjonsform: Aksjeselskap
Foretaksnavn: FARSTAD MARINE AS
Forretningsadresse: Skansekaia 4A
6002 ÅLESUND

Regnskapsår

Årsregnskapets periode: 01.01.2016 - 31.12.2016

Konsern

Morselskap i konsern: Nei

Regnskapsregler

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

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Idar J. Gjerde
Dato for fastsettelse av årsregnskapet: 15.05.2017

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, 02.11.2020



Resultatregnskap

Beløp i: NOK	Note	2016	2015
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	2	115 966 000	311 602 000
Annen driftsinntekt		10 744 000	-3 706 000
Sum inntekter		126 709 000	307 896 000
Kostnader			
Lønnskostnad		90 446 000	153 760 000
Avskrivning på varige driftsmidler og immaterielle eiendeler	9	421 279 000	638 576 000
Annen driftskostnad	3	67 851 000	95 536 000
Sum kostnader		579 576 000	887 872 000
Driftsresultat		-452 866 000	-579 977 000
Finansinntekter og finanskostnader			
Annen renteinntekt		-16 279 000	-3 807 000
Annen finansinntekt		2 918 000	332 000
Sum finansinntekter		-13 362 000	-3 475 000
Annen rentekostnad		-68 639 000	60 471 000
Annen finanskostnad		49 045 000	67 894 000
Sum finanskostnader		-19 593 000	128 365 000
Netto finans	11	6 232 000	-131 839 000
Ordinært resultat før skattekostnad		-446 635 000	-711 816 000
Skattekostnad på ordinært resultat	7	1 169 000	2 009 000
Ordinært resultat etter skattekostnad		-447 804 000	-713 825 000
Årsresultat		-447 804 000	-713 825 000
Årsresultat etter minoritetsinteresser		-447 804 000	-713 825 000
Totalresultat		-447 804 000	-713 825 000



Balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Varige driftsmidler			
Skip, rigger, fly og lignende	9	535 446 000	938 273 000
Sum varige driftsmidler		535 446 000	938 273 000
Sum anleggsmidler		535 446 000	938 273 000
Omløpsmidler			
Varer			
Sum varer		5 063 000	5 888 000
Fordringer			
Kundefordringer		19 398 000	32 487 000
Andre fordringer	10	6 523 000	20 201 000
Sum fordringer		25 921 000	52 688 000
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	5	38 527 000	56 139 000
Sum bankinnskudd, kontanter og lignende		38 527 000	56 139 000
Sum omløpsmidler		69 511 000	114 715 000
SUM EIENDELER		604 957 000	1 052 988 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Selskapskapital	12	669 000 000	669 000 000
Sum innskutt egenkapital		669 000 000	669 000 000
Opptjent egenkapital			



Balanse

Beløp i: NOK	Note	2016	2015
Annen egenkapital	8, 12	-1 147 115 000	-690 933 000
Sum opptjent egenkapital		-1 147 115 000	-690 933 000
Sum egenkapital		-478 115 000	-21 933 000
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Konvertible lån	6		2 659 000
Langsiktig konserngjeld	4, 5	889 432 000	1 017 197 000
Øvrig langsiktig gjeld	10	106 500 000	
Sum annen langsiktig gjeld		995 932 000	1 019 855 000
Sum langsiktig gjeld		995 932 000	1 019 855 000
Kortsiktig gjeld			
Leverandørgjeld		8 695 000	16 984 000
Betalbar skatt	7	1 167 000	2 070 000
Annen kortsiktig gjeld	4, 10	77 279 000	36 011 000
Sum kortsiktig gjeld		87 141 000	55 066 000
Sum gjeld		1 083 073 000	1 074 921 000
SUM EGENKAPITAL OG GJELD		604 957 000	1 052 988 000



Skattedirektoratet

Saksbehandler Geir Johannessen	Deres dato 26.11.2014	Vår dato 16.12.2014
Telefon 22 07 73 25/22 66 11 14	Deres referanse Vivian Larsgård- Ingebrigtsen	Vår referanse 2014/882491

FARSTAD MARINE AS
Postboks 1301 Sentrum
6001 ÅLESUND

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Farstad Marine AS, org.nr. 914 156 025

- Vi viser til deres brev av 26. november 2014, samt tilleggsopplysninger i e-post, der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for Farstad Marine AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering Farstad Marine AS 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

Farstad Marine AS er heleid av Farstad Shipping ASA. Aktivitetene er konsentrert til markedene i Nordvest-Europa, Brasil og Australia/Asia. Med bakgrunn i at selskapet og konsernet opererer i et internasjonalt marked, med internasjonale kunder og med internasjonale eksterne kredittinstitusjoner, er det ønskelig å kunne utarbeide årsregnskapet og årsberetningen på engelsk. Forretningsspråket til morselskapet er engelsk. All kommunikasjon med kunder og kredittinstitusjoner foregår i hovedsak på engelsk. Med bakgrunn i dette søkes det om at årsregnskapet og årsberetningen utarbeides på engelsk.

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:

Postadresse
Postboks 9200 Grønland
0134 Oslo

Besøksadresse:
Se www.skatteetaten.no
Org.nr: 996250318
E-post: skatteetaten.no/sendepost

Sentralbord
800 80 000
Telefaks
22 17 08 60



"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 selskapet er 100 % eiet av et selskap som benytter engelsk som forretningspråk. Videre er det vektlagt at selskapet driver virksomhet i en internasjonal bransje der alle vesentlige aktører behersker og benytter engelsk språk.

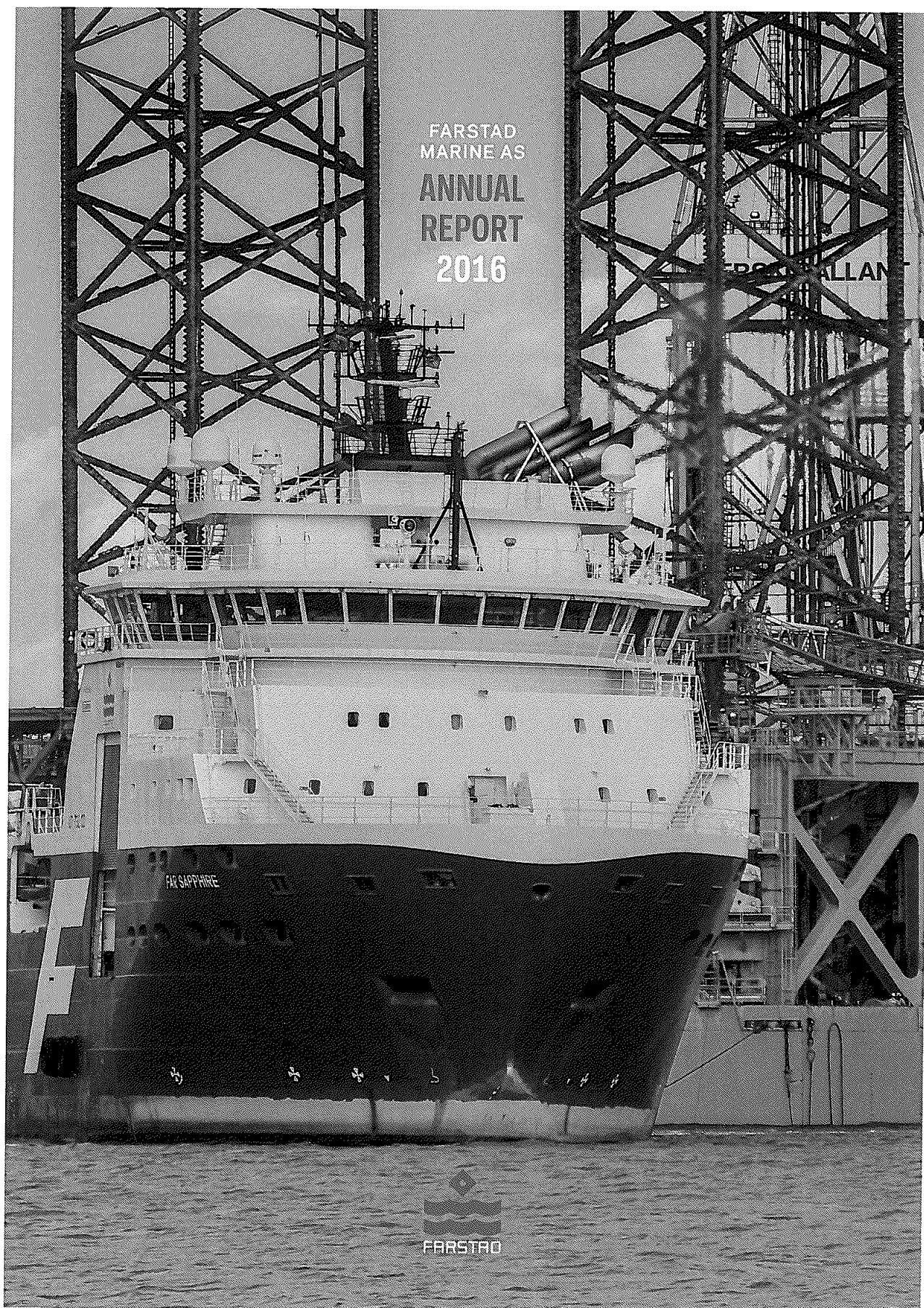
Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
Seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Geir Johannessen

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer





THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

COMPANY STRUCTURE

Farstad Marine AS was established on 2 September 2014 in order to run shipping operations and other business associated with this. The company is a wholly owned subsidiary of the listed company Farstad Shipping ASA and its head office is in Aalesund.

MANAGEMENT

The company has no employees. The company is managed by Farstad Shipping ASA in accordance with a signed management agreement. Vessels operating in the Asia Pacific are operated by Farstad Shipping (Indian Pacific) Pty. Ltd. (FSIP) in Melbourne, Australia (will be closed down during 1H 2017) or Farstad Shipping Pte (FSS) in Singapore and vessels operating in the North Sea and Brazil are mainly operated by Farstad Shipping S.A., Rio de Janeiro or Farstad Shipping ASA, Aalesund.

The company's Board of Directors has three members.

THE FLEET

As per 31 December 2016 the company's fleet consists of eight vessels; seven Platform Supply Vessels (PSV) and one Anchor Handling Vessel (AHTS).

THE MARKET

Market-wise, 2016 represented another challenging year for the offshore industry. The average price for Brent crude in 2016 was approximately USD 44 per barrel, USD 10 lower than the previous year. The oil price recovered somewhat in the third quarter following Russia and Opec agreeing on stabilising the supply of oil. Late November Opec members agreed to reduce production by 1.2 mmbbl per day starting January 2017. Consequently, the Brent price increased and traded slightly below USD 55 per barrel. For the past two years, USD shale production has been in decline. However, efficiency improvements combined with cost reductions have picked up, and the shale segment should benefit from investments and recover sooner than the offshore segment.

The volatile oil prices, the reduced activity, cost reduction programmes with our customers combined with oversupply of offshore service vessels have resulted in unsustainable economic conditions for our industry. All regions and markets have experienced pressure on rate levels and this has resulted in an increasing number of offshore service vessels being laid-up. During 2016, five of Farstad Marine's vessels have been partly laid up.

NEW CONTRACTS

The most important charter contracts during the year were:

Petrobras awarded the PSV Far Strider a four-year contract.

Saipem awarded the PSVs Far Service and Far Supporter contracts of six months duration (including mobilisation) to support their activity offshore Egypt. Commencement was in December 2016, and Saipem has options to extend the contracts with another 30 days.



FINANCIAL RISK

Currency risk: The company has a significant exposure to currency risk as a large proportion of its income is earned in foreign currency. As well as having debt in the same currency as its income, Farstad routinely signs forward exchange contracts and options to reduce currency risk and hedge cash flows in foreign currency.

Interest risk: The company has 77 % of the long-term debt subject to variation in the floating interest rate per 31 December 2016. The remaining 23 % of the debt is subject to fixed interest rate through a fixed rate loan.

Credit risk: The company is exposed to potential losses associated with accounts receivable. No losses on receivables in 2016. The maximum credit exposure is equal to the amount of the accounts receivable, i.e. NOK 19.4 million (NOK 32.5 million in 2015).

Market risk: Farstad Shipping has chosen to concentrate its activity mainly in three markets: APAC, Brazil and North-West Europe. The activity in all the group's main markets has been characterised by the low oil price and the oil companies' reduction in activities and costs. The market risk in our industry is thus higher than it has been for years, and no early improvement is expected in any of the company's main markets.

HEALTH, WORKING ENVIRONMENT, SAFETY AND EXTERNAL ENVIRONMENT

Farstad Marine's goal is to operate without damage to people, environment and materials. The Group works actively on several levels to make employees aware of this goal. Both the Group's main Board and the boards of the subsidiaries are focusing on this and discuss the development in health, environment and safety in all their meetings.

Lost time injuries and unwanted events

Two of the measuring indicators used by the Farstad Shipping ASA, the owning company group are the lost time injury frequency (LTIF) and total recordable case frequency (TRCF). Both frequencies are measured as the number of injuries per one million working hours, measured 24 hours a day so that recreational injuries are included. At the end of 2016 the LTIF was 0.16 compared to 0.50 in 2015. The TRCF frequency was 1.63 compared to 2.50 in 2015. Both measures are at historically encouraging low levels. In a time where the industry is facing multiple challenges, our crew and employees continue to deliver safe and environmentally friendly operations. None of the group's vessels were in contact with offshore installations in 2016.

The outer environment

The group's goal of zero damages to people, environment and material is the basis for a conscious effort to reduce our impact on the outer environment.

In close collaboration with designers, shipyards and equipment suppliers we make use of the at any time best available technological solutions in order to build and operate vessels with minimal risk of releasing environmentally hazardous substances into air and water. The new build that was delivered in January 2017, has environmentally friendly implementations beyond the requirements of the class and authorities. This includes measures to reduce fuel consumption through the use of hybrid propulsion systems, installation of catalysts, the use of environmentally friendly antifouling and Clean-Design. System for measuring and registration of fuel consumption in various operations are also installed. In recent years, several of the company's vessels have been equipped to use shore power in frequent port calls during normal operation.

Due to the continuing development of new technological solutions, better control and maintenance as well as the option to choose more environmentally friendly products, the emission of pollutants to water and air has been considerably reduced in recent years.



FUTURE PROSPECTS

The combination of the current oil price levels and corresponding reduced activity offshore suggest that the activity for our industry will remain low in 2017. Even though there are some positive signs of increased activities, due to the unbalanced supply and demand of tonnage, it will take time before the overcapacity in the market is absorbed. Consequently, short term we can expect that the fierce competition will result in continuous low rate levels and a high portion of the global offshore service fleet being in lay-up.

Longer term, the group's strategy is based on oil and gas being important energy carriers for decades ahead, with the demand for energy increasing in line with population growth and higher standard of living. Development of new oil and gas fields offshore will still be important in order to meet future demands.

FINANCIAL STATEMENT

Operating income for 2016 was NOK 126,7 million (NOK 307,9 million including loss from the sale of vessel NOK 3,8 million in 2015). Operating result was NOK -452,8 million in 2016 (NOK 580 million in 2015), after an impairment of NOK 332,4 million (NOK 381,4 in 2015). The company has a negative equity ratio of 79,0 % (-2,1% in 2015) and a challenging liquidity situation. The reduction in operating income, operating result and equity ratio reflects the challenging market situation. As a result of the negative equity, Farstad Shipping ASA has confirmed that they will provide suitable financing to Farstad Marine AS. Hence Farstad Marine AS will continue to have access to intra-group financing in order to meet its liabilities as they fall due in 2017.

The Board of Directors has proposed the net loss of NOK 447,8 million in Farstad Marine AS to be transferred to Other Equity.

EVENTS AFTER YEAR-END

Restructuring of the Farstad Shipping ASA Group

On 6 February 2017, Farstad Shipping ASA group announced that Aker Capital AS, a wholly owned subsidiary of Aker ASA, Hemen Holding Limited ("Hemen") (a company indirectly controlled by trusts established by Mr. John Fredriksen for the benefit of his immediate family), as well as Farstad Shipping's senior lenders, bondholders, and F-Shipline AS (a subsidiary of Ocean Yield ASA), had entered into an agreement (the "Restructuring Agreement") for a fully-funded financial restructuring of Farstad Shipping ASA group (the "Farstad Restructuring"). On 2 March 2017 the Farstad Restructuring was approved by the majority of the bondholders in both bonds and on 3 March 2017 the Farstad Restructuring was approved by the general meeting.

The Farstad Restructuring consists of the following elements:

- (i) Farstad Shipping group's creditors converted debt claims to equity (the "Conversion of debt") Farstad Shipping's senior lenders, bondholders and F-Shipline AS have completed a capital increase for conversion of debt as follows:
 - a) Farstad Shipping ASA assumed debt owing by its subsidiaries to certain senior lenders in the amount of NOK 940 million and the senior lenders have converted NOK 940 million into 752 million new shares in Farstad Shipping ASA at a price of NOK 1.25 per share.
 - b) The senior lenders released Farstad Shipping group's subsidiaries of their obligation to pay NOK 332 million in future interest in exchange for a NOK 271 million claim against Farstad Shipping ASA (equalling the net present value of such future interest payments), and the NOK 271 million claim was converted into 774,285,714 new shares of Farstad Shipping ASA at a share price of NOK 0.35.



c) The outstanding bond debt in FAR03 and FAR04 with a total outstanding amount of NOK 1,407 million, representing a principal of NOK 1,400 million plus interest in the amount of NOK 7 million, was converted into 1,125,516,355 new shares of Farstad Shipping ASA at share price NOK 1.25.

d) F-Shiplease AS have released Farstad Supply AS of its obligation to pay NOK 70 million of the "amortisation" element and NOK 109 million of the "interest" element of its two bare-boat leasing agreements with F-Shiplease, in exchange for a NOK 161 million claim against Farstad Shipping ASA (equalling the sum of the NOK 70 million "amortisation" element and the net present value of the "interest" element being NOK 91 million). The NOK 70 million "amortisation" element of the claim was converted into 56 million new shares of Farstad Shipping ASA at a price of NOK 1.25 per share, whereas the NOK 91 million "interest" element of the claim was converted into 259,595,760 new shares of Farstad Shipping ASA at a share price of NOK 0.35.

(ii) Farstad Shipping ASA have issued NOK 650 million of new equity fully underwritten by Aker and Hemen (the "Equity Issue").

The Equity Issue, which was fully underwritten by Aker and Hemen on a 50:50 basis, consists of a NOK 400 million in share issue to Hemen and Aker and NOK 50 million in share issue to Tyrholm & Farstad Invest AS (an affiliate of Farstad Shipping ASA group's main shareholder) ("Private Placement 1"), a NOK 150 million in share issue to Farstad Shipping's bondholders ("Private Placement 2") and a NOK 50 million repair issue to existing Farstad Shipping ASA shareholders and Bondholders who were not allocated shares in Private Placement 2 (the "Repair Issue"). The Repair Issue was subscribed for NOK 29 million by Farstad Shipping's shareholders and bondholders, the remaining was subscribed by Aker and Hemen on a 50:50 basis. The subscription price in the Equity Issues were NOK 0.35 per share.

Share capital as per 31 December 2016 had a value of NOK 39 million, at a nominal price of NOK 1.00 per share. In 1Q 2017 the company's share capital was reduced with NOK 37 million from NOK 39 million to NOK 2 million by reducing the nominal value of the shares with NOK 0.95 per share from NOK 1.00 to NOK 0.05. The reduced share capital of NOK 37 million has been allocated to retained earnings. Following the equity issues that was completed by 23 March, the nominal share capital has been increased to approximately NOK 243 million.

(iii) The existing financing agreements of Farstad Shipping group was amended (the "Farstad Amended Financing Terms").

The terms and conditions of the existing financing agreements for Farstad Shipping ASA (except for financing agreements with Westpac and BNDES) were amended and harmonised, including by adding the following features:

a) The amortisation profile of the loans (after adjustment for the amounts converted to equity) was reduced to 10% of the original profile from 1 January 2017 until 31 December 2021. Commencing in Q1 2022 the balance of amortising senior debt will become amortising in linear instalments of 20% per year, whereas senior loans with a bullet repayment profile will receive an extraordinary repayment of 4% in Q2 2019. The final maturity date for all loans (with maturity date prior to the new maturity date) will be extended to Q4 2023;

b) A cash sweep mechanism has been introduced;

c) In addition to certain financial covenants, restrictions has been introduced with respect to Farstad Shipping ASA's ability to pay dividends, incur new debt, carry out equity issues and make capital expenditures;

d) Minimum value clause at 100% across the group's fleet (but suspended throughout 2019);



- e) Removal of current ownership covenants;
- f) Pre-approval of sale of older vessels at prices below secured debt using agreed mechanisms.

The Farstad Amended Financing Terms ensures that Farstad Shipping ASA is no longer in breach with its financial covenants and long term debt classified as current liabilities has been reclassified as non-current liabilities. Total NOK 8,174 million are reclassified from current to Non-current liabilities following the Farstad Shipping ASA Restructuring.

Business combination

Furthermore to the announcement 6 February 2017, the parties to the Restructuring Agreement, together with Soff Invest AS and Ivan II AS (jointly the "Solstad Family Companies") and Tyrholm & Farstad AS, have agreed to work for a combination of Solstad Offshore ASA ("Solstad Offshore"), Farstad Shipping ASA and Deep Sea Supply Plc ("Deep Sea Supply") following completion of the Farstad Restructuring, creating a world class OSV company (the "Combination").

The combination is proposed to be structured as follows:

- (i) Deep Sea Supply and Farstad Shipping ASA will merge into and be established as individual subsidiaries under Solstad Offshore, with shareholders of Deep Sea Supply and Farstad Shipping receiving shares in Solstad Offshore as consideration (the "Mergers").

Under the Mergers, Farstad Shipping ASA will merge with a newly incorporated subsidiary of Solstad Offshore and Farstad's former shareholders will receive shares in Solstad Offshore as merger consideration. The exchange ratio in the Solstad Offshore / Farstad merger will be 0.35:12.50 Farstad shares per Solstad Offshore share.

Contemporaneously with the Solstad Offshore / Farstad Shipping ASA merger, Deep Sea Supply will combine with Solstad Offshore in a merger or merger-like transaction whereby all of Deep Sea Supply's assets, rights and obligations will ultimately be transferred to a subsidiary of Solstad Offshore against consideration in the form of Solstad Offshore shares. The amount of Solstad Offshore consideration shares issued will be based on an agreed exchange ratio of 1.32:12.50 Deep Sea Supply shares per Solstad Offshore share.

- (ii) The existing financing agreements of Solstad Offshore and Deep Sea Supply will be sought amended and harmonised with the Farstad Amended Financing Terms.

- (iii) In connection with the Combination, Solstad Offshore will complete a NOK 200 million private placement directed towards Hemen at a subscription price of NOK 12.50 per share. The proceeds from the private placement will be passed on by Solstad Offshore to the part of the new group comprising the former Deep Sea Supply operations.

- (iv) Aker will convert its NOK 250 million convertible loan to Solstad Offshore in exchange for shares, such convertible loan having originally been granted to Solstad Offshore in 2016 together with a NOK 250 million equity investment by Aker in Solstad Offshore.

- (v) Solstad Offshore's dual share class structure will be collapsed, and all Class A and Class B shares will be converted to common shares on a 1:1 basis.

The transaction elements listed above are interdependent and will become effective simultaneously upon completion of the Combination. A merger plan between Farstad Shipping ASA (acquired) and Solship Invest 2 AS (acquiring), with shares in Solstad Offshore ASA, was approved by the boards of directors in the respective companies 24 of March.



However, the Combination is not completed and it is subject to, among other things, agreement on final transaction documentation, competition authority approvals and relevant corporate resolutions.

The senior lenders in Farstad Shipping ASA group have undertaken to vote in favour of and otherwise support the Combination. Further, the senior lenders have undertaken a lockup obligation preventing them from selling their shares in Farstad Shipping ASA until such time as the Combination is finally approved or until 30 September 2017, unless otherwise agreed with Aker and Hemen.

Based on the financial restructuring of Farstad Shipping ASA group, as well as the proposed business combination with Solstad Offshore and Deep Sea Supply, the board believes that the embedded financial risk in Farstad, has been reduced substantially. Longer term, both the company and the OSV industry as a whole is dependent upon improving market terms to return to sustainable earnings and debt servicing capacity.

Capital increase by conversion of debt in the company

On the 7 March 2017, Farstad Shipping ASA assumed NOK 374,7 million of Farstad Marine AS' debt to various financial institutions against a recourse claim on Farstad Marine AS. NOK 354,9 million is related to debt conversion and NOK 19,7 million in future interest payment.

At 9 March 2017, Farstad Marine AS increased its equity capital by NOK 374,7 million through conversion of debt to Farstad Shipping ASA.

Fleet and contract activity after year-end

Saipem SA awarded the PSV Far Server a contract of 3.5 months duration (including mobilisation) to support their activity offshore Egypt. Commencement took place in February 2017 and Saipem has options to extend the contract with another 30 days.

GOING CONCERN

The Board confirms that the 2016 financial statements pursuant to section 3-3a of the Norwegian account act, have been prepared based on the assumptions of a going concern. Farstad Marine AS has as of 31.12.2016 negative equity in the amount of NOK -478 million. The equity will still be negative after the abovementioned debt conversion of NOK 374,7 million. Farstad Shipping ASA has confirmed that they will provide suitable financing to Farstad Marine AS. Hence Farstad Marine AS will continue to have access to intra-group financing in order to meet its liabilities as the fall due in 2017. Based on the financial restructuring of the Group that was completed during Q1 2017 and the guarantee from Farstad Shipping ASA, the Board confirms that this assumption is appropriate.

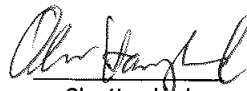
Aalesund, 31 December 2016

15 May 2017

The Board of Directors of FARSTAD MARINE AS



Karl-Johan Bakken
Chairman of the Board



Olav Haugland
Member of the Board/General Manager



Idar Johannes Gjerde
Member of the Board

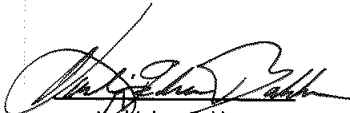
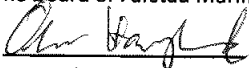



PROFIT AND LOSS			
FARSTAD MARINE AS (NOK 1 000)			
	Note	2016	2015
Operating income and operating expenses			
Operating income:			
Freight Income	2	115 966	311 602
Other income		10 744	73
Total operating Income		126 709	311 675
Profit/loss on sale of fixed assets		0	-3 779
Total income		126 709	307 896
Operating expenses:			
Crewing expenses vessels		90 446	153 760
Other operating expenses vessels		38 451	57 583
Administration	3	29 400	37 953
Total operating expenses		158 297	249 296
Operating profit before depreciations (EBITDA)		-31 588	58 599
Depreciation and impairment	9	421 279	638 576
Operating result (EBIT)		-452 866	-579 977
Financial items:			
Financial income		2 918	332
Financial expenses		49 045	67 894
Realised agio (disagio)		-16 279	-3 807
Unrealised agio (disagio)		68 639	-60 471
Net financial income and expenses	11	-6 232	131 839
Tax and results:			
Pre-tax profit		-446 635	-711 816
Tax	7	1 169	2 009
Profit for the year		-447 804	-713 825



BALANCE SHEET			
FARSTAD MARINE AS (NOK 1 000)			
	Note	2016	2015
ASSETS			
FIXED ASSETS			
Vessels and other fixed assets	9	535 446	938 273
Total fixed assets		535 446	938 273
CURRENT ASSETS			
Account receivables		19 398	32 487
Inventories		5 063	5 888
Other short-term receivables	10	6 523	20 201
Cash and cash equivalents	5	38 527	56 139
Total current assets		69 511	114 715
Total assets		604 957	1 052 988
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	669 000	669 000
Other equity	8, 12	-1 147 115	-690 933
Total equity		-478 115	-21 933
NON-CURRENT LIABILITIES			
Currency and interest swap contracts	6	0	2 659
Liabilities to parent company	10	106 500	0
Interest-bearing mortgage debt	4, 5	889 432	1 017 197
Total non-current liabilities		995 932	1 019 855
CURRENT LIABILITIES			
Accounts payable		8 695	16 984
Tax payable	7	1 167	2 070
Other current liabilities	4, 10	77 279	36 011
Total current liabilities		87 141	55 066
Total liabilities		1 083 073	1 074 921
Total equity and liabilities		604 957	1 052 988

Aalesund, 15.05.2017
The Board of Farstad Marine AS

 Kari Johan Bakken Chairman of the Board	 Olav Haugland Member of the Board/General Manager	 Idar Johannes Gjerde Member of the Board
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CASH FLOW STATEMENT		
FARSTAD MARINE AS (NOK 1 000)		
	2016	2015
Cash flow from operations		
Profit/loss before income taxes	-446 635	-711 816
Paid taxes	-2 070	-217
Differences in expensed pensions and payments in/out of the pension scheme	-8 378	3 246
Depreciations	88 907	257 145
Impairment	332 372	381 431
Gain/(loss) on sale of fixed asset	-	3 779
Change in inventory	825	1 317
Change in trade debtors	13 090	21 006
Change in trade creditors	-8 290	2 527
Unrealized foreign exchange (gain)/loss	-55 629	60 471
Change in other provisions	51 632	-25 054
Net cash flow from operations	-34 176	-6 165
Cash flow from investments		
Purchase of fixed assets	-18 452	-33 036
Sale of fixed assets	-	13 092
Net cash flow from investments	-18 452	-19 944
Cash flow from financing		
Repayment of long-term debt	-71 484	-139 260
Proceeds from intercompany debt	106 500	137 000
Net cash flow from financing	35 016	-2 260
Exchange gains / (losses) on cash and cash equivalents		
Net change in cash and cash equivalents	-17 612	-28 369
Cash and cash equivalents at the beginning of the period	56 139	84 508
	38 527	56 139



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

NOTE 1 ACCOUNTING PRINCIPLES

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

Farstad Marine was established 02.09.2014. The object of the company is to engage in shipping company business and related activities, including ownership of stock and shares in corresponding and related enterprises.

Estimates

Areas that involve judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are residual values for vessels, the useful life of vessels, impairment of vessels, tax, the capitalisation and depreciation of accrued maintenance, accident compensation and losses on receivables.

Financial instruments

Profit and loss items are recognised at the transaction date's exchange rate or the forward exchange rate where items are hedged against exchange rates. Current assets and current liabilities are recognised at the balance sheet date's exchange rate, and currency gains and losses due to exchange rate changes are recognised through profit or loss. Hedging instruments that qualify for hedge accounting according to NGAAP are not recognised in financial statements. Ineffective part of hedging, and hedging that do not qualify for hedge accounting, are recognised in the financial statements. The following exchange rates applied on the balance sheet date: USD 8.6200, GBP 10.6130, AUD 6.2252 and BRL 2.6449.

Costs and income recognition

The company's vessels are mainly leased on time charters (TC). The TC contracts comprise payment for factors such as crew hire. Income from the lease of vessels is recognised on a straight-line basis during the lease period. The lease period starts on the date the vessel is made available to the leaser, and terminates on the agreed date for return of the vessel. Crew hire and payments to cover other operating expenses are reported as income according to the straight-line method for the duration of the agreement. Income and costs associated with charter parties are recognised in the accounts on the basis of the duration of the contract and after the end of the accounting period. Interest income is recorded as incurred.

Pension

Farstad Marine is hiring all crew and crew related duties from other companies within the Farstad Shipping ASA Group. In connection with this, all crew related expenses are charged to the company, including pension expenses.

The company has according to NRS 6 Pension costs declared the option to use IAS 19 for the recognition of the defined benefit plan. The current service cost and net interest income/costs are recognised immediately. The service cost is recognised in the vessels crew cost and administration cost in the income statement. Changes in estimates, both in assets and liabilities are recognised through retained earnings.

Sale of vessels

Gains from the sale of vessels are recognised as operating income since sale of vessels is deemed part of the company's ordinary activities. Income from sale of vessels is recognised through income statement upon delivery to the new owner.

Depreciation of vessels and other fixed assets

The vessels are decomposed in vessel and deferred maintenance. Vessels are included in the consolidated balance sheet at their acquisition price with deductions of the year's and previous years' ordinary depreciation. The vessels are depreciated on a straight-line basis over defined period of use of 20 years, taking into account an estimated residual value of the vessels upon expiry of their period of use. Residual values are reviewed on an annual basis. These residual values are based on a best estimate of what we believe the vessels can be sold for when they are 20 years old. The depreciation of vessels in the fleet older than 20 years old are reassessed based on the estimated residual value.

Depreciation for other fixed assets is calculated on a straight-line basis over estimated useful life.

Impairment of fixed assets

The booked values of vessels and other fixed assets are reviewed for impairment when events or changes in circumstances indicate that booked value may not be recoverable. If any such indications exist and where the booked value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount which, for fixed assets, is the greater of the net selling price and value in use. As an approach to net selling price for the vessels, the value estimates obtained from three independent Norwegian shipbrokers are used. The brokers' estimates assume the vessels are without any charter contracts, available for immediate sale on the market and there being a willing seller and a willing buyer. Due to the declining market and higher uncertainty in the broker's estimates, the company is careful to rely only on the values estimated by the brokers in the impairment test. Because of this, value in use have been estimated for all vessels by calculating net present value of estimated future cash flows using weighted average cost of capital as discounting rate.

Maintenance costs

Ordinary repairs and maintenance are recognised in the income statement. The cost of dockings, periodic maintenance, and larger modifications of vessels are recognised in the balance sheet and recognised as expenses on a straight-line basis over the period up to the next periodic maintenance/docking, normally every 30 months. The costs are recognised as depreciation. Upon delivery of new vessels, a portion of the cost of the vessel is valued as deferred maintenance. If a vessel is sold, the remaining capitalized deferred maintenance is deducted from the profit.

Contracts newbuilds

Paid instalments for new builds are entered as fixed assets as each payment take place. Investments related to the new vessel, not included in the contract, such as inspection costs and other related costs as well as rebates during construction, are capitalized. Vessels under construction are not depreciated until the asset is taken into use. Instalment payments, inspection costs and a minor portion of the construction contract are financed using own equity. Borrowing costs associated with qualifying assets may no longer be recognised as costs, but must be recognised in the balance sheet together with the asset. The company has not incurred such borrowing costs. Please also see note 11.

Taxes

The tax charge in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences existing between accounting and tax values, and any carryforward losses for tax purposes at year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Tax reduction on group contributions given and tax on group contribution received, booked as a reduction of cost price or taken directly to equity, are booked directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes).

FARSTAD MARINE AS

10



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

Cash flow statement

The company uses the indirect model when presenting its cash flow statement. The statement's line for cash and cash equivalents includes bank deposits, other deposits and marketable securities.

Subsequent events

New information on the company's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the company's position at the balance sheet date, but will affect the company's position in the future, are stated if significant.

NOTE 2 FREIGHT INCOME

Freight income by product	2016	2015
Anchor Handling Vessels (AHTS)	2 795	31 953
Platform Supply Vessels (PSV)	113 171	279 649
Total freight income	115 966	311 602

Freight income by region	2016	2015
North West Europe	17 779	21 659
Brazil	7 966	94 681
Asia Pacific	88 748	148 505
Other segments (Africa, etc)	1 473	46 757
Total freight income	115 966	311 602

NOTE 3 SALARIES, NUMBER OF EMPLOYEES AND MANAGEMENT AGREEMENTS WITH RELATED PARTIES

Farstad Marine AS has no employees, - thus no wages or directors fee have been paid in 2016. The company is not obligated to have mandatory pension agreements.

Management of the vessels is operated by Farstad Shipping ASA, Farstad Shipping (Indian Pacific) Pty Ltd, Melbourne and Farstad Shipping S.A in Brazil, according to agreements. In 2016, NOK 6 723 (NOK 11 264) was paid in management fee to Farstad Shipping ASA, NOK 8 757 (NOK 10 582) to Farstad Shipping Indian Pacific Ltd, NOK 4 798 (NOK 7 753) to Farstad Shipping S.A. and NOK 970 (NOK 0) to Farstad Shipping Crewing Services Pte Ltd. It was also paid NOK 5 612 (NOK 6 468) in corporate fee to Farstad Shipping ASA.

Expensed audit fee

	2016	2015
Statutory audit	194	154
Tax advisory fee	21	0
Other assistance (to be specified)	0	0
Total audit fees	215	154

VAT is not included in the audit fee.

NOTE 4 MORTGAGES AND OTHER LONG-TERM LIABILITIES

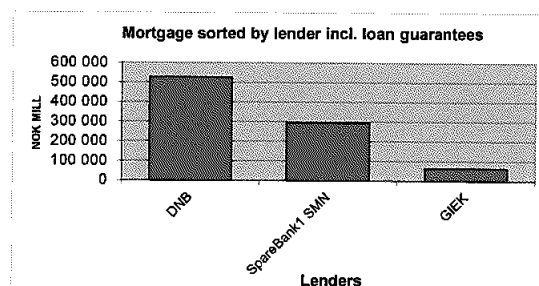
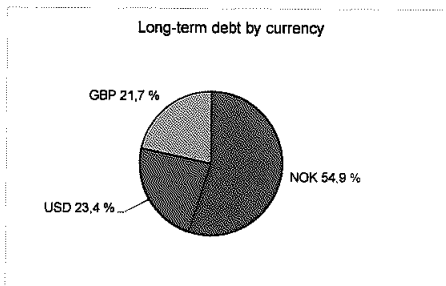
Per 31 December, the company is in breach with all financial covenants for all loans. The Farstad Shipping ASA Group has through the standstill agreement, with senior lenders and F-shiplease obtained waivers for all financial covenants until the standstill period ends no later than 30 June 2017. The Farstad Shipping ASA Group signed 6 February 2017 a term sheet with senior lenders, substantial part of its bondholders, F-shiplease, Aker and Hemen, that will give a fully financed restructuring of the Group. On 3 march 2017 the Farstad restructuring was approved by the General meeting in Farstad Shipping ASA. See note 13 for more information. In accordance with Norwegian Accounting principles interest bearing mortgage debt is classified as long term loans as the company is not in breach with its loan obligation when submitting the annual return.

Net long-term loans for the company is NOK 889 mill.(NOK 1 017 mill.)

The arrangement fees are presented as net amount together with the debt and is expenced over the expected term of the loan.

	2016	2015
Net interest bearing debt	889 432	1 017 197
Interest bearing current assets	-38 527	-57 539
Net interest bearing debt	850 905	959 658
Capitalized arrangement fee	5 318	7 473

The long-term debt is distributed in currencies by 54.9% in NOK, 23.4% in USD and 21.7% in GBP.



* The company has a total debt of NOK 192.0 million(GBP 18.063 million) in Eksportkreditt Norge AS. These loans are guaranteed by other banks/GIEK and the guaranteed amounts are included in the above graph.



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

Instalment schedule:	< 3 months:	3 - 12 months	1 - 5 years	> 5 years	Total:
Repayment schedule for existing debt	154 162	129 046	611 541	-	894 749
TOTAL	154 162	129 046	611 541	-	894 749

Currency	Amount	Interest	Weighted average remaining term
GBP	17.6 million	3.30 %	0.2 år

The market value of the interest swap agreement was NOK -1 204 million per 31.12.16(NOK -7 552 million per 31.12.15) (not hedging).

The remaining interest-bearing debt has a floating interest rate. The interest rate is calculated using the market rate (NIBOR/LIBOR), plus a fixed margin charged by the banks.

NOTE 5 MORTGAGES AND GURANTEE LIABILITIES

Liabilities secured by mortgage	2016	2015
Interest-bearing mortgage debt(gross) and accrued interest	892 624	1 022 001
Total	892 624	1 022 001

Balance sheet value of assets placed as security:

Vessels' book value	535 446	938 273
Pledged bank deposits	32 257	10 019
Total	567 703	948 292

Also, additional guarantee is provided through insurance settlements.

NOTE 6 FORWARD CONTRACTS

The company did not have any forward exchange contracts and hedging options for outstanding receivables and future cash flows in foreign currencies as per 31.12.16.

The market value of the forward exchange contracts was NOK - 11 895.9 per 31.12.15, partly treated as hedge accounting.

NOTE 7 TAXES

Calculation of deferred tax/deferred tax benefit

	2016	2015
Temporary differences		
Fixed assets	-632 063	-420 332
Profit and loss account	-14 496	-18 120
Other temporary differences	-92 245	-67 038
Net temporary differences	-738 803	-505 490
Tax losses carried forward	-551 174	-337 854
Basis for deferred tax	-1 289 978	-843 343
Deferred tax	-309 595	-210 838
Deferred tax benefit not shown in the balance sheet	309 595	210 838
Deferred tax in the balance sheet	-	-
Basis for income tax expense, changes in deferred tax and tax payable	2016	2015
Result before taxes	-446 635	-711 816
Permanent differences	-	-
Basis for the tax expense for the year	-446 635	-711 816
Change in temporary differences	233 314	374 362
Basis for payable taxes in the income statement	-213 321	-337 455
Change in tax losses carried forward	213 321	337 455
+/- Group contributions received/given	-	-
Taxable income (basis for payable taxes in the balance sheet)	-	-

Components of the income tax expense	2016	2015
Withholding tax	1 169	1 996
Change in deferred tax	-	-
Tax expense	1 169	1 996
Payable taxes in the balance sheet		
Payable tax abroad	1 167	2 070
Payable tax in the balance sheet	1 167	2 070

The reason deferred tax benefit are not reflected in the balance sheet is that it is doubtful that future taxable profits will be sufficient to utilize the tax benefit.

Farstad Marine AS left the basic tonnage tax scheme as of 30 June 2016 with taxable effect as per 1 January 2016 to the ordinary taxation scheme. As a result of the change of taxation scheme, the numbers for 2015 has been altered to reflect these changes in the note above.



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

NOTE 8 EQUITY

Equity changes in the year	Share capital	Other equity/ uncovered loss	Total
Equity 01.01.	669 000	-690 933	-21 933
Profit for the year	-	-447 804	-447 804
Passed on changes in estimates	-	-8 378	-8 378
Equity 31.12.	669 000	-1 147 115	-478 115

The equity is negative. See note 13 for more information.

NOTE 9 VESSELS AND OTHER FIXED ASSETS

	Directly owned vessels	Spare parts	Total fixed assets
Purchase cost pr. 1.1.2015	1 575 475	3 432	1 578 907
Additions	8 284	-	8 284
Disposals	35 173	-	35 173
Purchase cost pr. 31.12.15	1 548 586	3 432	1 552 018
Additions	7 657	-	7 657
Disposals	570	-	570
Purchase cost pr. 31.12.16	1 556 673	3 432	1 559 105
Accumulated depreciation 01.01.15	84 526	-	84 526
Depreciation in the year	215 185	-	215 185
Impairment	381 431	-	381 431
Disposals	27 222	-	27 222
Accumulated depreciation 31.12.15	653 920	-	653 920
Depreciation in the year	60 876	-	60 876
Impairment	331 000	1 372	332 372
Disposals	-	-	-
Accumulated depreciation 31.12.16	1 045 796	1 372	1 047 168
Recognized value deferred maintenance at December 2015	40 176	-	40 176
Recognized value deferred maintenance at December 2016	23 509	-	23 509
Net book value pr. 31.12.	533 386	2 060	535 446
Change in recognized value deferred maintenance	-	2016	2015
Net book value pr. 01.01	-	40 176	66 305
Additions	-	15 823	24 752
Disposals	-	4 459	8 921
Depreciation in the year	-	28 031	41 960
Net book value pr. 31.12	-	23 509	40 176

Depreciation of vessels and other fixed assets

The vessels are decomposed in vessel and deferred maintenance. The vessels are depreciated over defined period of use on a best estimate of what we believe the vessels can be sold for when they are 20 years old. Changes in depreciation on the basis of the annual reviewing of residual values are spread over the remaining period of use.

Deferred maintenance is capitalized and depreciated normally on a straight-line basis over the period up to next planned deferred maintenance/docking, normally over 30 months.

Fixture and fittings, vehicles and office machinery etc are depreciated linearly over 3-5 years.

Impairment

Due to the current market conditions, as well as uncertainty related to vessels future earnings, the company has performed individual impairment tests of all vessels in accordance with IAS 36. Impairments have been performed where the recoverable amount is lower than the recognized value for the vessels/assets. The recoverable amount for each vessel is based on a value in use calculation from cash flow before financial items and tax. The cash flow calculations have been discounted with an average cost of capital after tax (WACC) in the range between 8.24% and 16.08%, depending on vessel owner's nationality. The cash flow per vessel is calculated until vessel reaches an age of 30 years.

For vessels on firm contracts it is assumed that the vessels are employed on charter parties up until expiry of the firm contracts, and that rate and utilisation levels thereafter are changed to expected market levels. Options have not been assigned any added value in the value in use calculations.

The estimated cash flows per vessel is based on two 5 year forecast scenarios, where one scenario expects the market to start recovering in 2019 and be fully recovered in 2021. The second scenario start recovering in 2018 to be fully recovered in 2020, at rate levels as it was in 2013-2014. The first scenario is weighted 25% and the second scenario is weighted 75% based on the management expectations of outcome for each scenario.

Total impairment as per 31.12.16 was NOK 331 000 (NOK 381 431 per 31.12.2015).

NOTE 10 BALANCE WITH GROUP COMPANIES, ETC.

Other current assets	2016	2015
Farstad Shipping ASA	-	11 060
Farstad Supply AS	-	26
Farstad Construction AS	-	-
Farstad Offshore AS	401	-
P/R International Offshore Services ANS	361	-
Farstad Shipping Aalesund AS	59	-
Farstad Shipping S.A.	2 139	-
Farstad Shipping (Indian Pacific) Pty Ltd	7	-
Farstad Shipping Pte Ltd	-	1 542
Total current assets	2 967	12 628

FARSTAD MARINE AS

13



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

	2016	2015
Other current liabilities		
Farstad Shipping ASA	67 098	0
Farstad Shipping (Indian Pacific) Pty Ltd	-	11 420
Farstad Shipping Crewing Services Pte Ltd	100	
Farstad Shipping S.A.	143	226
Total current liabilities	67 340	11 646
Long-term debt		
Farstad Shipping ASA*	106 500	-
Total	106 500	-

*3 months NIBOR + 3,75 % margin.

NOTE 11 FINANCIAL ITEMS

	2016	2015
Financial income		
Interest income bank and placements	135	332
Interest income group companies	2 783	-
Realised agio	8 710	16 716
Unrealised agio	68 639	13 556
Total financial income	80 266	30 604

	2016	2015
Financial expenses		
Interest Parent company loan	3 446	2 415
Interest long-term debt	25 051	32 002
Other financial expenses	20 549	33 477
Realised disagio	24 989	20 523
Unrealised disagio	-	74 027
Total financial expenses	74 035	162 444

NOTE 12 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital is TNOK 669 000 consisting of 1 000 000 shares with nominal value of NOK 0.669 each. All shares are owned by Farstad Shipping ASA, Aalesund.

The parent company Farstad Shipping ASA has its registered offices in Skansekaia 4A, 6002 Aalesund, where the consolidated accounts including this company can be obtained.

NOTE 13 EVENTS AFTER YEAR END

Closing of the restructuring

On 06 February 2017, Farstad Shipping ASA group announced that Aker Capital AS, a wholly owned subsidiary of Aker ASA, Hemen Holding Limited ("Hemen") (a company indirectly controlled by trusts established by Mr. John Fredriksen for the benefit of his immediate family), as well as Farstad Shipping's senior lenders, bondholders, and F-Shiplease AS (a subsidiary of Ocean Yield ASA), have entered into an agreement (the "Restructuring Agreement") for a fully-funded financial restructuring of Farstad Shipping ASA group (the "Farstad Restructuring"). On 2 March 2017 the Farstad Restructuring was approved by the majority of the bondholders in both bonds and on 3 March 2017 the Farstad Restructuring was approved by the general meeting.

Farstad Restructuring consist of the following elements:

- (i) Farstad Shipping group's creditors converted debt claims to equity (the "Conversion of debt")

Farstad Shipping group's senior lenders, bondholders and F-Shiplease AS have completed a capital increase for conversion of debt as follows:

- a) Farstad Shipping ASA assumed debt owing by its subsidiaries to certain senior lenders in the amount of NOK 940 million and the senior lenders have converted NOK 940 million into 752,000,000 new shares in Farstad Shipping ASA at a price of NOK 1.25 per share.
- b) The senior lenders released Farstad Shipping group's subsidiaries of their obligation to pay NOK 332 million in future interest in exchange for a NOK 271 million claim against Farstad Shipping ASA (equaling the net present value of such future interest payments), and the NOK 271 million claim is converted into 774,285,714 new shares of Farstad Shipping ASA at a share price of NOK 0.35.
- c) The outstanding bond debt in FAR03 and FAR04 with a total outstanding amount of NOK 1,407 million, representing a principal of NOK 1,400 million plus interest in the amount of NOK 7 million, is converted into 1,125,516,355 new shares of Farstad Shipping ASA at share price NOK 1.25.
- d) F-Shiplease AS have released Farstad Supply AS of its obligation to pay NOK 70 million of the "amortisation" element and NOK 109 million of the "interest" element of its two bare-boat leasing agreements with F-Shiplease, in exchange for a NOK 161, million claim against Farstad Shipping ASA (equaling the sum of the NOK 70,000,000 "amortisation" element and the net present value of the "interest" element being NOK 91). The NOK 70 million "amortisation" element of the claim is converted into 56,000,000 new shares of Farstad Shipping ASA at a price of NOK 1.25 per share, whereas the NOK 91 million "interest" element of the claim is converted into 259,595,760 new shares of Farstad Shipping ASA at a share price of NOK 0.35.

- (ii) Farstad Shipping ASA have issued NOK 650 million of new equity fully underwritten by Aker and Hemen (the "Equity Issue")



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

The Equity Issue, which was fully underwritten by Aker and Hemen on a 50:50 basis, consists of a NOK 400 million in share issue to Hemen and Aker and NOK 50 million in share issue to Tyrholm & Farstad Invest AS (an affiliate of Farstad Shipping ASA group's main shareholder) ("Private Placement 1"), a NOK 150 million share in issue to Farstad Shipping's bondholders ("Private Placement 2") and a NOK 50 million repair issue to existing Farstad Shipping ASA shareholders and bondholders who were not allocated shares in Private Placement 2 (the "Repair Issue"). The Repair issue was only subscribed for NOK 29 million by Farstad Shipping's shareholders and bondholders, the remaining was subscribed by Aker and Hemen on a 50:50 basis. The subscription price in the Equity Issue was NOK 0.35 per share.

(ii) The existing financing agreements of Farstad Shipping ASA is amended (the "Farstad Amended Financing Terms")

The terms and conditions of the existing financing agreements for Farstad Shipping ASA (except for financing agreements with Westpac and BNDES) is amended and harmonised, including by adding the following features:

- a) The amortisation profile of the loans (after adjustment for the amounts converted to equity) is reduced to 10% of the original profile from 01 January 2017 until 31 December 2021. Commencing in Q1 2022 the balance of amortising senior debt will become amortising in linear instalments of 20% per year, whereas senior loans with a bullet repayment profile will receive an extraordinary repayment of 4% in Q2 2019. The final maturity date for all loans (with maturity date prior to the new maturity date) will be extended to Q4 2023;
- b) A cash sweep mechanism will be introduced;
- c) In addition to certain financial covenants, restrictions will be introduced with respect to Farstad Shipping ASA's ability to pay dividends, incur new debt, carry out equity issues and make capital expenditures;
- d) Minimum value clause at 100% across the group's fleet (but suspended throughout 2019);
- e) Removal of current ownership covenants;
- f) Pre-approval of sale of older vessels at prices below secure debt using agreed mechanisms.

The Farstad Amended Financing Terms ensures that Farstad Shipping ASA is no longer in breach with its financial covenants and long term debt classified as current liabilities is reclassified as non-current liabilities. Total NOK 8,174 million is reclassified from current to Non-current liabilities after the Farstad Shipping ASA Restructuring.

Farstad Shipping ASA's share capital as per 31 December 2016 had a value of NOK 39 million, at a nominal price of NOK 1.00 per share. In 1Q 2017 Farstad Shipping ASA's share capital is reduced with NOK 37 million from NOK 39 million to NOK 2 million by reducing the nominal value of the shares with NOK 0.95 per share from NOK 1.00 to NOK 0.05. The reduced share capital of NOK 37 million is allocated to retained earnings.

Part of the debt conversions to equity in Farstad Shipping ASA, a nominal value of total NOK 2 417 million were converted to equity at the conversion price of NOK 1.25 per share. The fair value of the debt conversions to equity is measured to only NOK 0.35 per shares. Therefore, NOK 0.05 per share is recognised as share capital, NOK 0.30 per share is recognised as additional paid-in capital and NOK 0.90 per share is recognised over the income statement and ends up in retained earnings. This gives the total amount of NOK 97 million in share capital, NOK 580 million in paid in capital and total amount of NOK 1 740 in income statement in Q1 2017.

For the rest of the debt conversions to equity, a nominal value of total NOK 362 million, the conversion price per share is NOK 0.35. NOK 0.05 per share is recognised as share capital and NOK 0.30 per share is recognised as additional paid-in capital, total amount of NOK 52 million in share capital and NOK 310 million in paid in capital in Q1 2017.

For the F-Shiplease lease agreements, a part of the lease payments will be deferred from Q1 2017 and until Q4 2021. Commencing in Q1 2022, the lease payments will revert to the original levels and in addition, all deferred payments will become repayable in linear instalments of 20% per year, with a bullet repayment of deferred payments in Q4 2023. The maturity dates of the leases remain unchanged, being March and June 2025, and a new cash sweep mechanism is introduced in the leases. All the changes to the leases agreements results in a reclassification of the leases from financial lease to operational lease. Non-current assets is derecognised with NOK 1,095 million, current liabilities is derecognised with NOK 48,9 million and non-current liabilities are derecognised with NOK 1,015 million. Even after the amendments of the lease agreements, the agreements are considered as onerous contracts, with an expected negative net present value of NOK 84 million for both lease agreements, recognised in the income statement in 1Q 2017.

All equity issues was completed 23 March.

The Farstad Shipping ASA's pro-forma statement of financial position as of 31 December 2016 adjusted for the effects of the Farstad Restructuring is as per below:

(In NOK million)	As of 31 December 2016	Effect of restructuring	Adjusted for restructuring effects
Assets			
Non-Current Assets	11 808,40	-665,1	11 143,30
Current Assets	1 358,80	585	1 943,80
Assets classified as held for sale	370,5		370,5
Total Assets	13 537,70	-80,1	13 457,60
Equity and Liabilities			
Share capital	39	204,2	243,2
Additional paid-in capital	198,4	1 412,40	1 610,80
Retained earnings	749,2	1 497,90	2 247,10
Equity	986,6	3 114,40	4 101,00
Non-current liabilities	1 895,70	6 401,60	8 097,30
Current liabilities	10 855,40	-9 596,10	1 259,30
Total Equity and Liabilities	13 537,70	-80,1	13 457,60

FARSTAD MARINE AS

15



NOTES TO THE ACCOUNTS (NOK 1 000)

FARSTAD MARINE AS

Business Combination

Furthermore to the announcement 6 February 2017, the parties to the Restructuring Agreement, together with Soff Invest AS and Ivan II AS (jointly the "Solstad Family Companies") and Tyrholm & Farstad AS, have agreed to work for a combination of Solstad Offshore ASA ("Solstad Offshore"), Farstad Shipping ASA and Deep Sea Supply Plc ("Deep Sea Supply") following completion of the Farstad Restructuring, creating a world class OSV company (the "Combination").

The combination is proposed to be structured as follows:

- (i) Deep Sea Supply and Farstad Shipping will merge into and be established as individual subsidiaries under Solstad Offshore, with shareholders of Deep Sea Supply and Farstad Shipping receiving shares in Solstad Offshore as consideration (the "Mergers").

Under the Mergers, Farstad Shipping will merge with a newly incorporated subsidiary of Solstad Offshore and Farstad Shipping's former shareholders will receive shares in Solstad Offshore as merger consideration. The exchange ratio in the Solstad Offshore / Farstad merger will be 0.35:12.50 Farstad shares per Solstad Offshore share.

Contemporaneously with the Solstad Offshore / Farstad Shipping merger, Deep Sea Supply will combine with Solstad Offshore in a merger or merger-like transaction whereby all of Deep Sea Supply's assets, rights and obligations will ultimately be transferred to a subsidiary of Solstad Offshore against consideration in the form of Solstad Offshore shares. The amount of Solstad Offshore consideration shares issued will be based on an agreed exchange ratio of 1.32:12.50 Deep Sea Supply shares per Solstad Offshore share.

- (ii) The existing financing agreements of Solstad Offshore and Deep Sea Supply will be sought amended and harmonised with the Farstad Amended Financing Terms.
- (iii) In connection with the Combination, Solstad Offshore will complete a NOK 200 million private placement directed towards Hemen at a subscription price of NOK 12.50 per share. The proceeds from the private placement will be passed on by Solstad Offshore to the part of the new group comprising the former Deep Sea Supply operations.
- (iv) Aker will convert its NOK 250 million convertible loan to Solstad Offshore in exchange for shares, such convertible loan having originally been granted to Solstad Offshore in 2016 together with a NOK 250 million equity investment by Aker in Solstad Offshore.
- (v) Solstad Offshore's dual share class structure will be collapsed, and all Class A and Class B shares will be converted to common shares on a 1:1 basis.

The transaction elements listed above are interdependent and will become effective simultaneously upon completion of the Combination. A merger plan between Farstad Shipping ASA (acquired) and Solship Invest 2 AS (acquiring), with shares in Solstad Offshore ASA, was approved by the boards of directors in the respective companies 24 of March. However, the Combination is not completed and it is subject to, among other things, agreement on final transaction documentation, competition authority approvals and relevant corporate resolutions.

The senior lenders in Farstad Shipping ASA group have undertaken to vote in favour of and otherwise support the Combination. Further, the senior lenders have undertaken a lockup obligation preventing them from selling their shares in Farstad Shipping ASA until such time as the Combination is finally approved or until 30 September 2017, unless otherwise agreed with Aker and Hemen.

Capital increase by conversion of debt

On the 7 March 2017 Farstad Shipping ASA assumed 374,7 million of Farstad Marine AS' debt to various financial institutions against a recourse claim on Farstad Marine AS. NOK 354,9 million is related to debt conversion and NOK 19,7 million in future interest payment.

At 9 March 2017 Farstad Marine AS increased its equity capital by NOK 374,7 million through conversion of debt to Farstad Shipping ASA.

Negative equity in the company

Farstad Shipping ASA has confirmed that they will provide suitable financing to Farstad Marine AS. Hence Farstad Marine AS will continue to have access to intra-group financing in order to meet its liabilities as they fall due in 2017.



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Farstad Marine AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Farstad Marine AS, which comprise the balance sheet as at 31 December 2016, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and 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 and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally



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accepted in Norway, including International Standards on Auditing (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 law, regulations and generally accepted auditing principles in Norway, including 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 management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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 proposal for the allocation of the result 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Alesund, 15 May 2017
ERNST & YOUNG AS

Ivar-André Norvik
State Authorised Public Accountant (Norway)

Independent auditor's report - Farstad Marine AS

A member firm of Ernst & Young Global Limited