



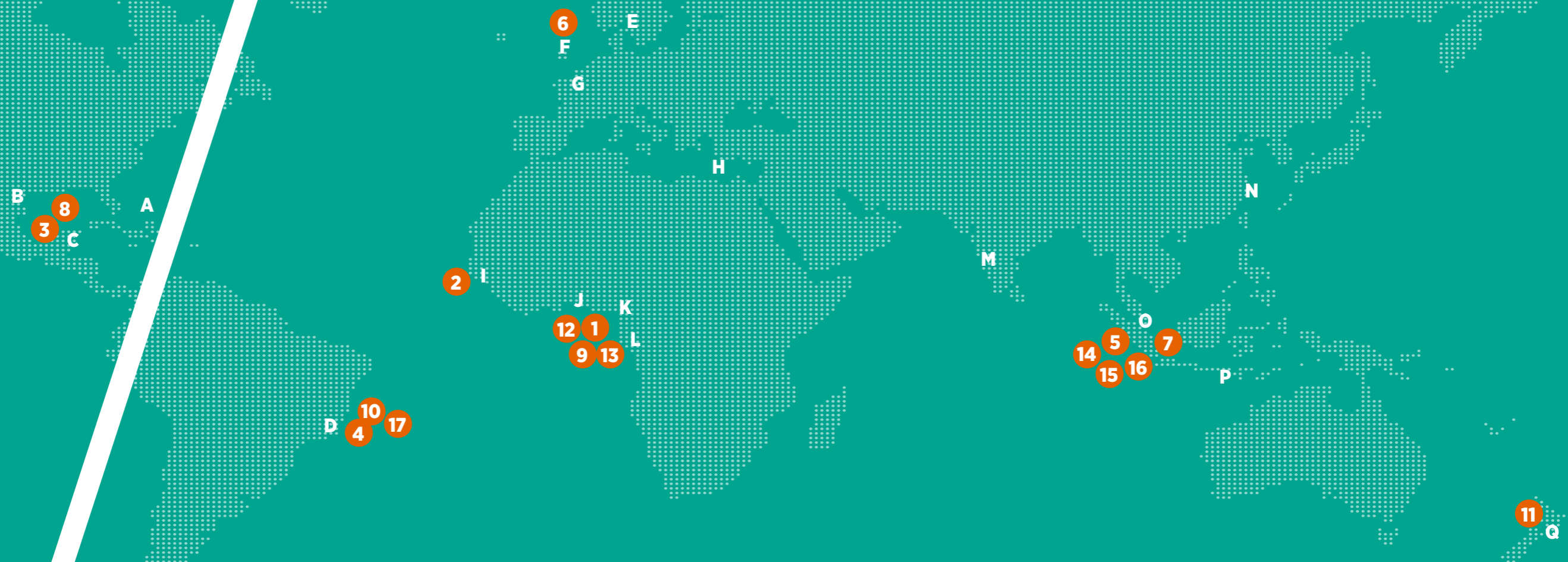
BW Offshore

ANNUAL REPORT 2016

BW OFFSHORE LIMITED



BW OFFSHORE GLOBAL FOOTPRINT



OWNED UNITS



1 SENDJE BERGE, ADDAX/SINOPEC



2 BERGE HELENE, PETRONAS



3 YUUM K'AK'NÁAB, PEMEX



4 BW CIDADE DE SÃO VICENTE, PETROBRAS



5 BELOKAMENKA FSO



17 FPSO PEREGRINO, STATOIL



6 BW ATHENA



7 BW JOKO TOLE, KEI



8 BW PIONEER, PETROBRAS



9 ESPOIR IVOIRIEN, CNR



10 FPSO POLVO, PETRORIO



11 UMUROA, AWE



12 ABO FPSO, ENI



13 PETRÓLEO NAUTIPA, VAALCO



14 AZURITE



15 FPSO CIDADE DE SÃO MATEUS, PETROBRAS



16 BW CATCHER, PREMIER OIL (Under construction)

O&M CONTRACTS

OFFICES

OWNED FLEET:
14 FPSOs, 1 FSO

UNDER CONSTRUCTION:
1 FPSO

O&M CONTRACTS:
1 FPSO

- A BERMUDA
- B USA
- C MEXICO
- D BRAZIL
- E NORWAY
- F U.K.
- G NETHERLANDS
- H CYPRUS
- I MAURITANIA
- J NIGERIA
- K IVORY COAST
- L GABON
- M INDIA
- N CHINA
- O SINGAPORE
- P INDONESIA
- Q NEW ZEALAND

TABLE OF CONTENTS

INTRO

02 GLOBAL FOOTPRINT
04 2016 IN BRIEF
06 CEO'S REPORT
09 MANAGEMENT

FOCUS AREAS

10 WE BUILD
14 WE LEASE
16 WE OPERATE
20 HSSEQ

REPORTS AND INFO

22 HISTORY
24 CORPORATE GOVERNANCE
29 PURPOSE
30 CORPORATE AND SOCIAL RESPONSIBILITY
32 DIRECTORS' REPORT
37 BOARD OF DIRECTORS
38 SHAREHOLDER INFORMATION
40 ADDRESSES

FINANCIAL STATEMENTS

44 CONSOLIDATED FINANCIAL STATEMENTS
82 PARENT COMPANY FINANCIAL STATEMENTS
91 RESPONSIBILITY STATEMENT
92 INDEPENDENT AUDITOR'S REPORT

2016 IN BRIEF

KEY EVENTS

- Long-term financial platform established
- Completed reverse share split
- Contract extension for BW Pioneer to 2020
- BW Pioneer subsea mooring lines replaced
- Contract extension for Espoir Ivoirien to 2022
- Agreement for insurance settlement for FPSO Cidade de São Mateus
- Acquisition of stake in Dussafu field
- Farm-Out Agreement for stake in Kudu license offshore Namibia signed in February 2017

KEY FIGURES

Production uptime		98.0%
Operating revenues	USD million	844.7
EBITDA	USD million	423.4
EBIT	USD million	(35.0)
Net profit/(loss)	USD million	(132.9)
Total assets	USD million	3,367.9
Total equity	USD million	919.9
Equity ratio		27.3%
Market cap	USD million	600
Enterprise value	USD million	2,200
Daily export	boe per day	600,000
Total number of crude cargo offloadings		400

600,000
BOE PER DAY

COMPETENCE

REFERENCES

- BW Offshore has produced class leading HSE and production records, with an LTI of 0.3 and an uptime of 98.0% in 2016
- Yuum K'ak'Náab, the world's largest FPSO with a throughput capacity of 600,000 bbl per day
- BW Pioneer, the first FPSO in the US Gulf of Mexico, one of the deepest moored FPSOs to date, operating at a water depth of 2500 metres
- BW Cidade de São Vicente, the first FPSO on the Lula (ex Tupi) field in Brazil

WE DEPENDABLY DESIGN, BUILD, INSTALL, LEASE AND OPERATE

- BW Offshore offers engineering, procurement, construction and installation, as well as lease and operation services for FPSOs
- BW Offshore's track record includes 28 FPSO projects and 10 FSO projects
- BW Offshore meets its clients' needs through versatile solutions for offshore oil and gas projects
- BW Offshore is known for its project execution and operational capabilities

GLOBAL FOOTPRINT

- BW Offshore is represented in all the major oil and gas regions world-wide, across Asia Pacific, the Americas, Europe and West Africa. The Group currently operates FPSO and FSO units in nine countries (to become 10 in the second half of 2017), supported by local onshore teams and an organisation with a global presence

EBITDA
423
USD MILLION

2,100
EMPLOYEES

CEO'S REPORT 2016


BW OFFSHORE, THE SPECIALIST FPSO BUILDING, LEASING AND OPERATING COMPANY

IN 2016, BW OFFSHORE CARRIED OUT SIGNIFICANT AMENDMENTS AND EXTENSIONS TO OUR FINANCING STRUCTURE TO ENSURE A SECURE AND STABLE PLATFORM UP TO 2020.

2016 opened with the oil price at around USD 30 per barrel and industry gloom continued to affect investment levels and activity across the offshore industry. The price improved over the course of the year as markets rebalanced slightly as a result of lower supply and increased demand, but the price for 2016 still averaged only USD 45. Towards the end of the year, after the OPEC accord to reduce production, we saw a much healthier USD 50-60 level. BW Offshore is of the view that this level will trigger new offshore developments in 2017, which while not resulting in activity at anywhere close to historic levels, will certainly be higher than what we have seen over the past two to three years.

In 2016, BW Offshore carried out significant amendments and extensions to our financing structure to ensure a secure

and stable platform up to 2020. This initiative included a 100 million USD equity raise, amortisation relief from the banks and maturity extensions on the corporate bonds. The decision was necessitated by the potential for much more adverse conditions, including facing refinancing of the corporate debt facilities in 2018 in an extremely negative business environment. While the debt will be reduced by USD 1 billion by year-end 2020, The Group still retains financial resources to execute its business plans for future growth and continued relevance.

To ensure competitiveness and remain recognised as the most cost efficient offshore production provider, BW Offshore carried out a significant cost reduction program in 2016. The program involved management restructuring,

implementation of a matrix organisation for fleet support, significant onshore staff reductions as well as improvement in the offshore organisation and procurement processes. The annualised cost savings of the program are expected to exceed USD 50 million and take full effect from 2017.

Two years after the accident on FPSO Cidade de São Mateus, BW Offshore has reached a settlement with insurers for USD 250 million. We have received and accepted our fines from ANP (National Agency of Petroleum, Natural Gas and Biofuels) totaling USD 11 million. The discussions with Petrobras as to the final fate of the field and unit are well under way and we expect to close this chapter in the first half of 2017. The nine lives lost in the accident remain a constant reminder of the risks associated with our business and will continue

to serve as a warning to always be vigilant to safety in everything we do.

The Catcher project reached two major milestones in 2016; the delivery and installation of the turret mooring system and the assembly of the hull and the start of integration of hull and topside modules. The challenge of the new-built hull from IHI-yard in Japan has to a large extent been mitigated by moving the completion of hull and marine systems to the Keppel yard in Singapore and the topside modules fabricated in Singapore had a very high degree of mechanical completion at the time of the integration. The challenges facing the project team now are the completion of marine systems and the final commissioning before departure to the field. The project is on schedule for first oil in 2017 and is

expected to complete within the initially approved budget. At the time of writing this, BW Offshore is well under way to assemble the new organisation in the company that will successively take over the responsibility and eventually operate the BW Catcher FPSO offshore UK.

Towards the end of 2016, BW Offshore has in partnership with BW Group Limited, signed agreements to acquire a significant share (more than 80%) in the Dussafu field offshore Gabon, subject to certain conditions and approval by Gabon Authorities. The joint venture will be owned 66.67% by BW Offshore and 33.33% by Maple Company Limited, a wholly owned subsidiary of BW Group Limited. The Group believes that the availability of suitable, existing production assets and development equipment and services at lower prices has materially reduced the break-even price of new developments. While being a departure from the traditional business of building, owning and operating FPSOs, the Group has access to the necessary competence and resources to execute the envisioned fast track development. Once production is established, the Dussafu field contains other discoveries and a number of prospects for future exploitation.

In February 2017, BW Offshore farmed—in with 56% and acquired operatorship for the Kudu license offshore Namibia. The Kudu field is a medium sized gas field that is intended to be developed for domestic power generation. BW Offshore is taking the role as operator and facilitator for this significant infrastructure development and will now start the work with the Namibian government, NAMCOR, NamPower (the Namibian power utility), large infrastructure investors and other stakeholders to get this project to a final investment decision.

Dussafu and Kudu are examples of how the Group intends to facilitate development of proven hydrocarbon resources. While being a departure from the standard build, lease and operate model, this is a good way to use the considerable

field development competencies we have acquired over the years to generate shareholder value.

BW Offshore fundamentally believes that there will be a continued drive for specialisation in the upstream oil and gas business. We are confident of our value as a partner to oil and gas companies, given our unique service offering of cost effective assets and operations for offshore oil and gas production. Our current view is that demand will increasingly catch up with supply and trigger new oil developments, not only on land but also offshore. We foresee that the current business dynamic will continue for some time and therefore it is important for us to be firmly committed to cost leadership in our operations but also look for new opportunities where existing assets can form the basis for highly cost efficient developments.

The operating fleet provides a solid foundation for the business and will continue to generate a steady contribution in the years ahead. Contracted revenue visibility is currently at an average of eight years – including options. BW Offshore has been undertaking significant life extension work on several vessels in the fleet and we continue to invest in maintaining our fleet’s dual advantage of high quality and considerable future business potential.

I want to commend each and every BW Offshore employee in every office and on every unit in our team for their hard work and resilience in what has been another challenging year. My sincere thanks to all of you for the strong work ethic, commitment and dedication demonstrated by you at work each day. Thanks are also due to our customers and business partners for their solid and reliable support. Last but not least, my appreciation also goes to the Chairman and the Board of Directors for another year of strong support, valued counsel and sound steer.

MANAGEMENT



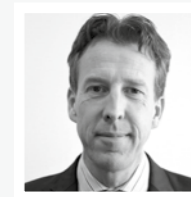
Carl K. Arnet
CEO



Knut R. Sæthre
CFO



Rune Bjorbekk
CCO



Marco Beenen
COO



Magda Karim Vakil
Head of Legal



Rebekah France
Head of Human Capital



Kei Ikeda
Head of Project



Hans Kristian Langsrud
Head of Engineering

BW OFFSHORE FUNDAMENTALLY BELIEVES THAT THERE WILL BE A CONTINUED DRIVE FOR SPECIALISATION IN THE UPSTREAM OIL AND GAS BUSINESS.



Carl K. Arnet
CEO



STRONG CREDENTIALS

Over the past three decades, BW Offshore has completed 38 FPSO and FSO conversions resulting in a strong conversion competence developed over time. In addition, BW Offshore has the unique privilege of having operated these units. Both these factors ensure a robust foundation for future projects. In its valuable position of being experienced in all phases from design engineering through to long-term operations, BW Offshore has a unique competitive advantage when it comes to providing clients with an efficient total life cycle cost.

FIT FOR PURPOSE CONCEPT

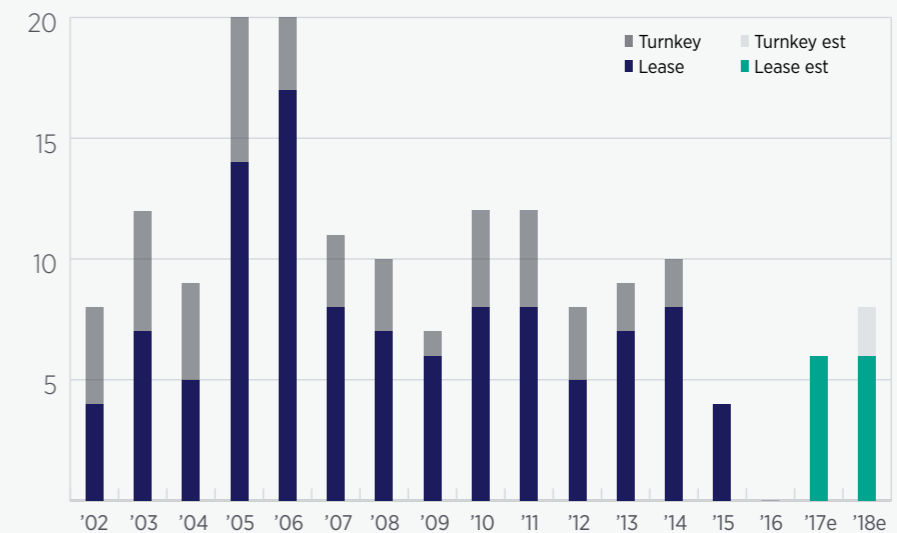
The FPSO concept selection stage is critical and determines much of the future technical and economic lifecycle of the unit in production. Concept development begins early in the tendering process with a close collaboration between the

client team and BW Offshore concept and technology experts to explore and evaluate options. BW Offshore has a core team of engineers heavily involved in this phase.

A highly experienced and well accomplished team allows for unique, innovative and fit for purpose solutions to be considered. This is balanced by extensive real life FPSO experience ensuring that the FPSO design concept is pragmatic and workable.

Hull selection and the new-build /conversion decision is one of the first which influences the design. Making the right choice requires a good understanding of the risks and rewards of each alternative. Weighing the benefits of a proven hull, the costs of refurbishment and the schedule implications against a new-

GLOBAL FPSO AWARDS



Source: Fearnley

38
FPSO/FSO PROJECTS
COMPLETED

built hull is a complex optimisation exercise that company engineers are expert at performing and providing to clients.

There are also numerous other factors to be considered in the quest for an optimal solution. The weather conditions in the field need to be carefully considered as do the field, oil quality, gas solutions, water, environmental concerns and of course, the regulatory framework. In all these areas BW Offshore has amassed a substantial experience database over the years. Early engagement with the client team ensures a solid concept selection process to meet technical and financial objectives over the lifecycle of the unit.

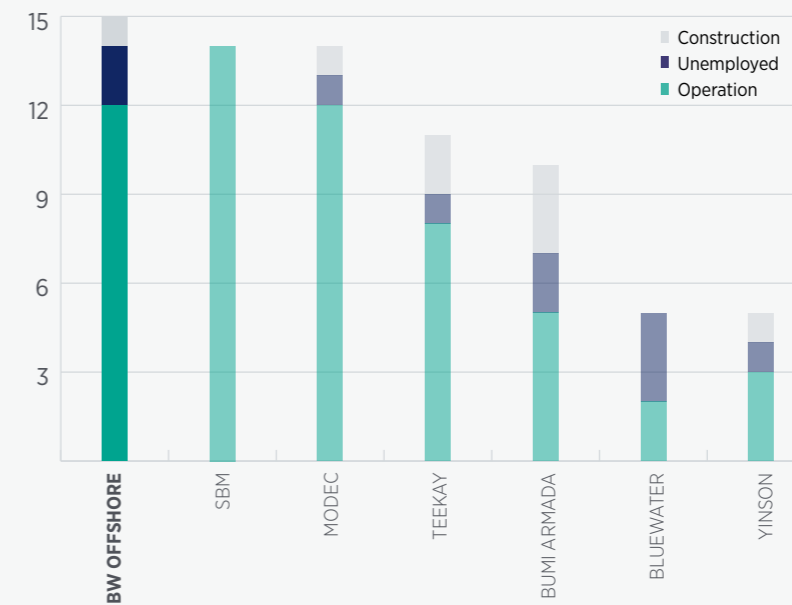
PRAGMATIC AND INNOVATIVE DESIGN

When it comes to engineering design, three factors make

BW Offshore hard to match - the in-house competence with a focused core team of engineering experts, technical documentation and standards built from years of FPSO engineering experience and decades of operating experience working with FPSOs long after they have been designed and built. The team at BW Offshore has established optimised design criteria taking into account details such as prevailing laws and regulations, client requirements and past experience. The Group owns a fleet of 14 FPSOs, one FPSO under construction and 1 FPSO, operating in West Africa, Brazil, Gulf of Mexico, the US Gulf, Indonesia, New Zealand and in the North Sea from second half of 2017. Currently, four units are in lay-up, marked for new projects. Each day brings new opportunities for learning and improving on technical maintenance and uptime management.

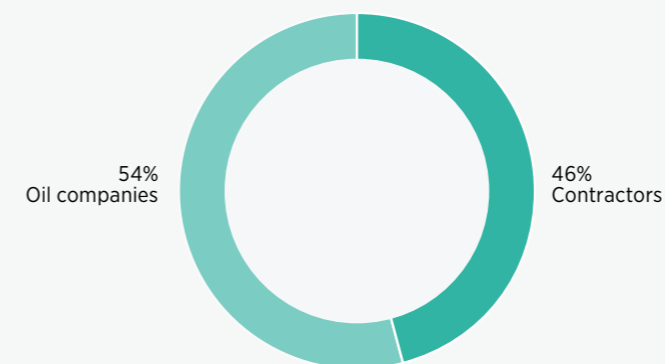


FPSO CONTRACTORS Fleet



Source: Fearnley

FPSO OWNERSHIP



Source: EMA

The long-term commitment also ensures that the focus is less on meeting short-term cost objectives in the project phase and more on the cost of the asset over its entire lifecycle. A solid base of engineering standard documentation ensures a consistent and optimised approach to engineering while ensuring that new lessons learned from operations are constantly incorporated.

The trend now is for clients to commission the BW Offshore engineering team to participate in paid Front End Engineering Design (FEED) studies either exclusively or in competitive tenders. Given the multi-million dollar investments required in FPSO conversion and new building, this is a logical development. The team is also approached from time to time to support and complement a client team in the role of

Owner's Engineer - helping oversee engineering sub-contractors on behalf of the client.

TRANSLATING VISION TO REALITY

From engineering to procurement of materials and equipment, and fabrication and integration, to finally testing the facility before hand over to the operations team, project execution is complex. It also requires extreme discipline to ensure that multiple hundreds of people from BW Offshore, subcontractors and yards work together seamlessly to deliver on time and on budget. The project execution division is responsible for ensuring a structured, methodical, disciplined, repeatable and continuously improving approach to project execution. BW Offshore has a strong in-house project execution resource pool comprising project engineers, construction

superintendents and managers, safety and quality personnel, supply chain competence, project planners, estimators and cost controllers, mechanical completion, commissioning and start-up experts.

A team of discipline engineers and engineering managers with topside, hull and overall responsibility ensure that a strong link is maintained with the engineering team during project execution. This is essential to ensure that the design concept and the engineering deliveries are translated effectively to a working, well-constructed FPSO. Frontloading of engineering and procurement activities is essential in project execution to ensure sufficient time for construction teams to execute plans and build the facility. This in turn allows for a thorough and timely commissioning process where

individuals who combine the best of project and operations experience test the unit adequately to ensure a smooth start-up and high regularity from the get go.

Project teams are put together in a bespoke manner - handpicking individuals with specialist knowledge and experience for each assignment and partnering with appropriate subcontractors. This allows BW Offshore to combine competence with scalability. Pulling such multi-national, multi-skilled and multi-locational teams together in a coordinated manner requires a high level of planning and organisation as well as a strong corporate culture built on teamwork, communication and solution orientation.



FUNDING FOR THE RIGHT PROJECT AND THE RIGHT CLIENT

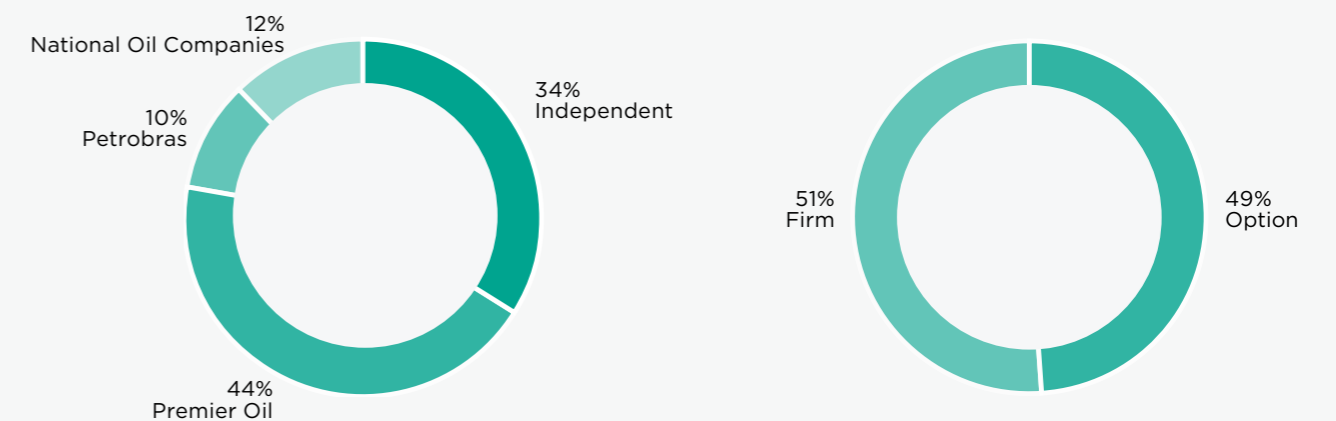
Leasing the production asset from BW Offshore, has allowed clients to focus on their core competence areas of developing and managing reservoirs. The lease approach also reduces the investment and financial exposure for clients related to major production assets.

The fleet represents a large investment in advanced offshore production facilities. BW Offshore has an excellent track record for redeployment and contract extensions, and is well placed to realise untapped commercial potential in the existing fleet.

FUNDING BASED ON CONTRACTS WITH CLIENTS

BW Offshore has a strong relationship with a large number of international banks and close contact with the equity market through the Oslo Børs listing. This enables the structuring of financial packages, enhanced by lease contracts with reputable clients. BW Offshore has also successfully created funding alternatives through the bond market, in addition to interest from equity partners on individual projects. BW Offshore has been in a position to operate units effectively thanks to its global footprint and extensive market access. It has been our experience that for the right project with the right client, funding can be accessed.

BW OFFSHORE'S REVENUE BACKLOG



BW OFFSHORE HAS AN EXCELLENT TRACK RECORD FOR REDEPLOYMENT AND CONTRACT EXTENSIONS, AND IS WELL PLACED TO REALISE UNTAPPED COMMERCIAL POTENTIAL IN THE EXISTING FLEET.

COORDINATED MANAGEMENT

The contract between the oil company or the operator and BW Offshore regulates numerous operational and financial obligations including production and processing performance. Leases are structured to ensure that unit ownership and other details comply with local law and tax regulations in the country of operation. BW Offshore offers significant support in the form of management resources and staff to execute, arrange and manage the ownership and operation of the FPSO. BW Offshore serves as a single point of contact behind the scenes for various parties and processes while offering field partners a transparent day rate.

LIFETIME MAINTENANCE AND SUPPORT

BW Offshore takes full responsibility to operate and maintain, as well as upgrade or modify, the production asset as needed by the client in a lease arrangement. This ensures that production requirements are met for the total duration of the field life including necessary funding, availability of appropriate competencies, as well as know-how of the production equipment.

WE OPERATE



PERFORMANCE COMMITMENT

Safe operations and high uptime is not only a requirement but an obligation for BW Offshore to clients and employees. We have seen the terrible consequences of failure and are even more relentless in our focus and commitment to class leading Health, Safety, Security and Environmental (HSSE) standards combined with class leading asset integrity management. BW Offshore is a significant offshore employer in all the countries where it operates, providing local opportunities as well as access to an international talent pool of 1377 professionals with production and marine backgrounds.

EXPERIENCE AND RESULTS

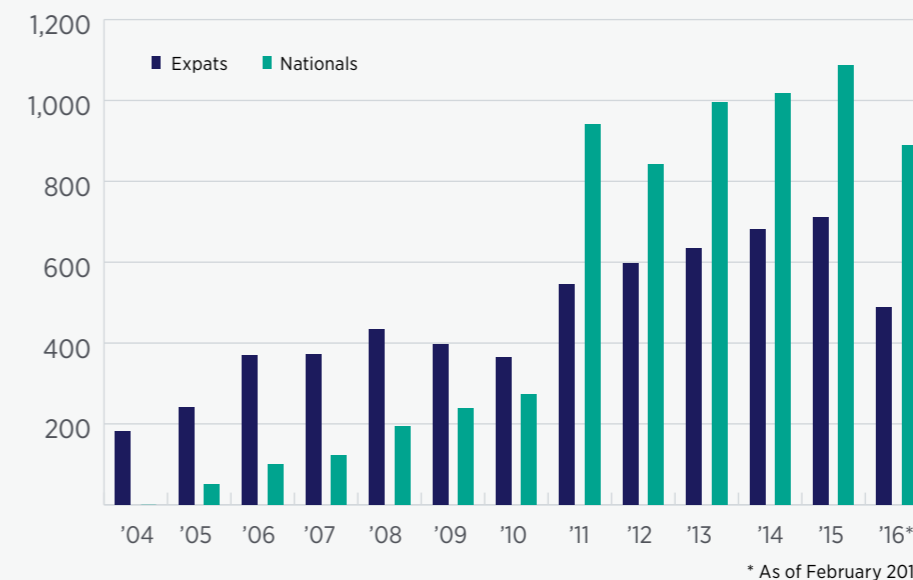
With an average up time routinely at 99% over the past five years, BW Offshore exceeds client expectations but recognises

internally that uptime must never be the priority over safe operations. More than 600,000 barrels of oil equivalent in daily volume is handled by 12 FPSOs in areas as diverse as West Africa, the South Atlantic off Brazil, the Gulf of Mexico, the North Sea and South East and Far East Asia. The profile is highly sophisticated dis-connectable FPSOs and test production units that are frequently relocated at the client's request. The high quality and consistent performance generates solid cash flow for clients.

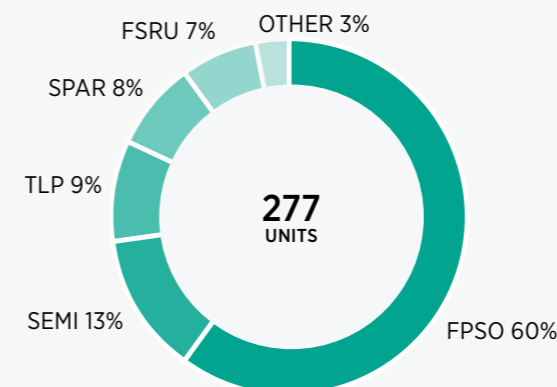
COMPETENT AND MOTIVATED WORKFORCE

BW Offshore's operational performance requires a highly qualified, competent and dedicated technical support and logistics service staff. A strong network of onshore in country

BW OFFSHORE'S OFFSHORE PERSONELL
Expats and Nationals 2004-2016



GLOBAL FLOATING PRODUCTION UNITS



Source: EMA

BW OFFSHORE'S OPERATIONAL PERFORMANCE REQUIRES A HIGHLY QUALIFIED, COMPETENT AND DEDICATED TECHNICAL SUPPORT AND LOGISTICS SERVICE STAFF.

offices ensuring operational support linking the units to shore. BW Offshore's work ethic and culture, high level of experience and competence, global work opportunities and challenging class leading assignments requires the Group to be an attractive employer. Global recruitment centers and manning supply partners attract and select best in class candidates for fleet positions offshore from New Zealand, the Philippines, India, Africa, Brazil, Norway, the UK, Russia and Latvia. BW Offshore's international pool of manpower allows for global rotation of talent based on required competence. There is high commitment to deployment of local content in countries where the Group operates with a heavy investment in training and development of native personnel. BW Offshore culture of 'can do' is fused with a strong

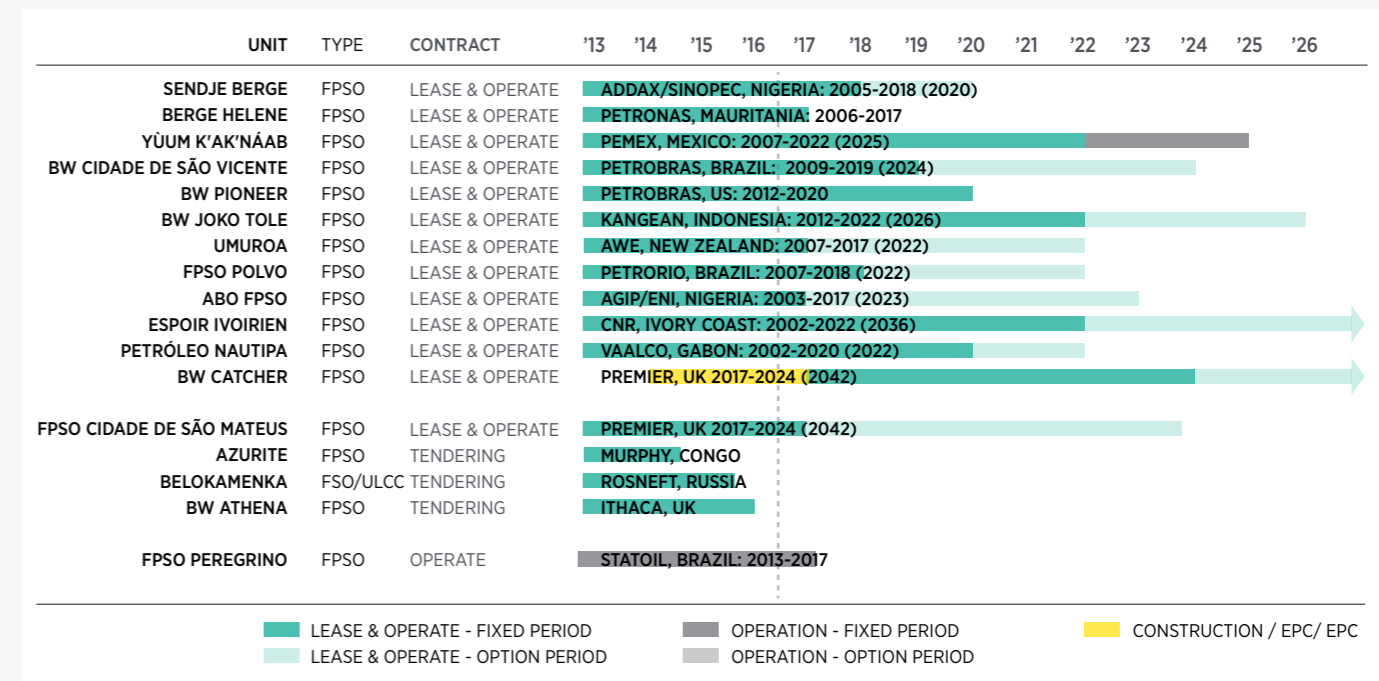
recognition that each and every employee is mandated to question the safety and method in what we do.

OPERATIONS AND MAINTENANCE EXPERTISE

BW Offshore is from time to time provided Operations & Maintenance (O&M) services to FPSOs built, owned or leased by clients. BW Offshore makes a solid partnering choice for clients wanting to outsource the technical competence to run and operate these complex units. With an existing operational network to leverage, the Group offers synergies that are difficult for a client to achieve on a stand-alone basis. Well established infrastructure, manning pools and supply chain networks are some immediate advantages to clients in addition to the familiarity with regulatory requirements,



OUR FLEET AND CONTRACTS



BW OFFSHORE IS TODAY LOOKING AT LIFE EXTENSION SCENARIOS OF UP TO 20-25 YEARS IN ADDITION TO THE INITIAL 10-YEAR TERM.

technical maintenance and life-cycle cost management offered by BW Offshore.

CAPTURING LIFE EXTENSION AND REDEPLOYMENT OPPORTUNITIES

Modifications of existing FPSOs in situ to extend production or redeployment can unlock significant value for clients and BW Offshore. BW Offshore's project and engineering expertise makes this possible. Working closely with client teams, BW Offshore has set up internal teams specifically for this purpose, combining competent project and operations staff from across the organisation. Managing modifications and upgrades on live producing units calls for specialised competence as safety related and economic risks multiply compared to projects

run on site in a shipyard. BW Offshore is today looking at life extension scenarios of up to 20-25 years in addition to the initial 10-year term. Maintaining asset integrity in situ in such scenarios represents some of the most advanced technical execution challenges in the business. Being able to redeploy a unit with minimal modifications can unlock development and create significant value even at low oil price scenarios. Matching the field requirements with the capabilities of existing assets, is a key competency in BW Offshore's engineering and operations staff.

**USD 3.4
BILLION
TOTAL ASSETS**



STRONG COMMITMENT

BW Offshore is fully committed to safety, occupational health, quality management and environmentally responsible performance. BW Offshore has implemented effective management systems and routines with a focus on continuous improvement in all its endeavors.

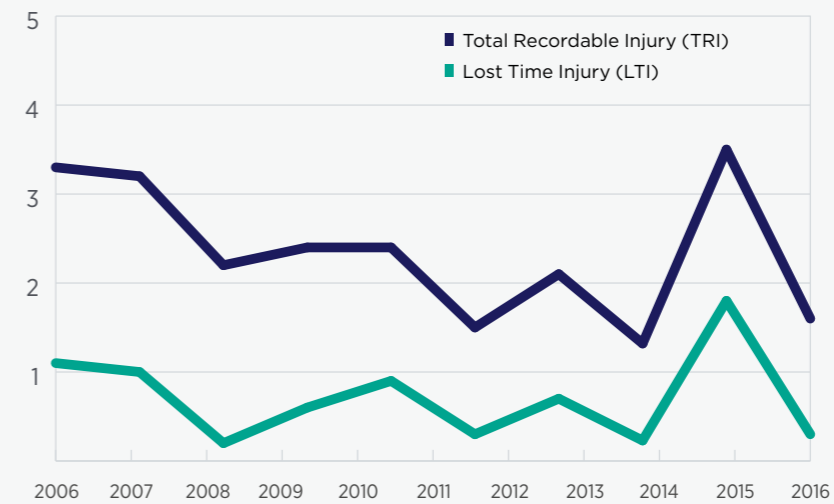
The Group holds certification to the ISO 9001, ISO 14001 and OHSAS 18001 international standards, which recognise the way it manages its business processes, its commitment to environmental excellence and its health and safety systems. The Group also holds a Document of Compliance to the International Safety Management Code.

BW Offshore prioritises HSE in all its operations and believes that all incidents resulting in harm to people, the environment

and to property can be prevented. The Group's goal is to be an industry leader, with the lowest reasonably possible frequencies for lost time injuries, high risk incidents, including spills to the environment and unplanned emissions, and occupational illnesses. The Group continually monitors trends and takes prompt action to prevent or reverse any unwanted developments. BW Offshore gives all employees the explicit authority to stop all actions that they think are unsafe and/or unsure of and initiate a process to define and clarify without any repercussions or questions.

The graph 'BW Offshore HSE statistics' shows the rolling 12-month average per million exposure hours for all persons directly involved in the Group's activities for key elements it measured in 2016. The statistics include contractors working

BW OFFSHORE HSE STATISTICS
Per million hours



TRI-rate 2016: 1.60
LTI-rate 2016: 0.30

THE COMPANY'S GOAL IS TO BE AN INDUSTRY LEADER, WITH THE LOWEST REASONABLY POSSIBLE FREQUENCIES FOR LOST TIME INJURIES.

on BW Offshore units.

BW Offshore follows the oil companies International Marine Forum (OCIMF) guidelines for reporting marine incidents: **Lost Time Injury (LTI)**: an injury in the workplace which means the injured person is unable to resume their normal duties on the next or subsequent shifts.

Total Recordable Injuries (TRI): the sum of lost time injuries, restricted work cases and medical treatment cases.

As a proactive measure, BW Offshore monitors the trend on High Risk Incidents (HRI) which are subjected to a formal incident investigation process.

High Risk Incidents (HRI): an incident that could result in a major accident (dropped objects, property damage, fire, etc.).

LTI
0.30
PER MILLION HOURS



38 FPSO/FSO PROJECTS DELIVERED



BERGE TROLL (1989)
- BW Offshore's first FPSO, a LPG FPSO operating for Chevron in Angola.



YUUM K'AK'NAAB (2007)
- the world's largest converted FPSO with a throughput capacity of 600,000 bbl per day, operating for Pemex in Mexico.



BW CIDADE DE SÃO VICENTE (2009)
- early test production.



BW PIONEER (2012)
- the world's deepest producing FPSO, operating at 2,500 meters in the US GOM for Petrobras.



BW JOKO TOLE (2012)
- gas compression capacity of 340 mmscfpd, operating for KEI in Indonesia.

BERGESEN

WORLD-WIDE



Restructuring and re-branding



2005

2006

Acquisition of APL

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

Founded by Sig. Bergesen

1935

Dry bulk market entry

1967

LPG market entry

1978

Bergesen listing

1986

Leader in crude and gas shipping markets with 100 vessels

1996

LNG market entry

2000

Restructuring and re-branding

2005

BW Offshore listing on the Oslo Stock Exchange

2006

Acquisition of APL

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

Founded by Y. K. Pao

1955

First VLCC: World Chief

1969

Largest independent shipping group in the world: 200 vessels of 20 million dwt

1979

Acquisition of N&T Argonaut

1999

Bergesen acquisition and de-listing

2003

World's largest FPSO (Yuum K'ak'Naab)

2007

First FPSO with drilling capabilities (FDP SO Azurite)

2009

First FPSO in US GOM and deepest production unit world-wide (BW Pioneer)

Re-entering North Sea FPSO market (BW Athena)

2012

O&M contract with Statoil for FPSO Peregrino

2013

Contract for BW Catcher

2014

BW Offshore Limited is a Bermuda limited liability company listed on Oslo Børs (the Oslo Stock Exchange).

BW Offshore Limited (hereinafter 'BW Offshore' or 'Company') and its activities are primarily governed by the Bermuda Companies Act, its Memorandum of Association and its by-laws. Certain aspects of the Company's activities are governed by Norwegian law pursuant to the Listing Agreement between the Oslo Børs and the Company. In particular, the Norwegian Securities Trading Act and the Norwegian Stock Exchange Regulations will generally apply.

1. Implementation and reporting on corporate governance

The Board of Directors (the 'Board') is of the opinion that the best interests of the Company, and its shareholders taken as a whole, are best served by the adoption of business policies and practices which are legal, compliant, ethical and open in relation to all dealings with customers, potential customers and other third parties. These policies are fair and in accordance with best market practice in relationships with employees and are also sensitive to reasonable expectations of public interest.

The Board therefore commits the Company to good corporate governance, and has adopted the most current version of the Norwegian Code of Practice for Corporate Governance dated 30 October 2014 (the 'Code'), prepared by the Norwegian Corporate Governance Board.

The Board shall provide an overall overview of the Company's corporate governance in the Company's annual report. The review shall include each individual point of the Code. If the Company does not fully comply with the Code, this shall be explained in the Company's annual report.

BW Offshore has implemented corporate principles, ethical guidelines and guidelines for corporate social responsibility. These principles and guidelines are described in BW Offshore's Code of Ethics and Business Conduct and internal policies.

2. The Business

In accordance with common practice for Bermuda incorporated companies, the Company's objectives as set out in the Company's Memorandum of Association are wider and more extensive than recommended by the Code.

The Company's objectives and main strategies are described in the annual report.

3. Equity and Dividends

The Board continuously evaluates the Company's capital requirements to ensure that the Company's equity capital is at a level which is suitable in light of the Company's objectives, strategy and risk profile.

Pursuant to the Company's by-laws, the Board is authorised

to declare dividend to the shareholders. The dividend policy can be found on BW Offshore's website. In light of the reduction in industry activity levels that has gradually increased since 2014, the Board of Directors has reduced dividends payments throughout 2015, until it was decided to suspend dividend payments from the third quarter of 2015 until market visibility improves. Furthermore, as part of the 2016 Financial Plan, the Company has agreed to certain restrictions as to the distribution of dividends.

Pursuant to Bermuda law and common practice for Bermuda incorporated companies, the Board has wide powers to issue any authorised unissued shares in the Company on such terms and conditions as it may decide, and may exercise all powers of the Company to purchase the Company's own shares. The powers of the Board to issue and purchase shares are neither limited to specific purposes nor to a specified period in keeping with the recommendations of the Code. As part of the 2016 Financial Plan, the Company has agreed to certain restrictions as to the purchase of the Company's own shares.

4. Equitable treatment of shareholders and transactions with close associates

The Company has one class of shares. Each share in the Company carries one vote, and all shares carry equal rights, including the right to participate in general meetings. All shareholders shall be treated on an equal basis, unless there is just cause for treating them differently.

Pursuant to Bermuda law and common practice for Bermuda incorporated companies, the shareholders of the Company do not have pre-emption rights in share issues unless otherwise resolved by the Company. Any decision to issue shares without pre-emption rights for existing shareholders shall be justified. In the event that BW Offshore issue shares without pre-emption rights of existing shareholders, the Board of Directors will provide the justification in the stock exchange announcement issued in connection with the increase in share capital.

Any transactions the Company carries out in its own shares shall be carried out either through the Oslo Stock Exchange or with reference to prevailing stock exchange prices if carried out in another way. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

In case of material transactions between the Company and a shareholder, a shareholder's parent company, director, officer, or persons closely related to any of these, the Board will obtain a valuation from an independent third party. Independent valuations shall also be obtained in respect of transactions between companies in the same group where any of the companies involved have minority shareholders.

Directors and officers of the Company and other leading

personnel shall notify the Board if they directly or indirectly have a significant interest in a transaction carried out by the Company.

5. Freely negotiable shares

The Company's constituting documents do not impose any transfer restrictions on the Company's shares and the shares in the Company are freely transferable. However, the By-laws include a right for the Board to decline to register the transfer of any share, and may direct the Registrar to decline (and the Registrar shall decline if so requested) to register the transfer of any interest in a share held through Verdipapirsentralen (VPS), where such transfer would, in the opinion of the Board, likely result in 50% or more of the aggregate issued and outstanding share capital of the Company, or shares of the Company to which are attached 50% or more of the votes attached to all issued and outstanding shares of the Company, being held or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares being effectively connected to a Norwegian business activity, or the Company otherwise being deemed a Controlled Foreign Company as such term is defined pursuant to Norwegian tax legislation. The purpose of this provision is to avoid the Company being deemed a Controlled Foreign Company pursuant to Norwegian tax rules.

6. General meetings

The annual general meeting will normally take place on or before 31 May each year. The Board shall make efforts to ensure that as many shareholders as possible may exercise their voting rights in the Company's general meetings and that the general meetings are an effective forum for the views of shareholders and the Board. In order to facilitate this:

- the notice and the supporting documents and information on the resolutions to be considered at the general meeting shall be available on the Company's website no later than 21 calendar days prior to the date of the general meeting;
- the resolutions and supporting documentation, if any, shall be sufficiently detailed and comprehensive to allow shareholders to understand and form a view on matters that are to be considered at the meeting;
- the registration deadline, if any, for shareholders to participate at the general meeting shall be set as closely to the date of the general meeting as practically possible and permissible under the provision in the by-laws; and
- the Board and the person who chairs the general meeting shall ensure that the shareholders have the opportunity to vote separately on each candidate nominated for election to the Company's Board and committees (if applicable)
- Registration is made in writing, per telefax or by e-mail. Shareholders who cannot be present at the general meeting must be given the opportunity to vote by proxy or to participate by using electronic means. The Company shall in this respect:

- provide information on the procedure for attending by proxy;
- nominate a person who will be available to vote on behalf of shareholders as their proxy; and
- prepare a proxy form, which shall, insofar as this is possible, be formulated in such a manner that the shareholder can vote on each item that is to be addressed and vote for each of the candidates that are nominated for election.

Pursuant to common practice for Bermuda incorporated companies, the Company's by-laws state that the general meeting shall be chaired by the chairman of the Board unless otherwise agreed by a majority of those shares represented at the meeting.

7. Nomination Committee

The Company shall have a Nomination Committee comprising such number of persons as determined by the Company's general meeting from time to time, and which members shall be appointed by a resolution of the general meeting, including the chairman of the committee. The general meeting shall determine the remuneration of the Nomination Committee and shall stipulate guidelines for the duties of the Nomination Committee.

The composition of the Nomination Committee should reflect a broad range of shareholder interests. The majority of the committee shall be independent of the Board and the executive personnel of the Company. At least one member of the Nomination Committee shall not be a member of the Board of Directors. The Nomination Committee shall not include the Company's chief executive officer or any other executive personnel.

The Nomination Committee's primary duty is to propose candidates for election as members of the Board of Directors and to propose the remuneration to be paid to the members of the Board of Directors. The Nomination Committee shall justify its recommendations.

Any member of the Board of Directors who is also a member of the Nomination Committee may offer himself/herself for re-election to the Board of Directors. This deviation from the Code has been implemented to facilitate cooperation between the Nomination Committee and the Board, and continuity in the Board.

The Company shall provide information on the Nomination Committee and any deadlines for submitting proposals to the committee by shareholders.

8. The composition and independence of the Board

The Board shall consist of between five to ten directors and the general meeting may authorise the Board of Directors to fill any vacancy in the number of directors left unfilled. The directors are elected for a period of two years unless otherwise determined by the general meeting. Members of

the Board may be re-elected. Only a minority of the directors participating in any decision can be domiciled or living in Norway. The same shall be reflected in the composition of the Board. The Board appoints the chairman amongst the elected Board members.

The composition of the Board shall ensure that it can act independently of any special interests. A majority of the shareholder-elected members of the Board must be independent of the Company's executive personnel and material business connections of the Company. In addition, at least two of the members of the Board must be independent of the Company's major shareholder(s). For the purposes of this Corporate Governance Policy, a major shareholder shall mean a shareholder that owns 10% or more of the Company's shares or votes, and independence shall entail that there are no circumstances or relations that may be expected to be able to influence independent assessments of the person in question.

The composition of the Board does not meet the recommended gender guidelines of the Code, but meets the Company's need for expertise and diversity. A short description of our directors and their respective areas of expertise are presented on the Company's website www.bwoffshore.com.

Members of the Board are welcome to own shares in the Company.

9. The work of the Board

The Board is ultimately responsible for the management of the Company and for supervising its day-to-day management. The duties and tasks of the Board are detailed in the Company's by-laws.

The Board shall produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation. The Board shall issue instructions for its own work, as well as for the executive personnel, with particular emphasis on clear internal allocation of responsibilities and duties.

In order to conduct its work, the Board each year fixes in advance a number of regular scheduled meetings of the Board for the following calendar year, although additional meetings may be called by the chairman. The directors shall normally meet in person, but if so allowed by the chairman, directors may participate in any meeting of the Board by means of telephone. Minutes in respect of the meetings of the Board of Directors are kept by the Company in Bermuda.

The Board shall provide details in the annual report of any Board committees appointed. The Board shall have an Audit Committee as a preparatory and advisory committee for the Board, and the entire Board shall not act as the Company's Audit Committee. In addition, the Board shall have a Remuneration Committee as a preparatory and advisory committee for the Board in order to ensure thorough and independent preparation of matters relating to compensation to the executive personnel.

The Board carries out an annual evaluation of its performance and expertise.

10. Risk management and internal control

The Board ensures that the Company has sound internal control procedures and systems to manage its exposure to risks related to the conduct of the Company's business, to support the quality of its financial reporting and to ensure compliance with laws and regulations. Such procedures and systems shall contribute to securing shareholders' investment and the Company's assets.

Management and internal control is based on Company-wide policies and internal guidelines in areas such as Finance and Accounting, HSE, Project Management, Operation, Technical and Business Development, in addition to implementation and follow-up of a risk assessment process. The Company's management system is central in the Company's internal control and ensures that the Company's vision, policies, goals and procedures are known and adhered to.

The Board shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements and an annual supervisory plan for internal audit work is approved by the CEO, based on HSSEQ recommendations and risk assessments carried out.

The internal auditor position is independent from the line management and reports directly to the CEO. In addition to its own controlling bodies and external audit, the Company is subject to external supervision by DNV GL for classification in accordance with relevant ISO standards.

The Board's Audit Committee follows up internal control in connection with quarterly reviews of the Group's financial reporting. The Chief Financial Officer, the Company's other relevant senior staff and representatives of the external auditor, attend the meetings of the Audit Committee.

The systems for risk management and internal control also encompass the Company's corporate values, ethical guidelines and guidelines for corporate social responsibility.

BW Offshore has established a Code of Conduct for the Company and its employees.

11. Remuneration of the Board of Directors

The general meeting decides the remuneration of the Board. The remuneration of the Board and its individual directors shall reflect the Board's responsibility, competence, use of resources and the complexity of the business activities.

The remuneration of the directors shall not be linked to the Company's performance and the directors do not receive profit related remuneration or share options or retirement benefits from the Company. Any remuneration in addition to normal fees to the directors is specifically stated in the annual report.

Directors or companies related to BW Offshore, shall not normally undertake special tasks for the Company in addition to the directorship. However, if they do so, the entire Board shall be informed, and the fee shall be approved by the Board.

12. Remuneration of the executive personnel

Remuneration of the executive personnel is reviewed annually. The work is carried out by the Remuneration Committee, which generally considers the executive personnel's performance and also gathers information from comparable companies before making its recommendation to the Board for approval. Such recommendation aims to ensure convergence of the financial interests of the executive personnel and the shareholders.

Any performance-related remuneration to executive personnel is subject to an absolute limit. The limit is approved by the Board of Directors based on a recommendation from the Remuneration Committee.

The Board approves any share option programs in the Company available to the employees of the Company and subsidiaries. The Company is not required by law to prepare guidelines for remuneration of the executive personnel. Detailed information of remuneration, loans, shareholding of the management and any share option programs can be found in the consolidated financial statements and on the Company's website.

13. Information and communications

The Company is committed to provide information in a manner that contributes to establishing and maintaining confidence with important interest groups and stakeholders. The information shall be based upon transparency, openness and equal treatment of all shareholders. A precondition for the share value to reflect the underlying values in the Company is that all relevant information is disclosed to the market. Based on this, the Company will endeavour to keep the shareholders informed about profit developments, prospects and other relevant factors for their analysis of the Company's position and value. It is emphasised that the information is uniform and simultaneous.

A currently updated financial calendar with dates for important events, such as general meeting, publishing of interim annual reports, dates for payment of potential dividend etc. shall be accessible for the shareholders on www.oslobors.no and on the Company's website www.bwoffshore.com.

Public investor presentations are arranged in connection with submission of annual and quarterly results for the Company. The presentations are also accessible on the Company's website. Furthermore, continuous dialogue is held with, and presentations are given to, analysts and investors. Information to the Company's shareholders shall be published on the Company's website at the same time that it is sent to the shareholders.

PURPOSE

14. Take-overs

In the event of a take-over process, the Board shall ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The Board shall also ensure that the shareholders have sufficient information and time to assess the offer.

In the event of a take-over process, the Board shall abide by the principles of the Code, and also ensure that the following take place:

- the Board shall ensure that the offer is made to all shareholders, and on the same terms;
- the Board shall not undertake any actions intended to give shareholders or others an unreasonable advantage at the expense of other shareholders or the Company;
- the Board shall strive to be completely open about the take-over situation;
- the Board shall not institute measures which have the intention of protecting the personal interests of its members at the expense of the interests of the shareholders; and
- the Board must be aware of the particular duty the Board carries for ensuring that the values and interests of the shareholders are safeguarded.

The Board shall not attempt to prevent or impede the take-over bid unless this has been decided by the shareholders in general meeting in accordance with applicable laws. The main underlying principles shall be that the Company's shares shall be kept freely transferable and that the Company shall not establish any mechanisms which can prevent or deter take-over offers unless this has been decided by the shareholders in general meeting in accordance with applicable law.

If an offer is made for a Company's shares, the Board shall issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. If the Board finds itself unable to give a recommendation to the shareholders on whether or not to accept the offer, it should explain the reasons for this. The Board's statement on a bid shall make it clear whether the views expressed are unanimous, and if this is not the case, it shall explain the reasons why specific members of the Board have excluded themselves from the statement.

The Board shall consider whether to obtain a valuation from an independent expert. If any member of the Board, or close associates of such member, or anyone who has recently held a position but has ceased to hold such a position as a member of the Board, is either the bidder or has a particular personal interest in the bid, the Board shall obtain an independent valuation. This shall also apply if the bidder is a major shareholder (as defined in section 8 above). Any such valuation should either be enclosed with the Board's statement, or reproduced or referred to in the statement.

15. Auditor

The Company's auditor is appointed by the general meeting and shall hold office for the term resolved by the general meeting or until a successor is appointed. The auditor is responsible for the audit of the consolidated financial statements of the Company. The auditor shall annually present an audit plan to the Audit Committee and/or the Board.

The auditor's remuneration shall be fixed by the shareholders at the general meeting or in such manner as the general meeting may determine.

The auditor participates in the Audit Committee's review and discussion of the annual accounts and quarterly interim accounts. In these meetings, the Audit Committee is informed of the annual and quarterly accounts and issues of special interest to the auditor. Further, the auditor shall participate in meeting(s) of the Board that deal with the annual accounts. At these meetings the auditor should review any material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the management of the Company and/or the Audit Committee.

The auditor shall at least once a year present to the Board or the Audit Committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The Board shall hold a meeting with the auditor at least once a year at which no representative of the executive management is present.

The Board shall specify the right of the Company's executive management to use the auditor for purposes other than auditing.

The auditor shall annually confirm his independence in writing to the Audit Committee. The Board shall give an account to the general meeting of the auditor's fee, including details of the fee paid for audit work and any fees paid for other specific assignments.

- Be the number one offshore production owner and operator
- Invest in, develop and operate offshore production assets by applying competitive technology and extensive operating experience
- Create value by understanding and managing the risk and rewards of our business
- Maximise return to shareholders whilst understanding the long-term nature of our business

CORPORATE AND SOCIAL RESPONSIBILITY

GUIDELINES

BW Offshore aspires to achieve sustainable development by striking a fair balance between financial results, value creation, sustainability, and corporate responsibilities. The value created shall benefit owners, stakeholders and the society.

BW Offshore requires representatives to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. Representatives must practice fair dealing, honesty and integrity in every aspect in dealing with employees, business relations and customers, the public, the business community, shareholders, suppliers, competitors and government authorities.

In its business activities, BW Offshore will comply with applicable laws and governmental rules and regulations in every country in which BW Offshore is operating. It is the personal responsibility of everyone to adhere to the standards and restrictions imposed by those laws, rules and regulations, including those relating to accounting and auditing matters, and to internal BW Offshore rules (if these are not in conflict with the applicable legislation).

BW Offshore operates worldwide within the industry of developing, leasing and operating floating structures for production, storing and offloading crude oil and natural gas.

The Group has developed policies for ethics and business conduct that constitute general principles and guidelines for business practices and personal conduct which provide a basis for the attitudes and principles that should govern the culture in BW Offshore. These policies include the 'BW Offshore Code of Ethics and Business Conduct' which applies to all employees in BW Offshore and companies in which BW Offshore has a majority interest, including joint ventures, and also to all BW Offshore Board members, officers, temporary employees and legal agents, consultants, intermediaries and others who act on behalf of the BW Offshore. The latest version of the Code is available on the company web page: www.bwoffshore.com

The code is supplemented by specific 'Ethics and Business Conduct Guidelines', other subject matter policies and other relevant internal procedures in BW Offshore's Management System. It is the expectation of BW Offshore that all applicable business partners, suppliers, agents or other third parties (collectively referred to as 'Suppliers') will also observe equivalent principles when conducting businesses with BW Offshore. BW Offshore has established a 'Supplier Code of Ethics and Business Conduct' in which it expresses the expectations the Group holds for its suppliers.

BW Offshore puts particular emphasis on the following:

- BW Offshore is against any and all forms of corruption, and is committed to support and promote a business environment free of corruption and bribery
- BW Offshore is committed to fair and open competition. In no circumstances shall BW Offshore engage in any anti-competitive practices or other activities in violation of applicable anti-trust laws and directives
- BW Offshore prohibits unlawful discrimination against employees, shareholders, officers, directors, customers and suppliers on account of ethnic or national origin, age, sex or religion.
- BW Offshore supports the United Nations Universal Declaration of Human Rights and the standards advised by the International Labour Organisation. Slavery, child labour, torture and other violations of human rights are totally unacceptable.

BW Offshore encourages open discussions about responsible conduct and if any relevant party discover any unethical or illegal practice or find themselves in an ethical dilemma, they are obliged to seek advice. The Group has established routines and an Intranet channel allowing employees to report a concern in respect to breach of laws and regulations even on an anonymous basis. For concerns of a more general nature, an 'Expressions-of-Concern' procedure has been set up. No retaliation will be taken against any employee for raising any concern, questions or complaints in good faith. All reports of suspected violations will be treated confidentially and will be investigated promptly, thoroughly and fairly.

Breaches of BW Offshore's Code of Ethics and Business Conduct or relevant statutory provisions may result in disciplinary action, or dismissal with or without notice, and may also be reported to the relevant authorities. Should an improper practice occur within BW Offshore, we are committed to making necessary corrections and taking remedial action to prevent recurrence.

Undertaking compliance assessment and due diligence on 3rd parties who work for our business and are involved in our supply chain, is an essential part of our Ethics and Business Conduct compliance management. All business partners (including country partners, agents acting on our behalf, and suppliers who provide goods and services to us) are assessed for: compliance with relevant laws and regulations; compliance with the principles and spirit of our BWO Code of Ethics and Business Conduct (and the supporting Guidelines) and; any red flags that might indicate to us that use of the agent/ supplier might have an adverse effect on our reputation. At the outcome of the process, if the compliance risk of using an agent or supplier is too high we may find it necessary not to engage them. The Group administers a training plan and programme for all employees, and relevant 3rd parties, including mandatory general training on the Code and Guidelines, subject matter specific training (e.g. Anti-Bribery specific) and also training tailored for various departments based on the compliance risks of their roles and responsibilities.

Questions or comments related to BW Offshore's Code of Ethics and Business and related policies may be posed to BW Offshore's SVP Compliance, Internal Audit & Risk through the Compliance mailbox: bccompliance@bwoffshore.com

HSSEQ

Health and safety, security, environment and quality ('HSSEQ') have the highest priority in all parts of the Group. BW Offshore's management has established policies for safety, security, occupational health and environmental management. More details on these policies are available on the company web page.

Measurable targets are defined for each onshore and offshore unit to ensure compliance with the adopted policies and to maintain a continuous improvement cycle. Personnel training and familiarisation with the said policies is recognised as being fundamental to achieving an HSSEQ culture of the highest standard and to minimise risks.

BW Offshore's management systems address HSSEQ in detail, are compliant with, and certified pursuant to the International Safety Management (ISM) code for the safe operation of ships and for pollution prevention. BW Offshore's FPSOs are certified in accordance with the requirements of the International Ship and Port Facility Security (ISPS) code. In addition, BW Offshore

is certified to the following international HSSEQ standards:

- ISO 9001 - Quality Management
- ISO 14001 - Environmental Management
- OHSAS 18001 - Occupational Health and Safety Management
- ISM Code - Safety Management and Pollution prevention

Total LTI-rate (Lost Time Injuries) and total TRI-rate (Total Recordable Incidents) for BW Offshore in 2016 were 0.3 and 1.6. The comparable rate for 2015 were 1.8 and 3.5 and for 2014 they were 0.6 and 2.8. BW Offshore follows the oil companies International Marine Forum (OCIMF) guidelines for reporting marine incidents.

Safety

BW Offshore's FPSOs/FSOs are certified in accordance with the requirements in the International Ship and Port Facility Security Code. The security policy of the company, the FPSOs/FSOs and company premises, is to prevent unauthorised access and to prevent the introduction of weapons and other dangerous devices or substances.

Environment

The activities of the Group are subject to environmental regulations pursuant to a variety of international conventions and national, state and municipal laws and regulations, which the Group is committed to uphold, and where appropriate, exceed. BW Offshore had no significant harmful environmental spills during 2016.

ORGANISATION

BW Offshore ended 2016 with 2,094 employees including contract staff, compared to 2,612 in 2015. Activity levels remained low through the year after declining in 2015 compared with previous years. As a result, the Group restructured and performed a rightsizing in 2016, which affected approximately 25% of permanent onshore employees globally. Further steps were taken to improve efficiency in offshore operations and reflect the reduced operating fleet affecting approximately 16% of the offshore employees globally.

The working environment and culture in BW Offshore is considered positive and strong, and despite the dip in morale due to the staff reductions, the atmosphere by year-end in all locations is on the upturn.

The main organisational focus for the first half of 2016 has been on reducing the workforce with minimal impact on performance and safety. The cost reductions aimed for from this exercise have been delivered. At the same time, the core competence and identified key talent has been successfully retained. The focus in the second half of 2016 has been on restoring confidence in the workforce as well as providing clarity for the future.

In 2016, absence due to sickness amounted to 2.0% of total hours worked by the employees. This compares to 1.8% in 2015. BW Offshore strives to be an attractive workplace that offers challenging and motivating jobs and equal development opportunities for all. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitment.

Integrity, Leverage the team, Excellence, Accountability and Disciplined Delivery are the principles for the employees of the Group. Culture surveys are performed regularly to assess the strength of the working culture and show a steady improvement on an already high base.

BW Offshore Limited ('BW Offshore' or 'Group') is one of the world's leading owners and operators of offshore floating production and storage facilities.

The Group's primary activity is lease and operation services of FPSO units as well as engineering, procurement, construction and installation services (EPCI).

BW Offshore is represented in all the major oil and gas regions worldwide, across Asia Pacific, the Americas, Europe and West Africa, supported by local onshore teams and an organisation with a global presence.

At the end of 2016, the Group had units operating offshore Brazil, Gabon, Indonesia, Ivory Coast, Mauritania, Mexico, New Zealand, Nigeria and USA. BW Offshore Limited is a Bermuda incorporated company, listed on the Oslo Børs with the ticker 'BWO'.

2016 has been another challenging year for the offshore oil and gas industry and therefore also for BW Offshore. It is comforting to observe that the oil price towards the end of the year has recovered somewhat from the levels seen at the beginning of 2016. An initiative from OPEC to limit production to regain balance between supply and demand in the market has triggered an improvement in the oil price to a more sustainable level. BW Offshore believes that this, combined with extensive focus from companies in the sector to reduce costs and increase efficiency, will trigger new investments in the offshore oil and gas industry in the years to come.

As an organisation, BW Offshore has seen it necessary to implement adjustments in order to adapt to an environment that has become more economically challenging than before. Early in 2016, an extensive efficiency and re-organisation programme was initiated that affected both the onshore and the offshore organisation. The programme is now well underway as the onshore reorganisation has been completed, while the offshore programme is still continuing. BW Offshore expects to achieve approximately USD 50 million in annual cost savings from this programme.

2016 was also challenging as the debt profile of the Group had to be adjusted to adapt for a more uncertain business environment. The Group underwent a major exercise that has secured a long-term financial platform with more than USD 500 million in additional liquidity until 2020. The initiative included support from banks by giving amortisation relief on existing debt, support from bondholders by extended maturity on corporate bonds and USD 100 million in new equity from shareholders.

Completion of the FPSO BW Catcher for the Catcher oil field in the UK, operated by Premier Oil, is within budget, with expected first oil towards the end of 2017. The project has had challenges with the hull construction and delivery, but by addressing the challenges early, the effect of this has been mitigated. In 2016, the hull has been assembled and the topside modules have been lifted and integrated at the yard in Singapore. The project is now focusing on completion of marine systems and the final commissioning before departure to the field. This project, due to its value, is of paramount importance to the Group and full focus is being given to ensure the FPSO is on location and ready to operate in 2017.

BW Offshore has during 2016 continued discussions with Petrobras for a potential return of FPSO Cidade de São Mateus to Brazil after the accident in 2015. Discussions have so far not been completed, but it is expected that an agreement with Petrobras can be reached during first half of 2017. BW Offshore has also in parallel been discussing with insurers on an early repair settlement for the unit, and managed to sign an agreement for USD 250 million in early January 2017.

BW Offshore and BW Group have agreed to establish a joint venture for the purpose of pursuing development of proven oil and gas interests. The Joint venture will be 66.67% owned by BW Offshore and 33.33% owned by BW Group. Towards the end of 2016 this partnership entered into an agreement with Harvest Natural Resources, Inc. to acquire its 66.667% interest in the Dussafu production sharing contract, and subsequently, in February 2017 an agreement was entered into with Panoro Energy ASA to acquire further 25% in the license. Closing of the transactions are subject to fulfilment or waiver of conditions precedents, including among others approval from the government of Gabon. Following Gabonese license requirements, first oil is planned for 2018. BW Offshore sees this as a way to pursue an extension of its business model where access to available suitable assets combined with lower developments costs on certain fields can make profitable development possible. BW Offshore sees the investment in the Dussafu block as an attractive opportunity with the potential to create significant value for shareholders.

Similarly, early in 2017, BW Offshore entered into a Farm-Out Agreement for a 56% stake of the Kudu license offshore Namibia. National Petroleum Corporation of Namibia (NAMCOR), the Namibian state-owned oil company, will hold the remaining 44% of the license. The Board believes that with development costs being significantly lowered, Kudu represents an opportunity for BW Offshore to take a proactive development role in facilitating an infrastructure project that will produce for 15-25 years and create long-term shareholder value.

OPERATIONS

At the end of 2016, BW Offshore had 12 units in operation. The owned fleet comprises 15 FPSOs (of which one is under construction) and one FSO. Average uptime during 2016 was 98.0% (99.0%)¹.

During first quarter of 2016, Petrobras Americas exercised the option to extend the fixed term for BW Pioneer from first quarter 2017 to first quarter 2020.

The firm contract for Umuroa was extended during first quarter of 2016 as the firm period was extended until fourth quarter 2017.

In January 2016, BW Offshore and Ithaca Energy agreed on a termination of the contract for BW Athena, and the unit was demobilised during February 2016.

During third quarter of 2016, CNR exercised the option to extend the fixed term for Espoir Ivoirien from 2017 until 2022.

During third quarter of 2016 BW Offshore was notified that Statoil, due to an increased focus on their presence in Brazil, will not extend the contract for FPSO Peregrino beyond June 2017.

Operational responsibility for the FPSO P-63 was handed over to Petrobras during May 2016. BW Offshore continued to provide some technical support until November 2016. BW Offshore first received notice in November 2016 that the contract with Petronas for Berge Helene would not be extended beyond May 2017. However, in February 2017, a short term extension was agreed to allow the client to get ready to for disconnection and demobilisation.

BW Offshore is currently negotiating an extension of the contract for Abo FPSO, and in January 2017 an interim extension was signed until 31 March 2017 to secure operational continuity until negotiations have been completed.

BW Offshore has for some time not been paid the full contractual rate by Addax Petroleum Exploration Limited for Sendje Berge. During 2016, the Group submitted a claim to the arbitration tribunal for unpaid contractual rate and is awaiting the outcome of a forthcoming hearing by the arbitration tribunal during first quarter of 2017. The claim amounts to USD 66.7 million by end of fourth quarter.

The total order backlog for the Group is approximately USD 3.4 billion related to firm contracts and USD 6.6 billion including options.

HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY

Health, safety, security, environment and quality ('HSSEQ')

¹ FPSO Cidade de São Mateus is excluded from the average uptime until the unit recommences operations.

have the highest priority in all parts of the Group. BW Offshore's management has established policies for safety, security, occupational health and environmental management.

Significant initiatives have been undertaken during 2016 to enhance the overall Emergency Response process including by engaging a professional third party who has been working in conjunction with the workforce offshore and onshore to standardise the emergency response plans in addition to the trainings conducted in dealing with Major Accident Events. As the offshore units age with time, continuous efforts are being taken to ensure the asset integrity of these units are maintained in line with our requirements. BW Offshore continuously strives to build a solid culture to empower employees to exercise the right to stop work if they think the operation is dangerous.

Total LTI-rate (Lost Time Injuries) and total TRI-rate (Total Recordable Incidents) for BW Offshore in 2016 were 0.3 and 1.6, respectively. The comparable rates for 2015 were 1.8 and 3.5.

BW Offshore had no significant harmful environmental spills during 2016.

ORGANISATION

BW Offshore ended 2016 with 2,094 employees including contract staff, compared to 2,612 in 2015.

The working environment and culture in BW Offshore is considered positive and strong, and there is continuous focus on initiatives for improvement. Culture surveys are performed regularly to assess the strength of the working culture and show a steady improvement on an already high base. In 2016, absence due to sickness amounted to 2.0% of total hours worked by the employees. This compares to 1.8% in 2015.

BW Offshore strives to be an attractive workplace that offers challenging and motivating jobs and equal development opportunities for all. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitment.

FINANCIAL REVIEW OF GROUP FINANCIAL ACCOUNTS

Income statement

The Group's revenue derived from charter hire was USD 639.8 million compared to USD 791.7 million in 2015. The reduction is primarily attributable to BW Athena that was demobilised in January 2016 as well as reduced revenues from BW Pioneer due to the shut down as certain wire segments on the mooring system were replaced in 2016. Revenue derived from lease interests (the operation of Yuum K`ak` Náab and the lease of the FSO Belokamenka) was USD 9.2 million compared to USD 13.6 million in 2015.

The Reduction is mainly due to the termination of the lease contract for FSO Belokamenka during fourth quarter of 2015. Other income reduced to USD 195.7 million compared to USD 302.7 million in 2015. Other income is primarily all related to FPSO Cidade de São Mateus and insurance recoverable recognised for Loss of Hire, insurance for recovery of the unit as well as for repairs during 2015 and 2016.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs, expenses related to construction contracts and expenses related to FEED activities. Total operating expenses were USD 311.3 million compared to USD 381.9 million in 2015. The reduction in operating expenses is related to the cost reduction and efficiency programme that was started in 2016 as well as related to reduced operating costs on BW Athena as she was demobilised during first quarter of 2016.

Other expenses amounted to USD 95.8 million compared to USD 154.0 million in 2015. Other expenses incurred during 2016 are to a large extent related to costs incurred for the salvage of FPSO Cidade de São Mateus as well as provision for settlement of outstanding claims and fines. For 2015 other expenses to a large extent included costs for salvage of the FPSO, but also included some costs related to larger FEED activities carried out.

Administrative expenses include expenses that are not directly attributable to the operation of the Group's FPSOs and FSOs, primarily employment expenses incurred by the offices in Oslo and Singapore as well as expenses related to corporate and tender activities. Total administrative expenses amounted to USD 14.8 million compared to USD 34.8 million in 2015. The reduction is to a large extent a result of the all provision for variable compensation to employees being reversed during 2016 as part of the cost reduction programme that was initiated.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for BW Offshore and its subsidiaries for 2016 was USD 423.4 million compared to USD 537.8 million in 2015.

The Group has performed an impairment assessment of the fleet for 2016. This assessment led to a USD 222.6 million impairment. Impairment of USD 135.5 million is recognised due to the damages on FPSO Cidade de São Mateus caused by the accident in February 2015. The unit will require significant repairs and consequently investments to go back into production, and as long as such investment has not been committed, the Group was required to take an impairment charge at year end. Remaining impairment is charged with USD 49.0 million on BW Athena, USD 19.9 million on FPSO Polvo, USD 8.7 million on Berge Helene and USD 9.5 million on Espoir Ivoirien. Although BW Offshore

expects an improved market as a result of recovery in the oil price the Group has adjusted probabilities for extension of contracts and redeployment of units after end of current contract. Combined with reassessed estimates for capital expenditures needed for life extension this resulted in an impairment on certain units. BW Offshore has also increased the average cost of capital used for impairment testing, and this has reduced the valuation of the fleet overall compared to previous years.

Operating loss was USD 35.0 million, compared to a loss of USD 119.7 million in 2015.

Net financial expenses were USD 65.2 million compared to USD 56.1 million in 2015. The increase is mainly due to net currency losses in 2016 compared to 2015.

Tax expense amounted to USD 32.7 million compared to USD 40.5 million in 2015. Taxes have reduced year on year as a result of reduced revenues as BW Athena has been demobilised and as a consequence of the client not paying full rate on Sendje Berge resulting in lower taxes.

Net loss was USD 132.9 million compared to a net loss of USD 216.3 million in 2015.

Financial position

Total assets were USD 3,367.9 million as at 31 December 2016 compared to USD 3,439.7 million in 2015. The net reduction of USD 71.8 million mainly relates to impairments and depreciation partially offset by capex, in particular the investment in BW Catcher.

As at 31 December 2016, the Group had net equity of USD 919.9 million compared to USD 944.4 million at 31 December 2015. The net equity ratio as at 31 December 2016 was 27.3% compared to 27.5% as of 31 December 2015.

As of 31 December 2016, the Group had interest-bearing debt of USD 1,741.8 million compared to USD 1,741.5 million in 2015. BW Offshore is mainly funded through a USD 2.4 billion seven-year senior secured credit facility established in 2011. The Group also has four unsecured bonds as of 31 December 2016. The first one established in 2012 is a NOK 500 million bond. The second one was completed in first quarter of 2013 and is also a NOK 500 million bond. The third one was completed first quarter of 2014 and is a NOK 750 million bond. A fourth bond was completed during second quarter 2015 and is a NOK 900 million bond. To mitigate the currency risk, all bond loans have been swapped to USD.

BW Offshore has a USD 284.6 million financing facility agreement for BW Joko Tole, split between a USD 250 million

five-year term loan and a USD 34.6 million-performance bond. BW Offshore also has a finance facility in place for Umuroa.

During 2014, the Group entered into a USD 800 million senior secured pre- and post-delivery term loan facility for the FPSO built to operate on the Catcher oil field in the UK North Sea.

In March 2015, BW Offshore signed the facility documentation for a new USD 80 million senior secured credit facility in respect of Petróleo Nautipa. The loan has a tenure of 7.5 years.

As part of the long-term platform completed during 2016, covenants on all facilities were amended, which resulted in leverage ratio covenant being amended from 5.50:1 to 6.00:1 and the equity ratio covenant changed from 25% to 20%.

For further details on the amendments as a result of the long-term financial plan, we refer to note 20 in the consolidated financial statements.

Net interest-bearing debt at 31 December 2016 was USD 1,634.9 million.

Cash flow

Net cash inflow from operating activities amounted to USD 387.5 million compared to net cash inflow of USD 438.4 million in 2015. Net cash outflow from investment activities amounted to USD 399.7 million, compared to a net cash outflow of USD 396.2 million in 2015. Cash outflow on investing activities is mainly related to capitalisation on the Catcher project and life extension activities on units in operation. Most life extension activities are either covered on a cost plus basis or reimbursed through higher day rates. Net cash outflow from financing activities amounted to USD 2.7 million compared to USD 135.8 million in 2015.

Dividends

As part of amendments to existing debt facilities during 2016 it was agreed that BW Offshore will be restricted from paying dividends, share buy-backs or buying back bonds until March 2020. No dividends were paid during 2016.

GOING CONCERN

As per year-end 2016, BW Offshore is in compliance with all financial covenants. Based on the Group's current fleet, the outcome of the recent financial platform established, contracts and overall position at the end of the year as well as the current outlook, the Board is of the opinion that BW Offshore has a good foundation for continued operations. The accounts have therefore been prepared on a 'going concern' basis.

PARENT COMPANY ACCOUNTS

The financial statements of the parent company, BW Offshore Limited, are prepared and presented in accordance with international financial reporting standards (IFRS). The Company reported a net loss of USD 211.8 million for 2016, compared to a net loss of USD 231.7 million in 2015. BW Offshore Limited is a holding company with no operating activities. The loss for 2016 is primarily caused by impairments on shares in subsidiaries and intercompany receivables.

Total assets were USD 1,613.6 million as at 31 December 2016 compared to USD 2,293.9 million in 2015.

Total shareholders' equity in BW Offshore Limited as of December 31, 2016 was USD 1,026.3 million, corresponding to an equity ratio of 63.6%.

CORPORATE GOVERNANCE

The Board of Directors of the Company has adopted a Corporate Governance policy to reflect BW Offshore's commitment to good corporate governance. This policy is based on the latest update to the 'Norwegian Guidelines on Corporate Governance', prepared by the Norwegian Corporate Governance Board. BW Offshore's Corporate Governance policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in the chapter named Corporate Governance in this annual report.

RISK

The Group's risk exposure is analysed and evaluated to ensure sound internal control and appropriate risk management based on BW Offshore's values, policies and code of ethics. The Group is exposed to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The most important operational risk factors are related to the operation of FPSOs and the execution of projects, accidents on the units and oil spills to the environment.

On a fleet wide basis, the Group takes out insurance cover for its crew and support staff, pollution and clean up, damage to vessels, third-party liabilities and on some units' loss of income. The insurance also covers losses resulting from acts of war and terrorism. Cover for oil pollution and oil pollution caused by war and war-like actions are limited per incident. BW Offshore's operational activities are subject to tax in a number of jurisdictions. As contracts with clients are long-term in nature, the Group's results are exposed to risk of changes to tax legislation. Risk management is described more comprehensively under Note 18 in the consolidated financial statements.

OUTLOOK

The oil and gas markets remain challenging despite oil prices having recovered somewhat from the beginning of 2016. Field developments are still being postponed, but tendering activity has slowly started again. The Group's short- and medium-term expectations for low market activity with few traditional FPSO awards are unchanged but it is now feasible to see projects being awarded in 2017 as long as the oil price is stabilising at current levels. A positive long-term outlook is maintained as offshore developments remain an important part of the oil and gas supply to meet future demands as the supply and demand of oil in world markets is rebalancing.

The Group established a new management structure during 2016. One key focus for the team has been to implement the program for greater efficiency which is completed onshore and is continuing in the offshore organisation. The Board is confident that the Group with this has adjusted the organisation and made the organisation more adapted to a new and even more competitive environment.

BW Offshore is well-positioned in the global oil and gas market to provide services and technology to minimise lifecycle costs of offshore developments. This will lead to developments being sanctioned in the future as the naturally depleting production from existing fields must be replaced by new production. The Group expects to be a valued partner to the industry contributing efficient solutions and operations to ensure sound returns for all parties involved.

BW Offshore still expects outsourcing of production to be cost effective for oil and gas companies as they increase their specialisation. The Group is responding to the global reduction in E&P spending by reducing costs and restructuring operations to match market activity and the clients' requirements for efficiency. The Group is also exploring to participate in alternative field development models to ensure the continued employment of assets, which is seen through the ongoing acquisition of the Dussafu field. Securing continued use of existing assets is a priority to the Group in its market efforts.

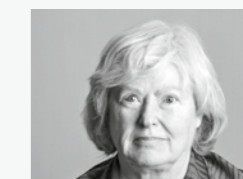
BOARD OF DIRECTORS



ASohlen-Pao
Mr. Andreas Sohlen-Pao
Chairman



CPettenati-Auziere
Mr. Christophe Pettenati-Auzière
Vice Chairman



CSpottiswoode
Ms. Clare Spottiswoode
Director



MScholten
Mr. Maarten Scholten
Director



CMortensen
Mr. Carsten Mortensen
Director



TAndersen
Mr. Thomas Thune Andersen
Director

Bermuda, 27 February 2017

SHAREHOLDER INFORMATION

INVESTOR RELATIONS POLICY

It is in the interest of BW Offshore as a public listed company to effectively communicate with the financial community and other stakeholders in order to ensure a fair valuation and increase the shareholder value. The integrity of the capital markets is based on full and fair disclosure of information.

BW Offshore will maintain a reliable and open relationship with investors, and the company's objective is to provide a healthy return compared to alternative investments with a similar risk profile. Return is measured on a total shareholder return basis, including both share price performance and dividend payments. Based on these value parameters, the BW Offshore share shall be an attractive investment opportunity.

All shareholders in BW Offshore have equal rights and the company treats all shareholders equally. The company has one share class and each share carries one vote at the company's general meetings. BW Offshore is a Bermuda limited liability company listed on Oslo Børs. The company is therefore obliged to comply with the Bermuda Companies Act, its Memorandum of Association and its by-laws, as well as the disclosure requirements of Oslo Børs. Certain aspects of the Company's activities are governed by Norwegian law pursuant to the Listing Agreement between Oslo Børs and the Company. In particular, the Norwegian Securities Trading Act and the Norwegian Stock Exchange Regulations will generally apply.

BW Offshore commits to good corporate governance and generally comply also with the Norwegian Code of Practice for Corporate Governance. Divergence from this code is clearly described in BW Offshore's Corporate Governance policy, which is included in the Annual report and available on the company's website.

BW Offshore is committed to providing timely, orderly, consistent and credible information. Information and communication are regulated by the company's media policy and investor relation policy, and covers disclosures to the investment community, the press, industry consultants and other audiences. All investors have equal access to material information, and all information provided externally by the company shall be consistent with disclosures to the financial community.

During a period of two weeks before the planned release of an interim financial report, BW Offshore will not comment on matters related to the Company's financial performance or expectations, save for ordinary communication with analysts and investors on general aspects of the business.

BW Offshore maintains a list of primary insiders in the Company, and will also maintain internal lists for insiders in cases sensitive to the stock prices.

The investor relations activities aim to ensure that:

- The information it provides to the financial markets gives market players the best possible basis for establishing a precise picture of the company's financial condition and factors which might affect its future value creation
- The market price of BW Offshore's shares reflects the fair value of the company
- BW Offshore's shares remain as liquid as possible, with low volatility
- BW Offshore maintains access to capital markets on the most favourable possible terms
- BW Offshore's Board of Directors and executive management are adequately informed about developments in financial markets and about stakeholder views on the company's position and development

20 LARGEST SHAREHOLDERS

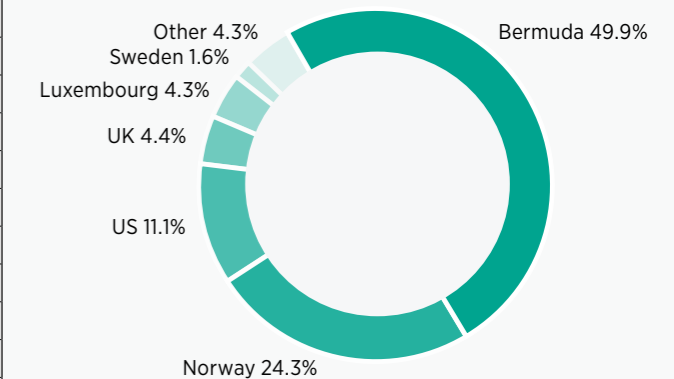
	NAME	# SHARES	% SHARES
1	BW GROUP LIMITED	92,332,844	49.9%
2	FIDELITY FUNDS-NORDIC FUND/SICAV	7,049,149	3.8%
3	STATE STREET BANK AND TRUST COMP	7,006,058	3.8%
4	PERESTROIKA AS	6,030,834	3.3%
5	FIDELITY PURITAN TRUST: FIDELITY	5,373,464	2.9%
6	CARL ARNET	2,200,000	1.2%
7	FIDELITY SELECT PORTFOLIOS: ENERGY	2,109,147	1.1%
8	JPMORGAN CHASE BANK. N.A.. LONDON	1,934,268	1.0%
9	FID BLUE CHIP VAL FD	1,892,041	1.0%
10	VERDIPAPIRFONDET ALFRED BERG GAMBA	1,815,460	1.0%
11	FIDELITY INT SMALL CAP FUND	1,659,938	0.9%
12	F2 FUNDS AS	1,352,808	0.7%
13	NORDNET LIVSFORSIKRING AS	1,350,377	0.7%
14	VERDIPAPIRFONDET DNB SMB	1,280,575	0.7%
15	NORDNET BANK AB	1,191,237	0.6%
16	ARNE TEIGEN	1,000,000	0.5%
17	CITIBANK. N.A.	998,452	0.5%
18	VERDIPAPIRFONDET PARETO INVESTMENT	930,000	0.5%
19	NHO - P665AK	859,007	0.5%
20	VERDIPAPIRFONDET DELPHI NORGE	700,000	0.4%

DATE: 31 DECEMBER 2016

5,246 NORWEGIAN | 372 NON-NORWEGIAN

5,618 SHAREHOLDERS

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS



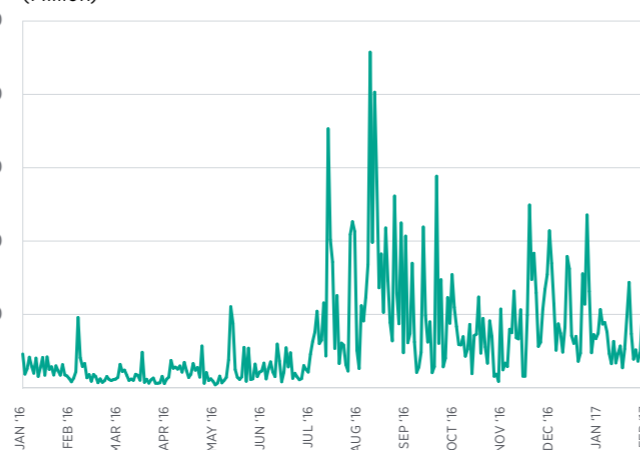
REVERSE SHARE SPLIT

To ensure compliance with section 2.4 of the Oslo Stock Exchange continuing obligations relating to the minimum market value of NOK 1.00 on issued shares, the Company carried in the fourth quarter out a reverse share split of the Company's common shares. The reverse share split comprises of a consolidation of the common shares of the Company such that every 50 common shares in issue and authorised but unissued of par value USD 0.01 have been consolidated into 1 common share of par value USD 0.50. Following the reverse share split the Company has 184 956 320 common shares.

SHAREPRICE (NOK)

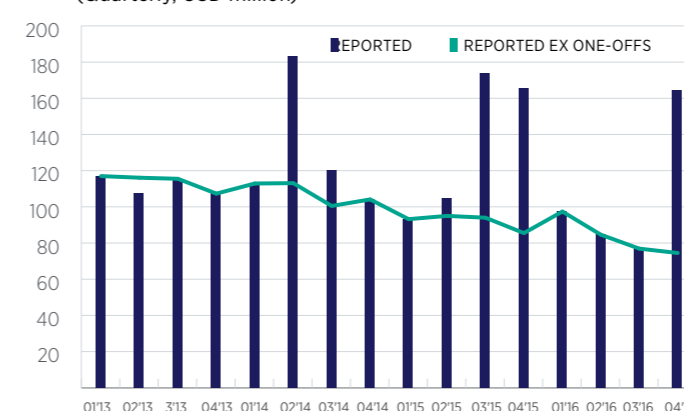


VOLUME (Million)

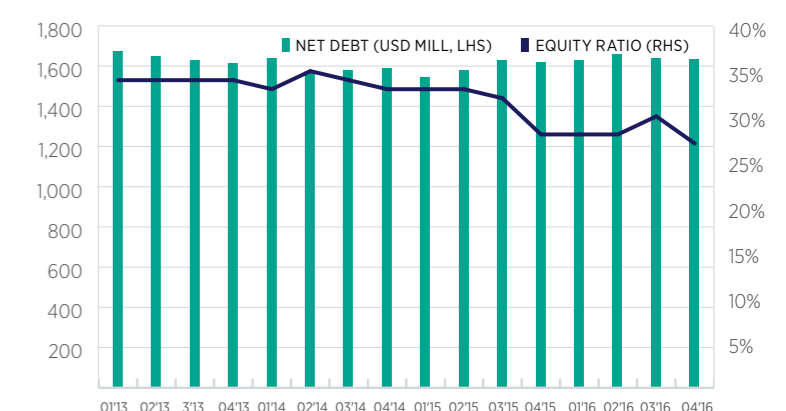


EBITDA

(Quarterly, USD million)



NET DEBT & EQUITY RATIO



ADDRESSES

BW Offshore Limited
Clarendon House
2 Church Street
Hamilton, HM11
Bermuda

BW Offshore Singapore Pte Ltd
30 Pasir Panjang Road
#14-31/32 & #15-32 Mapletree Business City
Singapore 117440
Tel: +65 6632 7888
Fax: +65 6323 1263

BW Offshore Norway AS
Drammensveien 149
P.O. Box 33 Skøyen
NO-0212 Oslo
Norway
Tel: +47 2313 0000
Fax: +47 2313 0001

BW Offshore do Brasil Ltda
Rua Lauro Muller 116 Sala 1106 Torre do Rio Sul - Botafogo
Rio de Janeiro
22290-160
Brazil
Tel.: +55 21 2244 8350

bwoffshore@bwoffshore.com
www.bwoffshore.com

GLOBAL PRESENCE

Bermuda: Hamilton
Singapore
Norway: Oslo, Arendal
Brazil: Rio de Janeiro, Cidade de Santos, Vitória
USA: Houston, New Orleans
Mexico: Ciudad del Carmen
New Zealand: New Plymouth
India: Mumbai
Nigeria: Lagos
Mauritania: Nouakchott
Republic of Côte d'Ivoire: Abidjan
Gabon: Port Gentil
The People's Republic of China: Shanghai
Indonesia: Jakarta
United Kingdom: Aberdeen
Cyprus: Limassol
Netherlands: Hoofddorp



BW OFFSHORE LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

43	TABLE OF CONTENTS
48	CONSOLIDATED FINANCIAL STATEMENTS
52	NOTES
85	PARENT COMPANY FINANCIAL STATEMENTS
94	RESPONSIBILITY STATEMENT
96	INDEPENDENT AUDITOR'S REPORT



TABLE of CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME	44
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	45
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	46
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	47
CONSOLIDATED STATEMENTS OF CASH FLOW	48

NOTES

1 GENERAL	49
2 SIGNIFICANT ACCOUNTING POLICIES	49
3 CRITICAL ACCOUNTING ESTIMATES AND ASSESSMENTS	55
4 LIST OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	56
5 SEGMENT INFORMATION	57
6 THE GROUP AS LESSOR	57
7 SPECIFICATION OF OPERATING, ADMINISTRATIVE AND OTHER EXPENSES	58
8 EMPLOYEE BENEFIT EXPENSES, REMUNERATION TO DIRECTORS AND AUDITORS ETC.	59
9 INCOME TAX EXPENSE	60
10 FPSO'S, FSO'S AND VESSELS UNDER CONSTRUCTION	62
11 PROPERTY AND OTHER EQUIPMENT	64
12 INTANGIBLE ASSETS AND GOODWILL	64
13 INVESTMENTS IN ASSOCIATED COMPANIES	65
14 CASH AND CASH EQUIVALENTS	66
15 SHARE CAPITAL OF THE COMPANY, LARGEST SHAREHOLDERS, PAR VALUE ETC.	66
16 INVENTORIES	68
17 TRADE AND OTHER RECEIVABLES	68
18 FINANCIAL RISK MANAGEMENT	69
19 RETIREMENT BENEFIT ASSETS AND OBLIGATIONS	74
20 LOAN FACILITIES	76
21 INVESTMENTS IN JOINT VENTURES	78
22 EARNINGS PER SHARE	78
23 RELATED PARTIES TRANSACTIONS	78
24 COMMITMENTS AND GUARANTEES	79
25 PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES	79
26 TRADE AND OTHER PAYABLES	80
27 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE	80

PARENT COMPANY FINANCIAL STATEMENTS

STATEMENTS OF INCOME	82
STATEMENTS OF COMPREHENSIVE INCOME	82
STATEMENTS OF FINANCIAL POSITION	83
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	83
STATEMENTS OF CASH FLOW	84

NOTES

1 GENERAL INFORMATION	85
2 ACCOUNTING POLICIES	85
3 OPERATING EXPENSES	86
4 SHARES IN SUBSIDIARIES	87
5 INTRA-GROUP LOANS AND RECEIVABLES	87
6 INCOME TAX	87
7 SHARE CAPITAL	87
8 CASH AND CASH EQUIVALENTS	88
9 LOAN FACILITIES	88
10 OTHER INTEREST-FREE CURRENT LIABILITIES	89
11 FINANCIAL ASSETS AND LIABILITIES	89
12 FINANCIAL RISK MANAGEMENT	89
13 GUARANTEES	90

RESPONSIBILITY STATEMENT	91
INDEPENDENT AUDITOR'S REPORT	92

CONSOLIDATED STATEMENTS OF INCOME

USD MILLION (YEAR ENDED 31 DECEMBER)	NOTE	2016	2015
Charter hire	5,6	639.8	791.7
Lease interest	5,6	9.2	13.6
Other income	5	195.7	302.7
Total revenues		844.7	1,108.0
Operating expenses vessels	7,8	(311.3)	(381.9)
Other expenses	7	(95.8)	(154.0)
Administrative expenses	7,8,19	(14.8)	(34.8)
Total expenses		(421.9)	(570.6)
Share of profit/ (loss) of associated companies	13	0.6	0.4
Operating profit before depreciation, amortisation and sale of assets		423.4	537.8
Depreciation and amortisation	10,11,12	(227.4)	(262.5)
Impairment and disposal	10,12	(231.0)	(396.4)
Net gain/ (loss) on sale of tangible fixed assets	10,11	-	1.4
Operating profit/ (loss)		(35.0)	(119.7)
Financial income and financial expense			
Interest income		1.7	2.8
Fair value gain/ (loss) on financial instruments		(11.9)	(9.8)
Net currency gain/ (loss)		(6.3)	3.9
Interest expense		(46.2)	(49.6)
Other financial items		(2.5)	(3.4)
Net financial expenses		(65.2)	(56.1)
Profit/ (loss) before tax		(100.2)	(175.8)
Income tax expense	9	(32.7)	(40.5)
Net profit/ (loss) for the year from continued operations		(132.9)	(216.3)
Net profit/ (loss) for the year		(132.9)	(216.3)
Profit/ (loss) attributable to shareholders of the parent		(132.9)	(216.3)
Basic and diluted earnings/ (loss) per share net*	22	(1.47)	(15.72)

*Weighted average number of ordinary shares for 2015 have been adjusted retrospectively to reflect the reverse share split

The notes in pages 49-80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

USD MILLION (YEAR ENDED 31 DECEMBER)	NOTE	2016	2015
Profit/ (loss) for the year		(132.9)	(216.3)
Other comprehensive income			
<i>Items to be reclassified to profit or loss:</i>			
Currency translation differences		(0.6)	(6.9)
Cash flow hedges	18	23.0	(49.3)
Reclassification during the year to profit/ (loss) of cash flow hedges	18	(9.7)	50.9
Net items to be reclassified to profit or loss:		12.7	(5.3)
<i>Items not to be reclassified to profit or loss:</i>			
Actuarial gains/ (losses) on defined benefit plans	19	(0.6)	1.6
Net items not to be reclassified to profit or loss:		(0.6)	1.6
Other comprehensive income, net of tax		12.1	(3.7)
Total comprehensive income for the year		(120.8)	(220.0)
Attributable to			
Equity holders of the parent		(120.8)	(220.0)

The notes in pages 49-80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

USD MILLION (AS AT 31 DECEMBER)	NOTE	2016	2015
ASSETS			
Vessels	5,10	2,639.5	2,694.1
Property and other equipment	11	10.2	12.0
Other intangible assets	12	3.7	4.4
Finance lease receivables	6	96.2	113.5
Pension assets	19	1.8	-
Investments in associates and joint ventures	13,21	7.8	7.7
Deferred tax assets	9	2.6	4.2
Derivatives	18	7.1	0.6
Other non-current assets		2.4	3.3
Total non-current assets		2,771.3	2,839.8
Inventories	16	13.9	6.7
Trade and other receivables	17	458.4	455.3
Finance lease receivables	6	17.3	16.1
Derivatives	18	0.1	-
Cash and cash equivalents	14	106.9	121.8
Total current assets		596.6	599.9
TOTAL ASSETS		3,367.9	3,439.7
EQUITY			
Share capital	15	92.5	6.9
Share premium	15	1,095.5	1,085.0
Other equity		(268.1)	(147.5)
Total shareholders' equity		919.9	944.4
LIABILITIES			
Long-term loan facilities	18,20	1,567.4	1,460.8
Pension obligations	19	3.6	12.1
Deferred tax liabilities	9	3.1	3.3
Other non-current liabilities		293.1	261.8
Derivatives	18	142.4	148.9
Total non-current liabilities		2,009.6	1,886.9
Trade and other payables	26	227.9	275.9
Derivatives	18	10.8	27.5
Interest-bearing short-term debt	18,20	174.4	280.7
Income tax liabilities	9	25.3	24.3
Total current liabilities		438.4	608.4
Total liabilities		2,448.0	2,495.3
TOTAL EQUITY AND LIABILITIES		3,367.9	3,439.7

The notes in pages 49-80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD MILLION	NOTE	Share capital	Share premium	Treasury shares	Currency translation reserve	Cash flow hedges	Other elements	TOTAL
At 1 January 2015		6.9	1,085.0	(9.1)	(8.4)	(32.8)	156.6	1,198.1
Dividend distribution		-	-	-	-	-	(34.3)	(34.3)
Share-based payments	8	-	-	0.1	-	-	0.4	0.5
Profit/ (loss) for the period		-	-	-	-	-	(216.3)	(216.3)
Other comprehensive income		-	-	-	(6.9)	1.6	1.6	(3.7)
At 31 December 2015		6.9	1,085.0	(9.0)	(15.3)	(31.2)	(92.0)	944.4
At 1 January 2016		6.9	1,085.0	(9.0)	(15.3)	(31.2)	(92.0)	944.4
Issue of share capital	15	85.6	14.4	-	-	-	-	100.0
Transaction costs on issue of shares	15	-	(4.0)	-	-	-	-	(4.0)
Share-based payments	8	-	-	-	-	-	0.3	0.3
Profit/ (loss) for the period		-	-	-	-	-	(132.9)	(132.9)
Other comprehensive income		-	-	-	(0.6)	13.3	(0.6)	12.1
At 31 December 2016		92.5	1,095.4	(9.0)	(15.9)	(17.9)	(225.2)	919.9

Dividends per share for 2016 was USD 0.00 (USD 0.05).

The notes in pages 49-80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

USD MILLION (YEAR ENDED 31 DECEMBER)	NOTE	2016	2015
Operating activities			
Profit/ (loss) before tax		(100.2)	(175.8)
Income tax paid	9	(31.1)	(35.7)
Loss/ (gain) on disposal of fixed assets	10,11	-	(1.4)
Fair value change on financial instruments		11.9	9.8
Share of loss/ (profit) of associated companies	13	(0.6)	(0.4)
Currency exchange differences		6.3	(3.9)
Depreciation and amortisation	10,11,12	227.4	262.5
Impairment	10,12	231.0	396.4
Add back of net interest expense		44.5	46.8
Instalment on financial lease	6	17.3	18.7
Other changes		8.2	1.6
Changes in working capital		(27.2)	(80.2)
Net cash flows from operating activities		387.5	438.4
Investing activities			
Investments in fixed assets	10,11,12	(401.4)	(481.8)
Proceeds from disposal of fixed assets	10	-	85.5
Investment in associates, net of cash acquired	13	-	(2.7)
Interest received		1.7	2.8
Net cash flows used in investing activities		(399.7)	(396.2)
Financing activities			
Proceeds from new interest-bearing debt	20	415.0	548.0
Repayment of long-term debt	20	(421.4)	(563.8)
Proceeds from share issue	15	100.0	-
Transaction costs on issue of shares		(4.0)	-
Dividend paid		-	(34.3)
Interest paid		(92.3)	(85.7)
Net cash flow used in financing activities		(2.7)	(135.8)
Net change in cash and cash equivalents		(14.9)	(93.6)
Cash and cash equivalents at 1 January		121.8	215.4
Cash and cash equivalents at 31 December	14	106.9	121.8

The notes in pages 49-80 are an integral part of these consolidated financial statements.

NOTE 1 GENERAL

BW Offshore Limited ('BW Offshore' or 'the Company') was incorporated in Bermuda in 2005 and is domiciled in Bermuda with its registered address at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on Oslo Børs (OSE:OSLO).

BW Offshore Limited and its subsidiaries are referred to as the 'Group'. The Group build, owns and operates Oil and Gas FPSOs (Floating Production, Storage and Offloading vessels) and FSOs (Floating, Storage and Offloading vessels).

All figures are in USD million if not otherwise stated. As a result of rounding differences, numbers and or percentages may not add up to the total. Figures in brackets refer to corresponding figures for 2015.

The financial statements were approved by the Board of Directors on 27 February 2017.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**BASIS OF PREPARATION**

The consolidated financial statements of the Group have been prepared pursuant to International Financial Reporting Standards ('IFRS') as adopted by the European Union. The consolidated financial statements have been prepared in accordance with the historical cost convention, modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through equity or the statements of income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of complying with the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for chartering and rendering of operational services related to FPSOs and FSOs.

Operational services

Income from the rendering of services on operating FPSOs and FSOs is recognised as revenue in the accounting period when the services are rendered.

Chartering of vessels

The chartering of FPSOs and FSOs to customers is recognised as revenue based on whether the chartering contract is considered an operating lease or a finance lease pursuant to IAS 17.

Operating lease

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments received under operating leases are recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. The lease term period for each lease contract is the non-cancellable period for which the lessee has contracted the asset together with an assessment of any further terms that the lessee has the option to continue the lease, when management consider it reasonably certain that the lessee will exercise the option. As lease rates can vary over the lease term, this implies that there might be significant timing differences between cash flow and recognised revenue from a particular lease.

Variation orders

Income from variation orders are amortised over the period in which the income is earned.

Finance lease

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Assets held pursuant to a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. The recognition of finance income on the receivable is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. During the construction phase of the asset, the contract is treated like a construction contract.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.**Interest income**

Interest income, including interest income arising from a finance lease, is recognised on a time proportion basis applying the effective interest method. Interest income arising from a finance lease is classified as part of operational income while other interest income is classified as finance income.

Dividend income

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

Other revenues

Reimbursement from insurance is recorded as revenue only when it is virtually certain that insurance reimbursement will be received. Insurance revenues are classified as part of operational income.

Sales are recognised after transfer of the significant risks and rewards connected with the ownership of goods being sold to the buyer. The Group retains neither a continuing right to dispose of the goods, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are presented net of indirect sales taxes and discounts.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers in the Group. The chief operating decision-maker, being responsible for allocating resources and assessing performance of the operating segments, has been identified as the Top Management group.

CONSOLIDATION**Subsidiaries**

The subsidiaries are all legal entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated as of the date on which the control is transferred to the Group. They are de-consolidated as of the date the control ceases.

The purchase method of accounting is applied to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value as of the date of acquisition, irrespective of the extent of any non-controlling interest.

The cost of acquisition exceeding the fair value of the Group's share of identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed whenever

necessary to ensure consistency with the policies adopted by the Group.

Associates and joint ventures

Associates are all entities in which the Group has a significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are a type of joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investment in associates and joint ventures are accounted for by applying the equity method.

The Group's investment in associates and joint ventures includes goodwill and excess values identified as per the date of acquisition, net of any accumulated impairment loss. Any excess values that are to be amortised are deducted from the profit pursuant to the same principles as for consolidated companies. Goodwill is not amortised. Dividends received from associates are recognised as a deduction from the investment in the balance sheet and is regarded as repayment of capital. By this, the balance sheet value of associates and joint ventures represents the original cost price (equalling the fair value at the time of purchase) plus profit accumulated up to the present, less any amortisation of excess values and accumulated dividends received.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and the share of post-acquisition movements in reserves is recognised as reserves. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Share of profit of associates and joint ventures is presented as part of operating profit when such investments are considered strategic to the Group. See 'impairment of non-financial assets' for impairment assessment.

TANGIBLE FIXED ASSETS**Measurement**

Property, plant and equipment are measured at cost less accumulated depreciation and impairment charges. This includes costs of material, direct labour and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including financial costs paid during construction, attributable overheads and estimate of costs of demobilising the asset.

Subsequent costs are included in the asset's carrying amount, 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.

Costs of day-to-day servicing of the asset are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.**Depreciation**

Depreciation will start when an item of property, plant and equipment is ready for use as intended by management. For FPSO's this will be when the unit is successfully installed on the oil field.

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. During 2015, the Group depreciated FPSOs/FSOs according to the unit of production method. Starting 2016, these assets has been depreciated by using a straight-line method. The unit of production method did not result in any differences to net profit for the year in 2015, compared to what would have been the case if depreciation has been calculated based on straight-line also, as lower depreciations resulted in higher impairments for the year.

The estimated useful lives of the categories of property, plant and equipment are as follows:

FPSO's and FSO's:

- Hull and Marine scope, including associated investments like refurbishment: 15-25 years
- Field specific equipment and associated investment costs which are incurred for a specific project, e.g. installation costs and transport costs: 3-25 years
- Process equipment and associated investment. (In case of long-term contracts these items can be fully depreciated over the contract duration.): 10-25 years

Other fixed assets, like IT equipment, office equipment and cars: 3-11 years

The assets' useful life and residual values are reviewed, and if necessary adjusted, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

During 2015, the Group also depreciated FPSOs/FSOs demobilised from prior field and held in lay-up under warm stack according to the unit of production method. Starting 2016, these assets has been depreciated by using the same straight-line method as used for active units. This also applies for vessels in warm stack. Depreciation of a FPSO/FSO will only stop if the asset is held for sale or derecognised.

Disposal activities

Gains and losses that result from the disposal of vessels, vehicles and equipment are recorded in a separate line in the consolidated income statements.

Impairment of tangible fixed assets

Assets including vessels, vessels under construction, conversion candidates and other tangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A contract and the associated vessel are grouped and assessed together when testing for impairment. Each vessel is specific to the contract. An impairment loss is recognised for the amount that the asset's carrying amount

exceeds its recoverable amount, being the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units). Each FPSO and FSO is identified as a cash-generating unit.

At the end of each reporting period the Group will assess whether there is any indication that an impairment recognised in previous periods may no longer exist or may have decreased. If any such indication exists, the Group will estimate the recoverable amount of the asset. If the recoverable amount is higher than the carrying amount of the asset, the carrying amount of the asset will be increased to its recoverable amount. The increase shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised in previous periods. Previously recognised impairments should be reversed if there are significant changes with a favourable effect in the indicators within the scope of IAS 36.111.

GOODWILL

Goodwill represents the cost of an acquisition exceeding the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/ associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold. Remaining goodwill was impaired to 0 as of year-end 2015, and the Group does not currently have any recorded goodwill.

INTANGIBLE ASSETS**Computer software**

Acquired computer software licenses are capitalised on the basis of the cost incurred in relation to acquiring and bringing to use the specific software. These costs are amortised over their estimated useful lives. Costs to external suppliers directly associated with the development of identifiable and unique software products controlled by the Group, and which will probably generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets. Directly attributable costs are capitalised as part of computer software. Other development expenditures are recognised as an expense when incurred.

THE GROUP AS LESSOR

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards incidental to ownership of the leased item to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction rather than the form of the contract, and the determination is made when the leasing agreement is entered into.

Most of the lease contracts include one or several options for the charterer to purchase the vessel and/or option(s) for the charterer to extend the lease period beyond the firm period. At the inception of the lease, these options are taken into consideration when assessing whether the lease is a

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

finance lease or an operational lease.

Financial lease

Assets held pursuant to a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease.

Operating lease

These assets are included in the balance sheet based on the nature of the asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

THE GROUP AS LESSEE

All contracts where the Group is lessee are operational leases. This is mainly related to lease of office premises. Lease payments under these contracts are recognised as expense in the income statement on a straight-line basis over the lease term.

BORROWINGS

Borrowings are recognised 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 value is recognised in the income statement during the period of the borrowings, applying the effective interest method.

BORROWING COSTS

Borrowing costs directly attributable to an acquisition or conversion of vessels, which take a substantial period to get ready for their intended use, are added to the cost of the vessels, until the vessels are ready for their intended use. 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. Borrowing cost consists of interest and other cost, which the entity incurs in connection with the borrowing of funds.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at originally invoiced amount, where this approximates fair value, less allowance for impairment. An allowance for impairment of trade and other 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. The allowance amount 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 amount of the allowance is recognised in the income statement.

Trade and other receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost, applying the effective interest method.

INVENTORIES

Inventories comprise mainly of fuel oil, materials and other

consumables on board the vessels. Inventories are measured at the lower of cost or net realisable value. Cost of materials and other consumables is determined by the weighted average cost method. Cost on fuel oil is determined by first-in-first-out (FIFO) method. The cost of purchase of inventories comprises the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted when determining the costs of the purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and short-term deposits with an original maturity of three months or less. Restricted cash related to withholding tax from employees is included as cash and cash equivalents.

FINANCIAL ASSETS

In accordance with IAS 39, 'Financial instruments: recognition and measurement', financial instruments within the scope of IAS 39 are classified in the following categories: At fair value with changes in value through the income statement, held-to-maturity, loans and receivables, available for sale and other liabilities.

Investments held to maturity, loans receivables and other liabilities are recognised at their amortised cost. Changes in the fair value of financial instruments classified as held for trading purposes or designated as being at fair value with changes in value through the income statement, are recognised in the income statement and presented as a financial income/expense.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently 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. IFRS describes the following type of hedging relationship:

- (a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) Hedges of a net investment in a foreign operation (net investment hedge).

Currently, the Group uses only hedges of cash flow (b).

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 on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

in offsetting changes in fair values of hedged items.

The cash flow hedges of various derivative instruments used for hedging purposes are disclosed in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of 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.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the hedged forecast sale takes place). The gain or loss relating to the ineffective portion of derivatives hedging variable rate borrowings is recognised in the income statement within financial income and financial expenses. However, when the hedged forecast transaction results in the recognition of a non-financial asset (for example inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, any cumulative gain or loss previously recognised in equity remains separately in equity until the forecast transaction occurs or the foreign currency firm contract is met. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement within 'other financial income/ (expense)'.

Derivatives not classified as cash flow hedges are recognised in the income statement.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions are recognised when the Group has a legal or constructive obligation resulting from past events, when it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

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 recognised as interest expense.

CONTINGENT ASSETS AND LIABILITIES

A contingent liability is:

- 1) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- 2) a present obligation arising from past events but is not recognised because:
 - i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is disclosed, as required by IAS 37,

unless the possibility of an outflow of resources embodying economic benefits is remote. The Group assesses the contingent liabilities continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are recognised when it becomes virtually certain that those assets are recoverable.

EMPLOYEE BENEFITS**Defined benefit plans**

The Group has both funded and unfunded defined benefit pension plans. The funded schemes are funded through payments to insurance companies determined by periodic actuarial calculations. Unfunded schemes are financed through the Group's operations.

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 equals the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries applying 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 denominated in the currency in which the benefits will be paid and at terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are recognised immediately in the statements of financial position with a corresponding debit or credit to the retained earnings through OCI in the period in which they occur.

Defined contribution plans

In addition to the defined benefit plan described above, the Group has contributed to other pension plans. These contributions have been made to pension plans for full-time employees. The pension premiums are charged to expenses as they are incurred. The Group has no legal or constructive obligation 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.

Share-based payment

Top Management of the Group receive remuneration in form of share-based payments, whereby management render services as consideration for equity instruments.

The cost of equity-settled transactions is determined by

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in treasury shares in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (reference to Note 8).

Employee-leave entitlement

In some jurisdictions, an accrual is made for the estimated liability for unutilised annual leave as a result of services rendered by employees up to the balance sheet date.

CURRENCY TRANSLATION**Functional and presentation currency**

The Group's presentation currency is United States Dollars ('USD'). This is also the functional currency of the Company and most of its subsidiaries. For consolidation purposes, the balance sheet figures for subsidiaries with a different functional currency are translated at the rate applicable at the balance sheet date and their income statements are translated at the exchange rate prevailing at the date of transaction. As an approximation, the monthly average exchange rates are applied in translating the income statements. Exchange differences are recognised in other comprehensive income. When foreign subsidiaries are disposed of, the accumulated exchange differences relating to the subsidiary are recorded as income/expense.

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates prevailing at the date of transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Currency translation gains and losses, from items which are hedged in a cash flow hedge, are recognised in other comprehensive income.

TAXES AND DEFERRED TAX LIABILITIES

The Company is not subject to any income taxes at Bermuda, but the Company and its subsidiaries may be subject to income tax in the countries in which they operate. The Group provides for tax on profit based on the profit for financial reporting purposes, adjusted for non-taxable revenue and expenses. Income tax expense represents the sum of the tax currently payable, changes in deferred tax liabilities and deferred tax assets, and withholding tax on charter hire and financial items. Charter hire and financial items are presented gross of withholding taxes payable where applicable.

The Group's liability for current tax payable is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is calculated at the tax rates applied when the related temporary differences reverse, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided for in the balance sheet and calculated on the basis of temporary differences between book and tax values that exist at the end of the financial period. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are

recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in the equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and where the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax is provided for by temporary differences arising from investments in subsidiaries and associates, except where it is probable that the temporary difference will not reverse in the foreseeable future.

DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

EVALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES – MAIN PRINCIPLES

Assets for long-term ownership or use are classified as fixed assets. Other assets are classified as current assets. Liabilities which fall due more than one year after being incurred are classified as long-term liabilities, with the exception of next year's instalment on long-term debt. This is presented as current interest-bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

New and amended standards adopted by the Group in 2016:

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11, IAS 16, IAS 27, IAS 38, IAS 41,
- Annual improvements: 2012-2014 cycle (IFRS 5, IFRS 7, IAS 19, IAS 34, IAS 1)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

- Amendments to IAS 1, IFRS 10, IFRS 12, IAS 28.

These changes are not considered material for the Group.

Standards issued but not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contract with customers
- IFRS 16 Leases
- Amendments to IFRS 2, IFRS 10
- Amendments to IAS 7, IAS 12, IAS 28

Except for IFRS 15 and IFRS 16 these changes are not expected to have a material impact to the Group.

IFRS 15 – Revenue from contracts with customers

Management is currently assessing the effects of applying the new standard on the financial statements of the Group and has identified the following areas that are likely to be affected:

Maintenance bonus

The application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

Recognised revenue from maintenance bonus in 2016 amount to 1.2% of total revenues. The Group expects the implementation of the new standard to be only a shift in timing of recognition of maintenance bonus. The total effect under the new standard will not be material.

Disputed revenue

The Group has for some time not been paid the full contractual rate by one of its clients. Under the new standard, the Group is not entitled to recognise disputed revenues. Since the Group has provided for the disputed amounts, the new standard will not affect operating profit, but result in a reclassification between revenues and operating expenses. For 2016 this amount to 4 % of total revenues.

Expected date of adoption by the Group: 1 January 2018.

IFRS 16 – Leases**The Group as Lessor**

The lessor accounting is not substantially changed; hence the Group does not expect any material impact of the new standard in the areas where the Group acts as lessor (reference to Note 6).

The Group as Lessee

The Group does not have any significant lease agreements as lessee, and therefore the impact is expected to be insignificant. According to IFRS 16 the leased assets and the corresponding liabilities will be recorded in statement of financial position (reference to Note 24).

Expected date of adoption by the Group: 1 January 2019.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND ASSESSMENTS

The preparation of the financial statements requires use of estimates and assumptions. The following is a summary of the assessments, estimates and assumptions made that could have a material effect on the consolidated financial statements.

DEPRECIATION

The level of depreciation depends on the estimated useful life of the different components of the assets and residual value at the end of its useful life. The estimated useful life is based on experience and knowledge of the vessels owned by the Group. Management will have to make assessments as to the expected useful life of the hull and marine scope as well as the process equipment for a FPSO. Assumptions will also have to be made about the expected contract period for non-recoverable components for the assets, which can deviate significantly from the useful life of hull and process equipment.

Assumptions about residual value are based on knowledge of scrap values which in turn depend on steel prices in the world market and demobilisation costs.

IMPAIRMENT OF TANGIBLE ASSETS

The Group reviews periodically whether tangible assets, including FPSO and FSO related contracts, FPSOs and FSOs under construction and conversion candidates, have suffered any impairment in accordance with the accounting policy stated in Note 2. The recoverable amounts of each vessel, being defined as a cash-generating unit, have been determined based on value-in-use calculations. Value-in-use calculations are based on contracted cash flows and estimates of uncontracted cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate. Assumptions on uncontracted cash flows are based on several variables, such as comparing the specifications on a particular FPSO with planned new FPSO projects around the world, assessment of investment levels to redeploy the FPSO on a new field and assumptions on rates to be achieved from redeployment. The key assumptions used for the impairment testing of FPSOs and FSOs are described in Note 10

All impairment assessment calculations demand a high degree of estimation. Management must make complex assessment of the expected cash flows arising from such assets and the selection of discount rates. Changes to these estimates could have significant impact on the impairments recognised and future changes may lead to reversals of recognised impairments.

IMPAIRMENT OF TRADE RECEIVABLES

During 2016, the Group has had significant challenges with regards to trade receivables from certain customers (see Note 17). The Group regularly makes assessments as to whether receivables should be impaired or not. All impairment valuations are based on best estimate after assessing financial situation with the respective customer, contractual protection and means the Group has to collect the outstanding receivables.

NOTE 4 LIST OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

SUBSIDIARIES	COUNTRY OF INCORPORATION	OWNERSHIP 2016	OWNERSHIP 2015
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Pte Ltd	Singapore	100%	100%
Berge Helene Limited	Bermuda	100%	100%
Berge Okoloba Toru Limited****	Bermuda	0%	100%
Bergesen Worldwide Limited	Bermuda	100%	100%
Bergesen Worldwide Mexico, S.A. de C.V.	Mexico	100%	100%
Bergesen Worldwide Offshore Mexico S. de RL de CV	Mexico	100%	100%
BW Ara Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	100%	100%
BW Carmen Limited	Bermuda	100%	100%
BW Catcher Limited	Bermuda	100%	100%
BW Cidade de São Vicente Limited	Bermuda	100%	100%
BW Endeavour Limited****	Bermuda	0%	100%
BW Energy Gabon Pte Ltd	Singapore	100%	0%
BW Energy Holdings Pte Ltd	Singapore	100%	0%
BW Kudu Holding Pte Ltd	Singapore	100%	100%
BW Kudu Limited	United Kingdom	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore Australia Pty Ltd	Australia	100%	100%
BW Offshore Catcher (UK) Limited	United Kingdom	100%	100%
BW Offshore China Ltd	China	100%	100%
BW Offshore Cyprus Limited	Cyprus	100%	100%
BW Offshore do Brazil Ltda	Brazil	100%	100%
BW Offshore do Brazil Servicos Maritimos Ltda	Brazil	100%	100%
BW Offshore (Ghana) Pte Ltd**	Singapore	100%	100%
BW Offshore Global Manning Pte Ltd	Singapore	100%	100%
BW Offshore USA Management, Inc.	USA	100%	100%
BW Offshore Nautipa AS	Norway	100%	100%
BW Offshore Netherlands B.V.	Netherlands	100%	100%
BW Offshore Norway AS	Norway	100%	100%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Peregrino Limited	Bermuda	100%	100%
BW Offshore Poland sp z o.o.	Poland	100%	100%
BW Offshore Production do Brazil Ltda	Brazil	100%	100%
BW Offshore Shipholding Limited	Bermuda	100%	100%
BW Offshore Shipholding Cyprus Limited	Cyprus	100%	100%
BW Offshore Singapore Pte Ltd	Singapore	100%	100%
BW Offshore TSB Invest Pte Ltd	Singapore	100%	100%
BW Offshore (UK) Limited	United Kingdom	100%	100%
BW Offshore USA, LLC	USA	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
BW Pioneer (UK) Limited	United Kingdom	100%	100%
BWO Rouen SAS	France	100%	100%
BWO-Premier Ghana Limited	Ghana	70%	0%
Egyptian Winlines Shipping Co. SAE	Egypt	100%	100%
Prosafé FPSO (D) Pte Ltd	Singapore	100%	100%
Prosafé GFPSO I B.V.	Netherlands	100%	100%
Prosafé Production B.V.	Netherlands	100%	100%
Prosafé Production Management B.V.	Netherlands	100%	100%
Prosafé Production Nigeria Limited	Nigeria	100%	100%
Prosafé Services Cote d'Ivoire Pte Ltd	Singapore	100%	100%
PT BW OFFSHORE TSB INVEST*	Indonesia	49%	49%
Sendje Berge Limited	Bermuda	100%	100%
Tinworth Pte Ltd	Singapore	100%	100%
Tinworth Gabon SA	Gabon	100%	100%
ASSOCIATES			
OCS Services Limited	British Virgin Islands	50%	50%
Euro Techniques Industries	France	40%	40%
FTL Subsea Limited***	Scotland	N/A	26%
JOINT VENTURES			
BW Offshore Nigeria Limited****	Nigeria	49%	100%

*The company is 51% owned by Indonesian shareholders. The company is recognised in the balance sheet without non-controlling interests, as the Group has put in place, and have finalised agreements that ensure that 100% of profits are retained by the Group.

**Formerly known as Prosafé Production Pte Ltd.

*** Reclassified as no significant influence due to sale of shares in 2016 (from 26% to 10% ownership).

****Reclassified from subsidiary to joint venture due to sale of 51% of the shares to external parties 30 December 2016.

*****Berge Okoloba Toru Limited and BW Endeavour Limited were liquidated during 2016.

NOTE 5 SEGMENT INFORMATION

The Group's activities are focused on construction, ownership and operation of FPSOs and FSOs.

The amounts provided to the chief operating decision-maker with respect to the non-current assets and non-current liabilities are measured in a manner consistent with that of the financial statements. Based on the nature of the services,

processes and type of customers it has been concluded that the Group has one segment and information on segment performance is found in the consolidated statements of income and in the consolidated statements of financial position.

The geographical analysis of the consolidated statements of income is as follows:

The classification of revenue per region is determined by the final destination of the FPSO		
USD MILLION	2016	2015
Americas	432.4	575.4
Europe/Africa	305.1	422.3
Asia and the Pacific	107.2	110.3
Total revenue	844.7	1,108.0
The FPSOs by region can be analyzed as follows:		
Americas	764.5	961.8
Europe/Africa	1,395.9	1,425.0
Asia and the Pacific	479.1	307.3
Total non-current assets	2,639.5	2,694.1

The Group has a limited number of major customers (see also section regarding credit risk in Note 18). In accordance with IFRS 8.34, the Group has evaluated whether any single

customers amount to 10% or more of the total revenue. The Group has identified one such customer. For this the revenue was USD 144.6 million in 2016 (USD 185.3 million).

NOTE 6 THE GROUP AS LESSOR

The Group has entered into lease contracts as lessor. Cash flows in the option periods are included in the minimum lease payments if it is reasonably certain that the option(s) will be exercised.

Finance leases

The FPSO Yuum K'ak' Náab commenced operations in Mexico in July 2007 on a firm 15-year lease contract. The title of the vessel will automatically be transferred to the customer at the end of the lease term without compensation. The net present value of the minimum lease payments amounts to substantially all the fair value of the FPSO at the inception of the lease. In addition, the firm contract period is for the major part of the economic life of the FPSO. Accordingly,

this contract is classified as a finance lease. The Group will operate and maintain the FPSO over the 15-year contract period. Revenues and expenses arising from this operation are recognised as operating revenues, lease interest and operating expenses on vessels.

The FSO Belokamenka was leased out on a financial lease up to December 2015, at which time the contract was terminated and the ownership of the vessel was transferred back to the Group (reference to Note 10).

The future minimum lease payments receivable from finance leases are presented in the table below:

USD MILLION	2016	2015
Not later than one year	25.3	25.3
Later than one year and not later than five years	101.0	101.0
Later than five years	12.5	37.8
Gross receivables from finance leases	138.8	164.1
Unearned future finance income on finance leases	(25.3)	(34.5)
Net investment in finance leases	113.5	129.6
Included in non-current assets (Financial lease receivables)	96.2	113.5
Included in current assets (Financial lease receivables)	17.3	16.1

NOTE 6 THE GROUP AS LESSOR cont.**Operating leases**

BW Athena, Azurite and Belokamenka are not on contract as of December 2016. FPSO Cidade de São Mateus is currently in lay-up after the accident. The Group has signed an agreement with its insurers for an early repair cost settlement of approximately USD 250 million. Before final discussion are concluded and agreed with the client, it is not possible to establish a firm plan for when the unit will return to the field.

The rest of the FPSO's owned by year-end are on firm operating lease contracts. BW Catcher is expected to commence operation in second half of 2017. In November 2016, BW Offshore received notice that that the contract with Petronas for the Berge Helene will not be extended beyond May

2017. However, in February 2017, a short-term extension was agreed to allow the client some time to get ready for disconnection and demobilisation. BW Offshore is in dialogue with the client about work to be undertaken for the disconnection and demobilisation of the FPSO from the field. The Group has signed an interim extension agreement for Abo FPSO until 31 March 2017. The short-term extension has been agreed to secure operational continuity while joint work is continuing to conclude the negotiations.

Future minimum payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables are set out in the table below:

USD MILLION	2016	2015
Not later than one year	557.4	602.6
Later than one year and not later than five years	1,886.7	1,623.6
Later than five years	722.3	1,029.8
Total nominal amount	3,166.4	3,256.0

NOTE 7 SPECIFICATION OF OPERATING, ADMINISTRATIVE AND OTHER EXPENSES

USD MILLION	2016	2015
Employee benefit expenses crew (Note 8)	113.8	143.6
Allocations of cost from administrative support	19.7	22.4
Insurance	29.7	36.9
Operation, maintenance, spare parts and repairs	148.1	179.0
Total operating expenses	311.3	381.9

USD MILLION	2016	2015
Employee benefit expenses (Note 8)	89.1	112.2
Allocations to operations and other	(93.8)	(98.8)
Travel expenses	2.1	4.3
Auditors	1.7	0.8
IT and communication	6.0	7.3
Offices (rent etc.)	7.5	7.6
Other expenses	2.2	1.4
Total administrative expenses	14.8	34.8

USD MILLION	2016	2015
Allocations of cost from administrative support	5.7	7.1
FEED / Tender activities and insurance claim expenses	90.1	146.9
Total other expenses	95.8	154.0

NOTE 8 EMPLOYEE BENEFIT EXPENSES, REMUNERATION TO DIRECTORS AND AUDITORS ETC.

USD MILLION	2016	2015
Wages, crew (Note 7)	113.8	143.6
Wages, administrative personnel	79.7	103.5
Social security tax	5.0	5.0
Pension costs defined benefit plans (Note 19)	4.4	3.7
Total employee benefit expenses	202.9	255.8
Average number of employees	2,242	2,585

REMUNERATION TO TOP MANAGEMENT*

(IN USD) Year	Salary	Bonus	Pension benefits	Share options	Other benefits	Number of shares**
2016	3,475,761	181,125	2,807,496	271,072	443,918	2,683,620
2015	3,831,964	1,543,772	721,294	451,788	644,212	10,443,787

*Top Management comprises Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer, Head of Projects, Head of Engineering, Head of Legal and Head of Human Capital as at 31 December 2016

**2016 is adjusted for changes due to rights issue and reverse share split

Loans

Part of Top Management has in 2016 received loan on arm's-length basis.

The Group has not provided any loans to affiliates.

(IN USD)	2016	2015
Loans to Top Management	130,254	-

Severance

Top Management has agreements that give them the right to compensation after termination of employment before retirement that equals 100% of the salary for a maximum of 18 months. Compensation received from other employers during this period reduces this compensation, but not below 25% of the compensation. There are no similar agreements with the members of the Board of Directors.

Share options

The Company's Board of Directors resolved in 2014 to grant the Chief Executive Officer (CEO) 2,500,000 share options, settled in equity. The options were granted 6 May 2014 and will vest after three years, provided the CEO is still in the position when the options vest. The strike price was NOK 10 per share when granted. As a consequence of the rights issue completed, followed by the reverse share split during 2016, the terms and conditions of the share options will be amended accordingly.

Long-term incentive program

The Group has established a long-term incentive program for C-suite management (CEO, CFO, COO and CCO) as well

as Head of Engineering and Head of Projects. This program is intended to reward performance over a three-year period. It is designed to encourage focus on long-term value generation rather than short-term achievements. Pay-out under the long-term incentive program is based on targets achieved within three parameters:

1. Company results - 1/3
2. Project Performance - 1/3
3. Total shareholder return - 1/3

The assessment of achievement will determine the pay-out. Recognition of achievement by the Board of Directors will be discretionary. Full pay-out is capped at three months' salary. The scheme will be on a rolling basis each year, meaning maximum obtainable pay-out per year will be equivalent to approximately nine months' salary. The total amount due under the long-term incentive program will be paid out with 50% in cash upon award and 50% granted in restricted shares, which vest one year after the award. No provision for the long-term incentive program is made by year-end 2016.

NOTE 8 EMPLOYEE BENEFIT EXPENSES, REMUNERATION TO DIRECTORS AND AUDITORS ETC. cont.
REMUNERATION TO BOARD OF DIRECTORS

(IN USD) Year	Directors fee	Number of shares*	Share options
2016	463,826	92,693,605	-
2015	498,845	343,858,248	-

*2016 is adjusted for changes due to rights issue and reverse share split

The compensation for members of the Board of Directors for the period May 2016 to May 2017 will be decided at the annual general meeting in May 2017.

LOANS TO OTHER EMPLOYEES

(IN USD)	2016	2015
Loans to other employees	548,528	223,997

VARIABLE COMPENSATION SCHEME FOR OTHER EMPLOYEES

The Variable Compensation Scheme (VCS) is a system for rewarding employees if and when the Group reaches set goals, based on financial parameters. The VCS might differ from year to year depending on the challenges and goals set by the Group, and the financial factors that influence the Group's performance. The VCS for 2017 is based on five parameters:

1. Overall company result
2. New business
3. HSEQ performance
4. EBITDA
5. Projects

The assessment of the Group's achievement will determine the pay out of the VCS. Recognition of achievement by the Board of Directors will be discretionary.

Full pay out is capped at 3 months' salary per employee. Individual assessment may be added to the general pay out. Employees need to be employed at the time of VCS payment in order to be eligible for VCS scheme benefits.

During 2015, a provision of USD 15 million was built up in accordance with the VCS-parameters. The provision was managements best estimate by year-end 2015. However, as marked conditions worsened and as the Group was forced to take strong measures to reduce costs, including reducing the organisation, the Group decided to release the provision during 2016.

The Group has made no provision for VCS during 2016.

FEES TO AUDITORS

USD MILLION	2016	2015
Statutory audit	817.4	534.0
Other attestation services	247.7	314.7
Tax related services	612.9	325.6
Total fees	1,678.1	1,174.3

NOTE 9 INCOME TAX EXPENSE

The income tax expense for the period comprise of corporate income tax, withholding tax and deferred tax.

BW Offshore Limited is a company registered in Bermuda. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains.

Depending on the jurisdiction, corporate income tax is due on the subsidiaries actual profit, and withholding tax is levied on a deemed profit basis or revenue basis (simplified calculation in lieu of profit tax). Deferred tax is calculated on temporary differences in jurisdictions where actual profits is the basis for taxation. Where the Group's activities are

subject to withholding taxes, these are normally deducted by the client who pays the taxes directly to the local tax authorities in the name of the Group.

The Group's operational activities are subject to taxation rates which range from 0% to 34%.

As the Group's operations are subject to different methods of taxation, income tax expenses will not necessarily change proportionally with changes in the overall net profit before tax. As a consequence of this, a reduction in net profit will often lead to a higher effective tax rate, while an increase in net profit can lead to a reduction in the effective tax rate.

NOTE 9 INCOME TAX EXPENSE cont.

USD MILLION	2016	2015
Tax expense for the year		
Changes in temporary differences	(0.5)	2.8
Tax expense current year	11.7	20.0
Tax expense previous years	0.9	(3.5)
Withholding tax	20.6	21.2
Total	32.7	40.5
Effective income tax rate	2016	2015
Net result before income tax	(100.2)	(175.8)
Income tax at Bermuda statutory income tax rate of 0%	-	-
Withholding taxes	20.6	21.2
Effect of higher tax rates outside Bermuda	12.6	16.5
Expensed deferred tax assets	(0.5)	2.8
Income tax at the effective income tax rate	32.7	40.5
Effective tax rate	-	-
Tax liabilities at 31 December	2016	2015
Tax payable	25.3	24.3
Withholding taxes payable	-	-
Tax payable	25.3	24.3

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income becomes taxable.

Deferred tax liabilities and deferred tax assets (-) can be specified as follows:

USD MILLION	2016	2015
Deferred tax assets		
Vessels	-	-
Other	2.6	4.2
Deferred tax assets - gross	2.6	4.2
Deferred tax liabilities		
Fixed assets	(3.1)	(3.3)
Deferred tax liabilities - gross	(3.1)	(3.3)
Net recognised deferred tax liabilities/ deferred tax assets (-)	(0.5)	0.9

Net recognised deferred tax asset are expected to be recovered or settled after more than 12 months.

(USD 420 million). These losses are not recognised as it is not possible to predict with reasonable certainty whether adequate taxable profit will be available in the future against which losses can be utilised.

The Group also has tax loss carried forward in several jurisdictions. The tax value of the losses is USD 426 million

NOTE 10 FPSO'S, FSO'S AND VESSELS UNDER CONSTRUCTION

The owned fleet at 31 December 2016 included the following vessels: Abo FPSO, Azurite, Belokamenka, Berge Helene, BW Athena, BW Cidade de São Vicente, BW Joko Tole, BW Pioneer, FPSO Cidade de São Mateus, Espoir Ivoirien, Petróleo Nautipa, FPSO Polvo, Sendje Berge, Umuroa and Yuum K'ak' Náab.

Vessels under construction include the BW Catcher. On 30 April 2014, BW Offshore signed a contract with Premier Oil for an FPSO to operate on the Catcher oil field in the UK North Sea. The new build hull has been produced in Japan and Korea, while conversion and integration work is being performed in Singapore. The project has had challenges with the hull delivery, but due to addressing the challenges early, the effect of this has been largely mitigated. Hull has during 2016 been delivered and topside modules have been lifted and integrated. The project is now focusing on completion of marine systems and the final commissioning before departure to the field. The project remains within budget with first oil expected in second half of 2017.

Vessels available for projects includes vessels that are currently not in operation. Azurite and BW Athena are in lay-up and are currently marketed for new projects. Belokamenka (reference to Note 6 and 21) was accounted for as a finance lease up to December 2015. In December 2015, the lease was terminated and the vessel was redelivered to the Group. The vessel is currently marketed for new projects. BW Opal was

sold in 2015.

FPSO Cidade de São Mateus is currently in lay-up after the accident in 2015. The Group signed an agreement with its insurers, with effective date 22 December 2016, for an early repair cost settlement of USD 250 million during January 2017. An accrual for remaining USD 90 million was recorded as other income by year-end 2016, as the Group had preliminary accrued for USD 160 million in insurance receipt for repair during 2015. Since the accident in 2015, the Group has also had insurance claims related to salvage of the unit. The early repair cost settlement included a settlement also for salvage related claims. As per year-end 2016, taken into account certain provisions for outstanding unsettled expenses, the profit and loss impact was negative USD 57.3 million of which the net impact for 2016 was negative USD 13.6 million. The Group has insurance for loss of hire and has as a result received USD 31.5 million for loss of hire in 2016, until loss of hire payments ended in May the same year. Before final discussion are concluded and agreed with the client, it is not possible to establish a firm plan for when the unit will return to the field. This vessel is included in 'Vessels in operation' in the table below.

Yuum K'ak' Náab (reference to Note 6) is accounted for as a finance lease and is not included in the table below.

2016 USD MILLION	Vessels in operation	Vessels under construction	Vessels available for projects	TOTAL
Cost at 1 January 2016	3,519.0	522.5	369.4	4,410.9
Additions	103.8	289.3	3.3	396.4
Disposal	(27.7)	-	-	(27.7)
Reclassification	(301.5)	-	301.5	-
Cost at 31 December 2016	3,293.6	811.8	674.2	4,779.6
Accumulated depreciation and impairment charge at 1 January 2016	(1,565.9)	-	(150.9)	(1,716.8)
Current year depreciation	(181.3)	-	(39.5)	(220.8)
Impairment charge	(173.6)	-	(49.0)	(222.6)
Disposal	20.1	-	-	20.1
Reclassification	163.3	-	(163.3)	-
Accumulated depreciation and impairment charge at 31 December 2016	(1,737.4)	-	(402.7)	(2,140.1)
Book Value at 31 December 2016	1,556.2	811.8	271.5	2,639.5
Useful life	Up to 25 years			
Capitalised interest cost for vessels under construction		34.5		
2015 USD MILLION	Vessels in operation	Vessels under construction	Vessels available for projects	TOTAL
Cost at 1 January 2015	3,416.6	149.5	432.5	3,998.6
Additions	102.4	373.0	21.4	496.8
Disposal	-	-	(84.5)	(84.5)
Cost at 31 December 2015	3,519.0	522.5	369.4	4,410.9
Accumulated depreciation and impairment charge at 1 January 2015	(1,137.3)	-	(113.6)	(1,250.9)
Current year depreciation	(255.3)	-	(1.3)	(256.6)
Impairment charge	(173.3)	-	(36.0)	(209.3)
Accumulated depreciation and impairment charge at 31 December 2015	(1,565.9)	-	(150.9)	(1,716.8)
Book Value at 31 December 2015	1,953.1	522.5	218.5	2,694.1
Useful life	Up to 25 years			
Capitalised interest cost for vessels under construction		22.9		

NOTE 10 FPSO'S, FSO'S AND VESSELS UNDER CONSTRUCTION cont.

The Group has performed an impairment assessment of the fleet for 2016. This assessment led to a USD 222.6 million impairment loss recorded, to write down certain vessels to their recoverable amount.

Impairment of USD 135.5 million is recognised due to damages on FPSO Cidade de São Mateus caused by the accident in February 2015. The Impairment recorded in 2016 is in addition to an impairment on the unit of USD 160 million during 2015. The assessment in 2015 was based on preliminary information about the damages to the unit. During 2016, the Group did a complete survey after the FPSO arrived in Singapore where a more accurate estimate of the extend of damages and repair costs were assessed. The unit will require significant repairs and consequently investments to go back into production, and as long as such investment has not been committed, the Group was required to take an impairment charge at year-end. On this basis, a further impairment for 2016 was recorded.

Further, the Group recorded the following impairments for 2016; USD 49.0 million on BW Athena, USD 19.9 million on FPSO Polvo, USD 8.7 million on Berge Helene and USD 9.5 million on Espoir Ivoirien. Although BW Offshore expects an improved market as a result of recovery in the oil price, the Group has adjusted probabilities for extension of contracts and redeployment of units after end of current contract. Combined with reassessed estimates for capital expenditures needed for life extension, this resulted in an impairment on certain units. BW Offshore has also increased the average cost of capital used for impairment testing, and this has reduced the valuation of the fleet overall compared to previous years. Net book value of vessels impacted by impairment is USD 403.6 million

Each vessel is regarded as a cash-generating unit for impairment testing. The recoverable amount is based on a value-in-use calculation for each of the vessels in the fleet. To estimate the recoverable amount, the Group has to make assumptions on contracted cash flows as well as uncontracted cash flows over the useful life for each vessel. Uncontracted cash flows have been estimated based on past experience, expectations on future market conditions and return on invested capital. The assumptions made are built into different scenarios with different cash flows for each unit. Part of the basis for the impairment assessment is also that the Group expects an improved market as a result of recovery in the oil price where it is expected that it will be possible to extend contracts for certain units already in operation as well as more likely to achieve redeployment of units that are currently idle. The Group has as part of valuation assumed that idle units will return to employment by or before 2019. Each of the scenarios are weighted to provide for a recoverable amount for each unit that is a weighted average of all scenarios. Scenarios will also include a weighted probability that a unit cannot be redeployed beyond current contract and will have to be recycled.

Cash flows were discounted at a rate of 8% (7%) on a pre-tax basis. The discount rate is based on Weighted Average Cost of Capital (WACC) for the Group. The following assumptions have been made for the WACC:

- The equity risk premium is based on empirical data of similar listed companies and is in consensus with the market

risk premium observed from the study performed by the Norwegian Society of Financial Analysts. The Group has also included a small cap premium in setting the overall equity risk premium

- The equity ratio is based on long-term assumptions on the Group's financial strategy and capital structure, as well as peer group balance sheet data for listed oil service companies
- For the risk free rate, the Group is using the US 10-year treasury yields as the basis for calculations, based on a weighted average contract length of the FPSO fleet
- The debt margin used is based on an assessment of the cost of providing long-term funding given the current market outlook and current company risk profile and contract structure
- For estimating beta, the Group have employed various regression models and peer averages to reach a metric of future equity risk for the FPSO segment and BW Offshore
- Due to the structure of the Group's operations, there is very little effect on the WACC when adding debt, as most of the Group's taxes are based on withholding tax deducted at source. The Group has therefore assumed that effect from tax in calculating WACC is zero

The critical assumptions for impairment are the discount rate, assumptions used for cash flows and weight given to each of the scenarios. The recoverable amount for each vessel would be sensitive to changes for any of the above-mentioned assumptions.

The WACC used for discounting cash flows during impairment testing is sensitive for assumptions as provided above. An increase of the WACC for the Group by 1% would require an additional impairment of USD 32 million.

A one-year extra before redeployment of vessels in the weighted scenarios would require an additional impairment in the range of USD 45 million, and similarly a further rate reduction of 10% from the weighted scenario on the same vessels would require an additional impairment in the range of USD 25 million.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was on average approximately 5.5 %.

The Group also performed an impairment assessment of fleet for 2015. This assessment led to a USD 209.3 million impairment loss recorded, to write down certain vessels to the recoverable amount. Impairment of USD 160 million was recognised for damages on FPSO Cidade de São Mateus caused by the accident in February 2015. Remaining impairment was allocated with USD 36 million on Azurite, USD 6.0 million on BW Athena and USD 7.3 million on FPSO Polvo. Due to the expectations of a prolonged downturn in the Oil and Gas sector with limited new awards in the short to medium term, the Group saw it necessary to adjust assumptions used for valuing the fleet. This has in general led to lower headroom between recoverable amount and net book value, and for some vessels this resulted in an impairment for 2015.

NOTE 11 PROPERTY AND OTHER EQUIPMENT

2016 USD MILLION	Vehicles and equipment	Computer hardware	Buildings	TOTAL
Cost at 1 January 2016	15.0	8.9	1.2	25.1
Additions	2.8	0.2	-	3.0
Exchange differences	0.1	0.3	-	0.4
Disposals (impairment/discontinued operation)	(2.0)	(1.6)	-	(3.6)
Cost at 31 December 2016	15.9	7.8	1.2	24.9
Accumulated depreciation at 1 January 2016	(7.2)	(5.8)	(0.1)	(13.1)
Current year depreciation	(2.2)	(1.6)	-	(3.8)
Disposals	0.9	1.6	-	2.5
Exchange differences	(0.1)	(0.2)	-	(0.3)
Accumulated depreciation at 31 December 2016	(8.6)	(6.0)	(0.1)	(14.7)
Book value at 31 December 2016	7.3	1.8	1.1	10.2
Useful life	5-11 years	3 years	0-25 years	

2015 USD MILLION	Vehicles and equipment	Computer hardware	Buildings	TOTAL
Cost at 1 January 2015	14.0	7.7	1.2	22.9
Additions	1.9	1.8	-	3.7
Exchange differences	(0.5)	(0.6)	-	(1.1)
Disposals (impairment/discontinued operation)	(0.4)	-	-	(0.4)
Cost at 31 December 2015	15.0	8.9	1.2	25.1
Accumulated depreciation at 1 January 2015	(5.4)	(5.2)	(0.1)	(10.7)
Current year depreciation	(2.5)	(0.9)	-	(3.4)
Disposals	0.5	-	-	0.5
Exchange differences	0.2	0.3	-	0.5
Accumulated depreciation at 31 December 2015	(7.2)	(5.8)	(0.1)	(13.1)
Book value at 31 December 2015	7.8	3.1	1.1	12.0
Useful life	5-11 years	3 years	0-25 years	

NOTE 12 INTANGIBLE ASSETS AND GOODWILL

USD MILLION	Total Intangible assets (Software)
Cost	
At 1 January 2016	11.5
Additions	2.1
Carrying amount, 31 December 2016	13.6
Amortisation and impairment	
At 1 January 2016	(7.1)
Amortisation and impairment	(2.8)
At 31 December 2016	(9.9)
Net book value	
At 31 December 2016	3.7
At 31 December 2015	4.4
Useful life	1 - 3 years
Amortisation method	linear

NOTE 12 INTANGIBLE ASSETS AND GOODWILL cont.

All goodwill in the Group was impaired during 2015, and as per year-end 2016 there is no goodwill recorded in the Group.

Goodwill acquired through the business combination with Prosafe Production in 2010, has been allocated to one cash-generating unit which is the combined Group. The entire Group is considered one cash-generating unit for the purpose of impairment testing. The goodwill and unallocated excess value arising from the acquisition was attributable to a strategic premium paid to gain diversification, larger market presence and financial scale. These intangible assets did not fulfil the recognition criteria pursuant to IAS 38 and are therefore not recognised separately.

As at 31 December 2015, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. In addition, the Group expect a prolonged downturn in the oil & gas sector with limited

new awards in the short to medium term.

The Group performed an annual impairment test on goodwill as at 31 December 2015. The Group identified a number of key long-term assumptions relevant for the impairment review. The recoverable amount of goodwill was determined based on a value in use calculation using estimated cash flows from the combined Group, including existing assets, assets under construction as well as cash flow projections calculated from the ability for the combined company to take on new projects in the future. Due to the expectations of a prolonged downturn in the oil and gas sector with limited new awards in the short to medium term, the Group saw it necessary to record an impairment of USD 186.9 million related to goodwill.

The discount rate, based on weighted average cost of capital (WACC), used for calculating the net present value of the synergies was 7% in 2015.

NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES

BW Offshore had the following investments in associates at 31 December:

2016 USD MILLION Entity Country Industry	OCS Services Limited British Virgin Islands Manning Office	Other associates Technology
Carrying amount 1 January 2016	5.0	2.7
Effect from sale of shares	-	(1.4)
Share of net profit	0.4	0.1
Carrying amount 31 December 2016	5.4	1.4

A summary of book values of the consolidated financial accounts of the associated companies, on a 100% basis:

USD MILLION Entity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Result for the year	OCI
OCS Services Ltd.	1.8	10.0	-	1.9	9.9	5.5	0.7	-
Other associates	1.1	3.9	-	2.8	2.2	3.9	0.3	-

2015 USD MILLION Entity Country Industry	OCS Services Limited British Virgin Islands Manning Office	Other associates Technology
Carrying amount 1 January 2015	4.6	-
Investment	-	2.7
Share of net profit	0.4	-
Carrying amount 31 December 2015	5.0	2.7

A summary of book values of the consolidated financial accounts of the associated companies, on a 100% basis:

USD MILLION Entity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Result for the year	OCI
OCS Services Ltd.	1.8	9.1	-	1.3	9.6	5.5	0.9	-
Other associates	1.1	5.2	-	3.0	3.3	3.7	(0.3)	-

NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES cont.

OCS
The Group does not have joint control over this investment. Our partner is in charge of the daily operation of the company while the Group act as an investment partner. The Group does not have power over more than half of the voting rights in OCS. Further, the Group does not have the power to cast

the majority of votes at meetings of the Board of Directors or equivalent governing body. As the Group is only acting as an investment partner, OCS is considered as an associate. The Group's interest in OCS is accounted for using the equity method in the consolidated financial statements.

NOTE 14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are denominated primarily in USD, SGD, BRL, EUR, GBP, JPY and NOK. Restricted bank deposits at 31 December 2016 amounted to USD 3.4 million (USD 1.9 million). This relate to taxes withheld from employees

and an escrow account concerning the Dussafu investment. The Group also has bank guarantees related to liabilities regarding taxes withheld from employees and lease of office premises.

NOTE 15 SHARE CAPITAL OF THE COMPANY, LARGEST SHAREHOLDERS, PAR VALUE ETC.

In July 2016, The Group raised USD 100 million in new equity capital through a rights issue. BW Offshore Limited issued 8,559,810,000 new shares at a subscription price of NOK 0.10 per share, thereby raising gross proceeds of NOK 855,981,000. The rights issue was fully underwritten. The net proceeds from the rights issue were USD 96 million.

In November 2016, the Group announced that its Board of Directors' had resolved to carry out a reverse share split of the Company's common shares (the 'Reverse Share Split'). The reverse share split was carried out to ensure compliance with section 2.4 of Oslo Børs's continuing obligations about minimum market value of NOK 1 on issued shares. The reverse share split comprised of a consolidation of the common shares of the Company such that every 50 common shares in issue and authorised but unissued of par value USD 0.01 was consolidated into 1 common share of par value USD 0.50.

Number of issued shares were 9,247,816,004 and 10,700,000,000 in authorised shares, following the rights issue.

Share capital

Authorised share capital:

At 1 January 2016: 700,000,000 ordinary shares at par value USD 0.01 each
Increase during 2016: 10,000,000,000 ordinary shares at par value USD 0.01 each
Reverse share split: 214,000,000 ordinary shares at par value USD 0.50 each

At 31 December 2016: 214,000,000 ordinary shares at par value USD 0.50 each

Issued and fully paid:	USD '000
At 1 January 2016	6,880.0
Increase during 2016	85,598.2
At 31 December 2016	92,478.2

Following the rights issue and the reverse share split, the number of issued shares was 184,956,320 at 31 December 2016.

The Company held a total of 48,627 own shares at 31 December 2016 (2,445,020). These shares are held as 'treasury shares'. Book value of the treasury shares was USD 9.0 million at 31 December 2016 (USD 9.0 million).

There were 214,000,000 authorised shares at 31 December 2016.

NOTE 15 SHARE CAPITAL OF THE COMPANY, LARGEST SHAREHOLDERS, PAR VALUE ETC. cont.

The 20 largest shareholders at 31 December 2016 were:

NAME	# SHARES	% SHARES
1 BW GROUP LIMITED*	92,332,844	49.9%
2 FIDELITY FUNDS-NORDIC FUND/SICAV	7,049,149	3.8%
3 STATE STREET BANK AND TRUST COMP	7,006,058	3.8%
4 PERESTROIKA AS	6,030,834	3.3%
5 FIDELITY PURITAN TRUST: FIDELITY	5,373,464	2.9%
6 SVENSKA HANDELSBANKEN SA, CARL KROGH ARNET	2,200,000	1.2%
7 FIDELITY SELECT PORTFOLIOS: ENERGY	2,109,147	1.1%
8 JPMORGAN CHASE BANK, N.A., LONDON	1,934,268	1.0%
9 FID BLUE CHIP VAL FD	1,892,041	1.0%
10 VERDIPAPIRFONDET ALFRED BERG GAMBA	1,815,460	1.0%
11 FIDELITY INT SMALL CAP FUND	1,659,938	0.9%
12 F2 FUNDS AS	1,352,808	0.7%
13 NORDNET LIVSFORSIKRING AS	1,350,377	0.7%
14 VERDIPAPIRFONDET DNB SMB	1,280,575	0.7%
15 NORDNET BANK AB	1,191,237	0.6%
16 ARNE TEIGEN	1,000,000	0.5%
17 CITIBANK, N.A.	998,452	0.5%
18 VERDIPAPIRFONDET PARETO INVESTMENT	930,000	0.5%
19 NHO - P665AK	859,007	0.5%
20 VERDIPAPIRFONDET DELPHI NORGE	700,000	0.4%
Top 20 shareholders	139,065,659	75.2%
Total shares outstanding	184,956,320	

* BW Group Limited is controlled by corporate interests associated with the Sohmen family.

The 20 largest shareholders at 31 December 2015 were:

NAME	# SHARES	% SHARES
1 BW GROUP LIMITED*	342,312,248	49.8%
2 STATE STREET BANK AND TRUST CO.	30,974,394	4.5%
3 FIDELITY FUNDS-NORDIC FUND/SICAV	21,688,925	3.2%
4 FIDELITY PURITAN TRUST: FIDELITY	17,549,100	2.6%
5 ODIN NORGE	17,139,152	2.5%
6 SANTANDER SECURITIES SERVICES, S.A	9,418,942	1.4%
7 FIDELITY SELECT PORTFOLIOS: ENERGY	9,215,465	1.3%
8 ODIN ENERGI	8,000,000	1.2%
9 Carl Krogh Arnet	7,499,081	1.1%
10 CITIBANK, N.A. (S/A DFA-INTL SML CAP VAL PORT)	7,205,289	1.0%
11 FID BLUE CHIP VAL FD	7,014,500	1.0%
12 BNP PARIBAS SEC. SERVICES S.C.A	6,860,508	1.0%
13 SKANDINAVISKA ENSKILDA BANKEN AB	5,415,841	0.8%
14 FIDELITY INVESTMENT TRUST: FIDELITY	5,305,227	0.8%
15 VERDIPAPIRFONDET ALFRED BERG NORGE	5,018,404	0.7%
16 MORGAN STANLEY & CO. INTERNATIONAL	4,552,160	0.7%
17 THE BANK OF NEW YORK MELLON	4,323,913	0.6%
18 NHO - P665AK	3,787,938	0.6%
19 J.P. MORGAN CHASE BANK N.A. LONDON	3,752,591	0.5%
20 CITIBANK, N.A. (S/A DFA-CNTL SMALL CO SERIES)	3,202,396	0.5%
Top 20 shareholders	520,236,074	75.6%
Total shares outstanding	688,006,004	

* BW Group Limited is controlled by corporate interests associated with the Sohmen family.

NOTE 16 INVENTORIES

USD MILLION	Fuel oil	Materials and consumables	TOTAL
Cost at 1 January 2016	4.5	2.2	6.7
Purchase during the year	2.7	12.0	14.7
Used during the year	(3.4)	(4.1)	(7.5)
Cost at 31 December 2016	3.8	10.1	13.9
Cost at 1 January 2015	6.6	-	6.6
Purchase during the year	-	3.1	3.1
Used during the year	(2.1)	(0.9)	(3.0)
Cost at 31 December 2015	4.5	2.2	6.7

Inventories comprise mainly of fuel oil, materials and other consumables on board the vessels. Inventories are measured at the lower of cost or net realisable value. Cost of materials and other consumables is determined by the weighted average

cost method. Cost on fuel oil is determined by first-in-first-out (FIFO) method. The increase during 2016 is related to implementation of inventory module on board the vessels.

NOTE 17 TRADE AND OTHER RECEIVABLES

USD MILLION	2016	2015
Trade receivables - gross	181.2	206.6
Provision for doubtful debt	(35.1)	(5.4)
Other receivables	15.5	63.5
Prepayments	14.9	15.3
Insurance claims	281.9	175.3
Trade and other receivables - net	458.4	455.3
Current portion	458.4	455.3

Insurance claims are predominantly related to the accident for FPSO Cidade de São Mateus (reference to Note 25).

The fair value of trade and other receivables is as follows:

	2016	2015
Trade and other receivables	458.4	455.3

As of 31 December 2016, trade receivables of USD 48.2 million (USD 74.8 million) were overdue but not impaired. The Group has for some time not been paid the full contractual rate by Addax Petroleum Exploration Limited for Sendje Berge. BW Offshore consider the arguments for not paying full rate unjustified and have started an arbitration process. During third quarter, the Group submitted a claim to the arbitration

tribunal for unpaid contractual rate. The claim amounts to USD 66.7 million by end of fourth quarter, of which USD 30.8m has been provided for (see below). BW Offshore is currently awaiting the formal outcome of a preliminary hearing carried out by the arbitration tribunal during first quarter of 2017.

The aging analysis of trade receivables is as follows:

USD MILLION	2016	2015
Not past due	97.9	126.4
Up to 3 months	21.5	62.2
3 - 6 months	18.3	3.2
6 - 12 months	27.0	9.2
12 - > months	16.5	5.6
Trade receivables - gross	181.2	206.6

NOTE 17 TRADE AND OTHER RECEIVABLES cont.

As of 31 December 2016, trade receivables of USD 35.1 million (USD 5.4 million) were impaired due to disputes and provided for.

The aging of these receivables is as follows:

USD MILLION	2016	2015
Up to 3 months	12.2	0.6
Over 3 months	22.9	4.8
Total	35.1	5.4

The carrying amount of the Group's trade and other receivables are mainly denominated in USD.

Changes in provision for impairment of trade receivables are as follows:

USD MILLION	2016	2015
Provision at 1 January	5.4	8.4
Charge for doubtful debt during the period	32.6	4.4
Reversal of provision	(2.9)	(7.4)
Provision at 31 December	35.1	5.4

The other classes within trade and other receivables do not contain any impaired assets.

Credit risk and foreign exchange risk regarding accounts receivable is described in Note 18.

NOTE 18 FINANCIAL RISK MANAGEMENT

The Group's central finance division has the responsibility for financing, treasury management and financial risk management.

FINANCIAL RISK FACTORS

Activities expose the Group to a variety of financial risks: price risk (including currency risk and market risk), credit risk, liquidity risk and interest rate risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. A finance management team, led by the Chief Financial Officer identifies and evaluates financial risks in close co-operation with the Group's operating units. The finance management teams' activities are governed by policies approved by the Board of Directors for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investing excess liquidity. The finance management team will report to the Group's Top Management, the Audit Committee and the Board of Directors on the status on activities on a regular basis.

The Group does not use financial instruments, including financial derivatives, for trading purposes.

MARKET RISK

Historically, demand for offshore exploration, development and production has been volatile and closely linked to the oil price. Low oil prices typically lead to a reduction in exploration as the oil companies scale down their own investment budgets. As per 31 December 2016 the majority of BW Offshore's fleet remains on long-term contracts with national and independent oil companies, and the fleet should continue to generate a significant cash flow in the time ahead. At current oil price levels, the Group still faces risks of customers delaying or defaulting on their obligations. This may affect asset values should option periods not be declared or units not be

redeployed, potentially also impacting liquidity and covenant compliance. Redeployment of units coming off contracts are currently being affected by the low number of new developments.

Fleet asset values are assessed according to a value-in-use methodology, with balanced assumptions on the likelihood of option periods and future projects. The basis for the impairment assessment is that the Group expects an improved market as a result of recovery in the oil price where it is expected that it will be possible to extend contracts for units already in operation as well as more likely to achieve redeployment of units that are currently idle. The Group has as a part of valuation assumed that idle units will return to employment by or before 2019 (reference to Note 10).

CREDIT RISK

Most of the Group's customer contracts are long-term. The Group assesses the credit quality of the customers on a regular basis, taking into account its financial position, past experience and other factors. There are no guarantees that the financial position of the Group's major customers will not materially change during the contracted period, as it happens from time to time that customers decides to sell the production license, which exposes the Group to a new customer on an existing lease contract. The Group will normally have contractual clauses to prevent a customer to novate the lease contract without consent. Given the limited number of major customers of the Group and the significant portion these represent to the Group's income, the inability of one or more of them to make full payment on any of the Group's contracted units may have a significant adverse impact on the financial position. BW Offshore has noted that Premier Oil is continuing to progress firming up amendment to existing debt facilities. It is not expected that Premier's financial discussions with lenders will have any negative effect for the Catcher project.

NOTE 18 FINANCIAL RISK MANAGEMENT cont.

As most of the Group's portfolio is with historically solid counterparties, where a significant number are also rated by international credit rating agencies, the Group believes that the credit risk related to counterparties is at a manageable level.

Another risk factor to be addressed is whether negative reservoir development may affect the oil company's ability to fulfil its obligations within the fixed contract. The probability for options to be exercised and extension of contracts to be entered into will be negatively affected by a reduction in actual reservoir reserves. It is common for customers, i.e. the oil companies, to contract the firm period for the FPSO lease corresponding to the expected producing life of the reserves. A low oil price creates an additional risk factor where the price of oil is so low that it does not create sufficient cash flow for the oil companies to carry out their obligations during the fixed contract term. During the first half of 2016, we have seen a hike in the oil price and the oil price has been stable during the second half of 2016. The existing contracts are seeking to protect the Group against these risks through termination fees, cash-flow arrangements and financial and corporate guarantees. However, there are situations where the Group might suffer losses due to situations beyond the Group's control. The Group will continue its active risk management to mitigate these risk factors. This is, amongst other things, done through regular evaluation of counterparties and their financial situation, as well as through having a close dialogue with clients.

The Group observed that overdue trade receivables have been stable during 2016 and was USD 83.3 million at the end of 2016, compared to USD 80.2 million at the end of 2015. The overdue situation was mainly related to units operating in West Africa (reference to Note 17).

The Group is also exposed to certain credit risk related to agreements entered into with customers such as yards used for conversions. The Group manages its exposure to such risks through a thorough evaluation of the counterparty and subsequently by continuous monitoring of larger counterparties.

The Group has policies that limit the amount of credit exposure against any financial institution. Cash deposits, derivatives and financial guarantees are predominantly maintained with investment grade financial institutions. The maximum risk exposure is represented by the carrying amount of the financial assets in the balance sheet except for financial guarantees.

The Group regards its maximum credit risk exposure to the carrying amount of trade receivables (reference to Note 17), other current assets and financial lease receivables (reference to Note 6).

LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains sufficient cash for its daily operations and its investment program via short-term cash deposits at banks and a commitment to make available funds from the unutilised portion of revolving facilities offered by financial

institutions to the Group.

The Group monitors the liquidity through cash flow forecasting of operational and investment activities in the short-, medium- and long-term.

Besides regular down-payments of debt and capital commitments on BW Catcher and life extension programs; several events like the significant drop in oil price since second half of 2014 has increased the risk of customers defaulting on payment obligations, made redeployment more challenging, and together with challenging capital markets, has increased the liquidity risk, and consequently the risk of a breach of the Group's liquidity covenants.

After extensive discussions with all stakeholders, BW Offshore Limited announced on 23 May 2016 a plan to secure a long-term financial platform for the Group (the "Plan"). All conditions to the implementation of the Plan have been completed and the long-term financial platform was implemented with effect from 21 July 2016.

The Plan was undertaken to address potential future liquidity challenges, including avoiding breach of financial covenants, and to secure a credible long-term financial platform for the Group. In total, the Plan contributed to in excess of USD 500 million in improved liquidity for the period throughout 2020 when completed.

As further set out below, the Plan comprised:

- 1) USD 100 million in new equity capital raised through a rights issue. The Company issued 8,559,810,000 new shares at a subscription price of NOK 0.10 per share, thereby raising gross proceeds of NOK 855,981,000. The rights issue was fully underwritten. The net proceeds from the rights issue were USD 96 million.
- 2) Amendments to the USD 2,400 million Facility comprising the following components:
 - Maturity extended by two years to March 2020;
 - 50% reduction of five semi-annual instalments starting September 2016 (total reduction of USD 278 million) (Q3 2016 to Q3 2018). Normal amortisation from March 2019 and a balloon at the new maturity in March 2020 of USD 474 million, reduced from the initial balloon of USD 641 million in March 2018; and
 - Margin increase by 25 bps to 225 bps with additional step up by 50 bps if the leverage ratio exceeds 5.50:1.
 - Leverage ratio covenant (IBD/EBITDA) increased from 5.50:1 to 6.00:1 until maturity in March 2020;
 - Book equity ratio covenant reduced from 25% to 20% until maturity in March 2020; and
 - No dividend and bond buy back until maturity in March 2020 (save from buy back of bonds in connection with extensions and/or renewal of bond issues (including the partial redemption of BWO01 on 15 March 2017), such buy back to be limited to an amount of USD 25 million, unless the shareholder contributions exceed USD 100 million of cash, following which the said threshold amount shall be increased by any excess amount).
- 3) Other credit facilities, comprising the Catcher Facility, the Joko Tole Facility, the Umuroa Facility and the Petróleo Nautipa Facility: Changed leverage ratio (IBD/EBITDA)

NOTE 18 FINANCIAL RISK MANAGEMENT cont.

from 5.50:1 to 6.00:1 and changed equity ratio covenants from 25% to 20%. The company may not pay dividends and has restrictions on bond buy backs until 9 March 2020.

4) Amendments to the Group's unsecured bonds:

- BWO01: Maturity extended to 15 March 2020 with NOK 140 million partial redemption on 15 March 2017;
- BWO02: Maturity extended to 21 September 2020 with NOK 100 million partial redemption on 23 March 2020;
- BWO03: Maturity extended to 11 March 2021 with NOK 150 million partial redemption on 11 September 2020;
- BWO04: Maturity extended to 16 March 2022 with NOK 90 million partial redemption on 16 March 2021 and NOK 180 million partial redemption on 16 December 2021;
- Reduction of equity ratio from 25% to 20%;
- Increase of margin to 450 bps in the period from the respective original maturity date until the respective new maturity date;
- Inclusion of restriction on dividends, repurchase of shares and other distributions to shareholders; and
- Amendment of call option to the effect that the bonds may be redeemed at par value until the respective new maturity date (American call), callable in chronology.

During the third quarter of 2016, the Group has also amended the maturities and terms of the related cross-currency interest rate swaps and cross-currency swaps, to match the amended maturity on the above-mentioned bonds.

To further secure the Group's liquidity situation for the foreseeable future, a number of initiatives are being implemented. Early in 2016, an extensive cost reduction exercise was launched. The Group has established a new management structure and a new team. The new team's key focus is to implement the staff reduction program which is nearly completed onshore and is now continuing in the offshore organisation. The Group is well under way to achieve a reduction in offshore personnel costs by 10-15% and offshore R&M spend by 10% through higher efficiency, renegotiated supplier agreements and subcontracts. The total efficiency process was implemented in 2016 and will take full effect from 2017.

The following table sets out the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. When counterparties have a choice of when to settle an amount, the liability is included based on the earliest date of which the counterparty can require settlement.

Maturity profile - financial liabilities, Year ended 2016

USD MILLION	Q1 17	Q2 17	Q3 17	Q4 17	2017	2018	2019-2021	2022 and beyond	TOTAL
USD 2,400 million facility	55.6	-	55.6	-	111.2	111.2	531.9	-	754.3
Catcher facility	-	-	-	-	-	114.3	342.9	102.9	560.0
Joko Tole facility	9.4	9.4	9.4	9.4	37.5	16.3	-	-	53.8
Umuroa facility	1.0	1.0	1.0	1.0	4.0	22.0	-	-	26.0
Petróleo Nautipa facility	5.8	-	5.8	-	11.6	11.6	31.3	8.0	62.5
BWO01 - NOK 500 million Bond*	25.0	-	-	-	25.0	-	65.0	-	90.0
BWO02 - NOK 500 million Bond*	-	-	-	-	-	-	86.8	-	86.8
BWO03 - NOK 750 million Bond*	-	-	-	-	-	-	124.0	-	124.0
BWO04 - NOK 900 million Bond*	-	-	-	-	-	-	35.1	81.9	117.0
Interest rate swaps	9.2	7.8	7.4	6.8	31.3	26.8	54.7	(5.0)	107.8
Interest payments	13.4	14.1	14.7	13.8	56.1	50.9	67.7	2.6	177.3
Other	0.6	0.5	0.7	0.5	2.4	2.3	6.3	1.5	12.4
Trade and other payable current	82.7	48.4	48.4	48.4	227.9	-	-	-	227.9
Total	202.8	81.2	143.1	79.9	507.0	355.5	1,345.6	191.8	2,399.9

* Bond loan illustrated at swapped USD/NOK rate

Maturity profile - financial liabilities, Year ended 2015

USD MILLION	Q1 16	Q2 16	Q3 16	Q4 16	2016	2017	2018-2020	2021 and beyond	TOTAL
USD 2,400 million facility	111.2	-	111.2	-	222.5	222.5	466.2	-	911.2
Catcher facility	-	-	-	-	-	57.1	287.9	-	345.0
Joko Tole facility	14.7	14.1	10.1	10.1	48.9	37.5	16.3	-	102.8
Umuroa facility	1.0	1.0	1.0	1.0	4.0	4.0	22.0	-	30.0
Petróleo Nautipa facility	5.8	-	5.8	-	11.6	11.6	34.9	16.0	74.2
BWO01 - NOK 500 million Bond*	-	-	-	-	-	90.0	-	-	90.0
BWO02 - NOK 500 million Bond*	-	-	-	-	-	-	86.8	-	86.8
BWO03 - NOK 750 million Bond*	-	-	-	-	-	-	124.0	-	124.0
BWO04 - NOK 900 million Bond*	-	-	-	-	-	-	117.0	-	117.0
Interest rate swaps	9.7	9.5	8.4	8.4	36.0	24.4	30.4	(1.6)	89.2
Interest payments	11.5	10.2	11.8	9.9	43.5	41.4	28.9	1.2	115.0
Other	0.6	0.5	0.7	0.5	2.2	2.2	5.9	3.1	13.5
Trade and other payable current	111.9	54.6	54.7	54.7	275.9	-	-	-	275.9
Total	266.5	89.9	203.7	84.6	644.7	490.7	1,220.3	18.8	2,374.7

* Bond loan illustrated at swapped USD/NOK rate

NOTE 18 FINANCIAL RISK MANAGEMENT cont.

The Group has the following undrawn borrowing facilities, which can be utilised as long as the Group is in compliance with its loan covenants:

USD MILLION	2016	2015
Expire within one year	-	-
Expire beyond one year	216.2	226.2

FOREIGN CURRENCY RISK

The functional currency of the Company and most of its subsidiaries is USD. In general, most operating revenues and a significant portion of operating expenses as well as most interest-bearing debt are denominated in USD. The Group is exposed to expenses and investments incurred in currencies other than USD ('foreign currencies'); the major currencies being Norwegian Kroner ('NOK'), Singapore Dollars ('SGD'), British Pounds ('GBP'), Brazilian Reals ('BRL'), Japanese Yen ('JPY') and Euro ('EUR'). Operating expenses denominated in NOK, SGD, BRL, GBP and EUR constitute a part of the Group's total operating expenses. Capital expenditures related to construction, conversion and life extension activities on FPSOs would also to some extent be denominated in other currencies than USD. Consequently, fluctuations in the exchange rate on NOK, SGD, GBP, BRL, JPY and EUR may have significant impact on the financial statements of the Group.

The Group enters into forward/futures contracts in order to reduce the exchange rate risk on cash flows nominated in foreign currencies, both related to construction and conversion projects and to operating and administrative expenses. The exchange rate risk is calculated for each foreign currency and takes into account assets and liabilities, liabilities not recognised in the balance sheet and expected purchases and sales in the currency in question. Currency hedges and other currency effects include changes in fair value of currency hedges, effects or settlement of these hedges, and other currency effects related to operating cash flows. To the extent possible, most of the cash flows in foreign currencies related to construction and conversion projects have been hedged. As a consequence, the Group's exposure to fluctuations in foreign currencies against USD will be limited.

Total nominal value of the Group's FX contracts was USD 127 million at 31 December 2016. Fair value of the foreign exchange contracts amounted to negative USD 8.9 million (compared to USD 232.2 million and negative USD 24.9 million in 2015) and are presented gross in the statement of financial position. Net effect of forward exchange contracts recognised in the income statement in 2016 is positive by USD 7.0 million.

The Group is exposed to foreign currency risk on bonds issued in NOK, respectively bond BWO01, BWO02, BWO03 and BWO04. The Group had per 31 December 2016 issued bonds totalling NOK 2,650 million. The foreign currency exposure on bond BWO01, BWO02 and BWO03 are hedged through cross-currency interest swaps, now amended, with a nominal value of USD 300.8 million, while BWO04 is hedged through cross-currency swaps with a nominal value of USD 117 million. The market value of the cross-currency interest swaps and the cross-currency swaps were negative by USD 135.1 million at 31 December 2016, compared to negative USD 133.2 million at 31 December 2015.

During third quarter, the Group amended the maturities

and terms of the cross-currency interest rate swaps, to match the amended maturity on the bonds (see above). As a result of the amended terms on the swaps, the derivatives does not qualify for hedge accounting. Remaining mark-to-market balance at the time when the swaps were amended is amortised in the income statement over the remaining term of the existing underlying bonds. Related to this, the Group has stopped using hedge accounting related to the bonds and the underlying swaps going forward. The consequence is that all mark-to-market effects on the swaps and revaluation effect on the underlying bonds have been recognised directly against financial expenses from the time of the amendment. As the swaps were extended, the implicit funding cost have increased due to the longer duration and was priced into the mark-to-market value at time of amendment and recorded in profit and loss. The profit and loss impact related to the above was USD 18m to finance expenses in the third quarter. There was no immediate cash flow effect due to this change. However, going forward it is expected that net financial income/expense will fluctuate more due to mark-to-market changes of the swaps and revaluation of the bonds.

The Group applies hedge accounting for the foreign exchange hedging related to the construction contract for BW Catcher. Hedge transactions will take place during the construction phase in 2017 and derivatives are entered to match the respective payments. USD 2.7 million (USD 13.2 million) of cash flow hedges, previously recognised in other comprehensive income, has been capitalised as vessel under construction.

The net gain of the hedge accounting recognised in other comprehensive income amounts to USD 13.3 million (USD 1.6 million).

INTEREST RATE RISK

The Group is exposed to interest rate risk through its funding activities. All of the Group's interest-bearing debt has floating interest rate conditions, making the Group influenced by changes in the market rates. The Group aims to hedge at least 50% of its interest rate exposure.

As of 31 December 2016 the Group's floating rate debt amounted to USD 1,763.5 million (USD 1,762.0 million).

The Group holds interest rate swaps with a nominal value of USD 831 million in total with maturity during 2017-2026. The weighted average interest swap rate was 2.10% at 31 December 2016. The swaps are held to hedge the quarterly cash flows from floating rate interest payments on the USD 2,400 million-loan facility, the USD 800 million-loan facility and the Petróleo Nautipa loan facility. The market value of the interest swaps was negative by USD 0.9 million at 31 December 2016 (negative USD 15.7 million) and the changes in fair value has been recognised as a fair value loss on financial instruments.

NOTE 18 FINANCIAL RISK MANAGEMENT cont.

The cross-currency interest swaps held to hedge the BWO01, BWO02 and BWO03 bonds also hedge the interest rate risk on these bonds. The Group has stopped using hedge accounting for the cross-currency interest swaps.

The following table shows the Group's sensitivity for fluctuations in interest rates. The calculation includes all interest-bearing instruments and interest rate financial derivatives.

	Increase/decrease in basis points	Effect on profit/loss before tax (in USD millions)
2016	+/- 50	+/- 3.1
2015	+/- 50	+/- 3.3

The effect on fair value of interest hedges as a result in changes in interest rates is not taken into account in this

calculation. Of the total interest-bearing debt of USD 1,763.5 million, USD 1,138.1 million is hedged.

The weighted average interest rate on financial instruments at year-end was as follows:

	2016	2015
Loans secured by collateral	3.3%	2.8%
Loans - unsecured	6.6%	5.5%

Interest rate on cash deposits was 0.66% as per year-end 2016 (0.35%).

FAIR VALUES

IFRS 13 requires disclosures of fair value measurements by the following hierarchy:

- 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 (as prices) or indirectly (derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

the resulting value discounted to present value (level 2). This is presented on separate lines in the statement of financial position.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves (level 2). The fair value of the cross-currency interest rate swaps is presented as non-current liabilities in the balance sheet.

The fair value of the Group's interest rate swaps, FX contracts and cross-currency swaps are as follows:

The fair value of the Group's currency hedges is determined using forward exchange rates at the balance sheet date, with

USD MILLION	Fair value	
	2016	2015
Derivatives current net liability	(9.6)	(25.5)
Derivatives non-current net liability/(asset) FX	(0.4)	(0.4)
Derivatives non-current net liability interest rate swaps	0.2	(14.7)
Derivatives non-current net liability cross-currency swaps	(135.0)	(133.2)
Total	(144.8)	(173.8)

The carrying amounts and fair value of borrowings are as follows:

USD MILLION	Carrying amount		Fair value	
	2016	2015	2016	2015
USD 2,400 million facility	746.8	906.2	754.3	911.2
Catcher facility	549.7	334.3	560.0	345.0
Joko Tole facility	53.3	101.4	53.8	102.8
Umuroa facility	25.9	30.0	26.0	30.0
Petróleo Nautipa facility	62.1	73.6	62.5	74.2
BWO01 - NOK 500 million Bond	57.6	56.2	50.4	55.1
BWO02 - NOK 500 million Bond	57.5	56.0	46.3	53.7
BWO03 - NOK 750 million Bond	86.0	83.8	68.6	77.0
BWO04 - NOK 900 million Bond	102.9	100.1	83.4	85.8
Total	1,741.8	1,741.5	1,705.2	1,734.7

The fair value of bonds has been measured in level 1 of the FV hierarchy. Other loans have been measured in level 3. The difference between carrying amount and fair value mainly relates to amortised loan costs. Other loans were extended in July 2016 based on market terms at that time, and the

Group has not made observations indicating there has been any changes in the Group's credit rating subsequent to that time and hence no significant differences between fair value and carrying amount expect for amortised loan costs.

NOTE 18 FINANCIAL RISK MANAGEMENT cont.
CAPITAL STRUCTURE AND EQUITY

Capital structure is monitored by the Group. The primary focus of the Group's financial strategy is to ensure a healthy capital structure to support its business, fulfil all financial obligations and maximise shareholder values.

The Group also monitors and manages its capital structure in light of changes in the economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to its shareholders, return capital to shareholders or issue new shares. In May 2011, the Group initiated quarterly payments of dividend limited to 20-25% of EBITDA. However, in light of the Financial Plan implemented, the Group are restricted from paying dividends and has restrictions on bond buy backs until 9 March 2020, unless further equity is raised and paid.

Construction and Conversion projects will normally be funded through current loan facilities and/or specific project loan facilities equalling 70-80% of the cost of the project. Project loan facilities can be established either before a contract for the conversion project is signed, during the conversion phase of a project or when the FPSO commence operation.

The Group has also since 2012 issued bonds in NOK. Going forward the Group will consider to continue issuing bonds when the market returns and if it provides competitive funding as an alternative to traditional bank financing.

The Company has no specific targeted equity ratio. However, the loan facilities of the Group have certain covenants related to equity and equity ratio, both closely monitored by the Company (reference to Note 20).

NOTE 19 RETIREMENT BENEFIT ASSETS AND OBLIGATIONS

All office employees in Norway, Norwegian seafaring personnel and parts of office employees in countries other than Norway are covered by pension plans, of which two are funded. The funding obligations connected to the pension plans are coordinated with anticipated future payments from the state pension regulations in Norway. The individual future retirement benefit includes the total of payments from the Group's pension plan, of which a provision is recorded in the consolidated accounts as well as pension payments from the Norwegian state. The plans also include survivor/dependents and disability pensions. The pension entitlements are accrued on a linear basis with an average service life of 30 years. The main terms for office staff pensions are 66% of final salary on attainment of retirement age of 65-67. The main condition for seafaring personnel is a pension of 50% of final salary on attainment of retirement age of 60. The Group's pension schemes follow the requirements as set out in the Norwegian Act on Mandatory Company pensions. The defined benefit schemes for office employees were closed for new employees hired after December 2008.

The above-mentioned pension plans had 65 members at 31

December 2016 and 76 members at 31 December 2015.

The most recent actuarial valuations of the plan assets and the defined benefit obligations were carried out at 31 December 2016 by Nordic Insurance Administration.

The Group has also provided for an unfunded obligation for its national employees in Indonesia, based on an independent actuarial report. The actuarial valuations of the defined benefit obligations were carried out at 31 December 2016 by PT Miliman Indonesia.

The pension assets and obligations are presented under assets or liabilities in the statements of financial position, depending on whether the plan is over- or underfunded. Any change is charged to the income statement. The impact of changed actuarial estimates is charged to other comprehensive income. The discount rate is based on the OMF rate.

The principal actuarial assumptions considered when calculating the pension obligations and expenses for Norwegians were as follows:

	2016	2015
Discount rate	2.10%	2.50%
Expected return on plan assets	2.10%	3.30%
Future salary increases	2.25%	2.50%
Future pension increases	0.00%	0.00%
Increase in social security base amount related to Norwegian state pension	2.00%	2.25%
Social security tax	14.10%	14.10%

Actuarial assumptions for demographic factors such as rates for mortality and disability are based on the standard assumptions made by the Norwegian Institutes of Actuaries.

Average life expectancy for a person retiring at 67 years of age:

	2016	2015
Male	19.1	19.1
Female	22.2	22.1

NOTE 19 RETIREMENT BENEFIT ASSETS AND OBLIGATIONS cont.

The reconciliation of fair value of plan assets is as follows:

USD MILLION	2016	2015
Fair value of plan assets - beginning of year	20.0	23.3
Expected return on plan assets	0.5	0.5
Employer contributions excluding administrative expenses	1.1	2.2
Benefits paid - funded plans	(0.4)	(0.4)
Asset gain/ (loss)	(1.5)	(0.7)
Effect of settled contract	(3.9)	-
Exchange differences	0.6	(4.9)
Fair value of plan assets - end of year	16.4	20.0

The amounts recognised in the statements of financial position are determined as follows:

USD MILLION	2016	2015
Present value of funded obligations	(14.7)	(29.5)
Fair value of plan assets	16.4	20.0
Present value of unfunded obligations	(3.4)	(2.6)
Net liability/asset in the statements of financial position	(1.8)	(12.1)
Of which classified as pension obligations	(3.6)	(12.1)
Of which classified as pension assets	1.8	-

The amounts recognised in the statements of income are determined as follows:

USD MILLION	2016	2015
Current service cost	4.1	3.3
Net interest	0.2	0.3
Administrative cost	0.1	0.1
Net periodic pension cost (Note 8)	4.4	3.7

Best estimate of net pension cost for 2017 amounts to USD 1.6 million (USD 2.1 million). Best estimate of premium payments in 2017 amounts to USD 1.5 million (USD 2.4 million).

The movement in the net liability/asset recognised in the statements of financial position is as follows:

USD MILLION	2016	2015
At 1 January	(12.1)	(14.3)
Contributions paid	1.5	2.5
Pension paid, net of plan asset	14.2	-
Exchange differences	(0.4)	2.2
Re-measurement gain/ (loss) in other comprehensive income	(0.6)	1.2
Charged to income statement	(4.4)	(3.7)
At 31 December	(1.8)	(12.1)

The Chief Executive Officer had an early retirement plan and a pension plan, accrued over his career, that entitled him to a pension equalling 66% of his salary, for life, from the age of 60 years with an annual adjustment for inflation. The plan also included surviving spouse coverage of 55%. The Chief Executive Officer turned 60 years in May 2016. The Board of Directors resolved that the total future pension liability, USD 17.3 million, was paid out in cash as a lump sum, as a full and final payment for all rights under the plans. The settlement was carried out in July 2016. The Group has annually accrued for its pension liabilities and

has obtained various insurance products to partially fund its obligations under the plan. The funds from the insurance products reduced the Group's net cash outlay by USD 3.8 million.

Expenses related to defined contribution plans amounted to USD 1.1 million in 2016 (USD 1.0 million).

The pension funds are administered according to certain guidelines set by the authorities. As of 30 September, the funds were invested as follows:

NOTE 19 RETIREMENT BENEFIT ASSETS AND OBLIGATIONS cont.

USD MILLION	2016	2015
Shares and equity instruments	5%	5%
Bonds - fixed yield	28%	22%
Bonds held to maturity	49%	49%
Properties and real estate	11%	11%
Money market funds	6%	10%
Other	1%	3%
Total	100%	100%

The actual return on plan assets amounted to 3% at 30 September 2016.

A 1% decrease in the discount rate could imply an increase in present value of funded obligations of approximately 20-25%.

The Group further pays a contribution to a central provident fund to Singaporean authorities related to employees with Singaporean citizenship. This contribution is based on the employee's monthly gross salary.

NOTE 20 LOAN FACILITIES

USD MILLION LONG-TERM DEBT	Effective interest rate	Maturity date	Carrying amount	
			2016	2015
USD 2,400 million facility	3 month LIBOR + 2.25%	09-Mar-20	638.2	686.7
Catcher facility	3 month LIBOR + 2.50%	28-May-24	551.9	335.7
Joko Tole facility	3 month LIBOR + 2.50%	30-Jun-18	16.2	53.3
Umuroa facility	3 month LIBOR + 2.00%	09-Mar-18	21.9	25.9
Petróleo Nautipa facility	3 month LIBOR + 1.70%	14-Sep-22	50.6	62.1
BWO01 - NOK 500 million Bond	3 month LIBOR + 4.25%	15-Mar-20	41.5	56.4
BWO02 - NOK 500 million Bond	3 month LIBOR + 4.15%	21-Sep-20	57.6	56.2
BWO03 - NOK 750 million Bond	3 month LIBOR + 3.50%	11-Mar-21	86.2	84.0
BWO04 - NOK 900 million Bond	3 month LIBOR + 4.25%	16-Mar-22	103.2	100.5
Total long-term debt			1,567.4	1,460.8

USD MILLION SHORT-TERM DEBT	Effective interest rate	Maturity date	Carrying amount	
			2016	2015
USD 2,400 million facility	3 month LIBOR + 2.25%	09-Mar-20	108.5	219.5
Catcher facility	3 month LIBOR + 2.50%	28-May-24	(2.2)	(1.4)
Joko Tole facility	3 month LIBOR + 2.50%	30-Jun-18	37.1	48.1
Umuroa facility	3 month LIBOR + 2.00%	09-Mar-18	3.9	4.0
Petróleo Nautipa facility	3 month LIBOR + 1.70%	14-Sep-22	11.5	11.5
BWO01 - NOK 500 million Bond	3 month LIBOR + 4.25%	15-Mar-20	16.1	(0.2)
BWO02 - NOK 500 million Bond	3 month LIBOR + 4.15%	21-Sep-20	(0.1)	(0.2)
BWO03 - NOK 750 million Bond	3 month LIBOR + 3.50%	11-Mar-21	(0.2)	(0.3)
BWO04 - NOK 900 million Bond	3 month LIBOR + 4.25%	16-Mar-22	(0.3)	(0.3)
Total short-term debt			174.4	280.7
Total interest-bearing debt			1,741.8	1,741.5

The Group is in compliance with all covenants at 31 December 2016.

Corporate USD 2,400 million loan facility

In 2011, the Group entered into a USD 2.4 billion seven-year senior secured credit facility. The maturity was extended by two years to March 2020 as part of the amendments implemented in July 2016 and the margin increased by 25 basis points to 225 basis points above USD LIBOR. The facility is split into a term loan and a revolving credit facility, initially totalling USD 1.7 billion and USD 0.7 billion. The Group had

USD 216.2 million undrawn under the revolving credit facility at 31 December 2016.

The facility agreement is subject to certain covenants and these were amended with effect from July 2016, and includes a minimum book equity of at least 20% of total assets (decreased from 25%), annualised debt to EBITDA of maximum 6.0 (increased from 5.5), minimum USD 75.0 million available liquidity including undrawn amounts under the revolving part of the facility (unchanged) and interest coverage ratio of minimum 3.0 (unchanged).

NOTE 20 LOAN FACILITIES cont.**Umuroa USD 130 million loan facility**

The Umuroa facility is a senior secured revolving credit facility agreement entered into on 30 October 2009, with a total initial availability of USD 130 million. The loan was extended and final maturity date is 9 March 2018. The revolving credit facility has financial covenants similar to the covenants under the USD 2,400 million-loan facility. The availability on the facility is reduced by USD 1 million four times a year, followed by a balloon payment of USD 22.0 million in 2018.

BWO01 - NOK 500 million Bond

During the first quarter of 2012, BW Offshore Limited successfully completed the placement of a NOK 500 million senior unsecured bond with maturity date on 15 March 2017. The maturity is extended to 15 March 2020 with NOK 140 million partial redemption on 15 March 2017 as part of the amendment exercise. The proceeds from the Bond loan can be used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets (decreased from 25%) and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

BWO02 - NOK 500 million Bond

During the first quarter of 2013, BW Offshore Limited successfully completed the placement of a NOK 500 million senior unsecured bond with maturity date on 21 March 2018. The maturity is extended to 21 September 2020 with NOK 100 million partial redemption on 23 March 2020. The proceeds from the Bond loan can be used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets (decreased from 25%) and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

BWO03 - NOK 750 million Bond

During the first quarter of 2014, BW Offshore Limited successfully completed the placement of a NOK 750 million senior unsecured bond with maturity date on 11 March 2019. The maturity is extended to 11 March 2021 with NOK 150 million partial redemption on 11 September 2020. The proceeds from the Bond loan can be used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets (decreased from 25%) and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

BWO04 - NOK 900 million Bond

During the second quarter of 2015, BW Offshore Limited successfully completed the placement of a NOK 900 million senior unsecured bond with maturity date on 16 June 2020. The maturity is extended to 16 March 2022 with NOK 90 million partial redemption on 16 March 2021 and NOK 180 million partial redemption on 16 December 2021. The proceeds from the Bond loan can be used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets (decreased from 25%) and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

Joko Tole USD 250 million loan facility

During the third quarter of 2013, the Group entered into a USD 284.6 million financing facility relating to the FPSO BW Joko Tole. The financing was split between a USD 250 million-term loan facility and a USD 34.6 million-guarantee facility. The term loan will be repaid in quarterly instalments and has final maturity in 2018. The facility is subject to financial covenants similar to the covenants under the USD 2,400 million facility.

Catcher USD 800 million loan facility

During the third quarter of 2014, the Group entered into a USD 800 million senior secured pre-and post-delivery term loan facility being a project specific bank financing in relation to construction of a FPSO to operate on the Catcher oil field in the UK North Sea. The FPSO shall be ready for production in 2017. The facility has a margin of 250 basis points above USD LIBOR during construction period and 225 basis points thereafter. The facility is available for drawing during the construction period and will be repaid with a seven-year tenor after completion. The facility is subject to financial covenants similar to the covenants under the USD 2,400 million-loan facility.

Petróleo Nautipa USD 80 million loan facility

During the first quarter of 2015, the Group entered into a USD 80 million senior secured loan facility in respect of the FPSO Petrleo Nautipa. The loan has a tenor of 7.5 years and will be used for general corporate purposes. The facility is subject to financial covenants similar to the covenants under the USD 2,400 million-loan facility.

Long-term financial platform

The long-term financial platform as described in Note 18 were concluded to be a modification of the existing loan agreements in accordance with IAS 39 as the terms were not substantially different.

NOTE 21 INVESTMENT IN JOINT VENTURES

On the 30 December 2016, a local Nigerian joint venture has been established. The 49% interest in BW Offshore Nigeria Limited has been transferred from BW Offshore Limited to BW Offshore Singapore Pte Ltd. The remaining part of the company is owned by local partners.

The agreed selling price is the book value of the company and no gains or losses are recognised as a result of the transaction.

In the period 1 January to 30 December, the investment was treated as a subsidiary.

COMPANY	Registered office	Holding 2016	Holding 2015
BW Offshore Nigeria Limited	Nigeria	49%	100%

Voting rights equal the ownership share. The investment is insignificant.

Terminal Belokamenka', previously operating the Arctic FSO Belokamenka. The Group's interest in LLC 'Oil Terminal Belokamenka' was previously accounted for using the equity method in the consolidated financial statements.

The Group has in 2015 sold its 50% shareholding in LLC 'Oil

NOTE 22 EARNINGS PER SHARE**Basic**

Basic earnings per share are calculated by dividing the net result of the Group by the weighted average number of ordinary shares in issue during the year. Reference to Note 15 for information of changes in ordinary shares from rights

issue and the reverse share split.

Diluted

The Group has had no instruments outstanding during the reporting period with a potentially dilutive effect.

USD MILLION	2016	2015
Profit/ (loss) attributable to equity holders of the Group (USD million)	(132.9)	(216.3)
Weighted average number of ordinary shares in issue (thousands)*	90,212	13,760
Basic and diluted earnings per share	(1.47)	(15.72)

*weighted average number of ordinary shares for 2015 have been adjusted retrospectively to reflect the reverse share split

Basic and diluted earnings per share excludes treasury shares of 48,627 held by the Company.

There are no differences between basic and diluted earnings per share. This is therefore presented on one line in the statements of income.

NOTE 23 RELATED PARTIES TRANSACTIONS

The largest individual shareholder, BW Group Limited owning 49.9%, is incorporated in Bermuda and is controlled by Sohmen family interests.

Investments in joint ventures are disclosed in Note 21.

In December 2016, BW Offshore has in partnership with the BW Group Limited entered into an agreement to acquire 66.67% of the Dussafu production sharing contract offshore Gabon. Subject to closing of this first transaction, the partnership has secured a right to acquire a further 25% of the Dussafu license. BW Offshore has formed a company known as BW Energy Holdings Pte. Ltd. ('BWEH'), for the purpose of pursuing oil and gas interests. As per year-end 2016 the company was owned 100% by BW Offshore, but subject to closing of the transaction, the company will going forward be owned 66.67% by BW Offshore and 33.33% by Maple Company Limited, a wholly owned subsidiary of BW Group Limited.

Remuneration to the Board of Directors, Top Management and auditors is detailed in Note 8.

Pension pay-out to CEO is disclosed in Note 19.

Part of the conditions related to the long-term financial platform established during third quarter was that the equity issue should be fully underwritten. BW Group as well as the CEO of BW Offshore undertook to subscribe for offer shares based on its pro rata holding in BW Offshore. The underwriting shareholders received a fee of USD 0.9 million.

In 2015, VLCC BW Opal was sold for USD 85.5 million to BW Group Limited. The transaction was performed on an arms-length basis, based on independent valuation reports and technical inspection of the vessel. The agreement also includes an option to buy back the vessel until first quarter 2017.

Investments in subsidiaries are disclosed in Note 4.

NOTE 24 COMMITMENTS AND GUARANTEES

Commitments related to life extension activities, conversion projects and operations, contracted for at the balance sheet date, but not recognised in the financial statements are as follows:

USD MILLION	2016	2015
Nominal amount	220.9	470.6
Fair value	204.6	439.4
Interest rate	8.0%	7.1%

For 2016 and 2015, the commitment included committed contract values for the construction of the FPSO for the Catcher Oil Field in the UK North Sea, committed contract values related to life extension activities on the fleet, as well as for ongoing operations.

The Group has entered into lease agreements (classified as operating leases) for offices in various countries (with durations varying from 1 to 10 years), cars and office equipment.

At the balance sheet date, the Group was committed to making the following payments in respect of non-cancellable operating leases:

USD MILLION	2016	2015
Not later than one year	7.4	10.0
Later than one year and not later than five years	9.8	10.6
Later than five years	0.3	0.4
Total nominal amount	17.5	21.0

The Group has issued bank guarantees in favour of various customers totalling USD 75.7 million (USD 81.3 million).

of insurance related to the FPSO BW Joko Tole.

The bank debt related to the USD 2,400 million facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited;
- first priority mortgages over eleven FPSOs;
- first priority secured interest in all earnings and proceeds of insurance related to the same eleven FPSOs.

The bank debt related to the Catcher loan facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited
- assignment of Hull Construction agreement and Key Construction Contracts
- a first priority mortgage over the FPSO, to be owned by BW Catcher Limited, Bermuda
- first priority secured interest in all earnings and proceeds of insurance related to the FPSO once contract has commenced.

The bank debt related to the Umuroa facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited;
- a first priority mortgage over the FPSO Umuroa owned by BW Offshore Singapore Pte Ltd, New Zealand Branch;
- first priority secured interest in all earnings and proceeds of insurance related to the FPSO Umuroa.

The bank debt related to the Petróleo Nautipa facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited;
- a first priority mortgage over the FPSO Petróleo Nautipa owned by BW Offshore Nautipa AS;
- first priority secured interest in all earnings and proceeds of insurance related to the FPSO Petróleo Nautipa.

The bank debt related to the Joko Tole facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited;
- a first priority mortgage over the FPSO BW Joko Tole owned by PT BW Offshore TSB Invest, Indonesia
- first priority secured interest in all earnings and proceeds

The carrying value of vessels pledged as collateral per 31 December 2016 was USD 2,730.3 million (USD 2,802.3 million in 2015). In addition, the shares in certain vessel owning companies in the Group are pledged.

NOTE 25 PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

The Group has for some time not been paid the full contractual rate by Addax Petroleum Exploration Limited for the FPSO Sendje Berge. BW Offshore consider the arguments for not paying full rate unjustified and have started an arbitration process. During third quarter, the Group submitted a claim to the arbitration tribunal for unpaid contractual rate. The claim amounts to USD 66.7 million by end of fourth quarter. BW Offshore is currently awaiting the formal outcome of a preliminary hearing carried out by the arbitration tribunal during first quarter of 2017 (reference to Note 17).

Group. The Group has obtained its Indonesian auditor's written opinion and concurrence in respect of the revenue recognition method adopted by the Group, which is supported by Indonesian GAAP and International Financial Reporting Standards. In July and September 2016, The Group formally lodged an objection against the tax assessment. In January 2017, the Group was informed that the Regional Tax Office is reviewing this matter, and the relevant years will be re-audited as part of the standard procedure. Total claim is USD 17.8 million, including penalties of USD 5.3 million.

In April 2016, the Group received a tax assessment and tax collection letter issued by the Indonesian Tax Office, subsequent to a tax audit for 2013 and 2014. The tax office disagree with the revenue recognition method used by the

On 11 February 2015, there was a gas explosion on board the FPSO Cidade de São Mateus, operating for Petrobras in Brazil. Production was stopped and the unit has been shut down since the accident. FPSO Cidade de São Mateus is

NOTE 25 PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES cont.

currently in lay-up. The Group has signed an agreement with its insurers for an early repair cost settlement. Before final discussion are concluded and agreed with the client, it is not possible to establish a firm plan for when the unit will return to the field. The Group has recognised USD 274.6 million (USD 214.5) as insurance reimbursement at year-end, expected to be paid out during first quarter of 2017. The provision also includes insurance settlement from salvage.

As part of its ordinary business, the Group has other ongoing claims against insurance companies. The Group does not recognise these claims as receivables until receipt of such amounts are deemed virtually certain.

The Group has an ongoing tax audit in Brazil related to allocation of revenue between the local entities and the vessel owning entities outside Brazil. Based on an evaluation of the case in collaboration with legal advisors, it is not found probable that the final tax assessment will result in additional tax expense for the Group, and no provision has been made.

Nigerian taxation changed in 2014 from a deemed profit tax based on gross revenue to tax based on actual net profit. No official guidance have been issued from Nigerian Tax authorities to date on how taxation should be assessed. The Group has made a provision for expected tax charge in Nigeria based on best estimate and input from local advisors.

In September 2013, the Group received a notice from the Indonesian Directorate General of Taxation ('DGT') informing that the VAT exemption issued for the importation of BW Joko Tole has been revoked. Management and the Group's Indonesian advisors have attended meetings with officials of the DGT to assert the Group's position that the revocation of the exemption was unfounded and contrary to Indonesian law as well as to find out whether a VAT assessment is likely to be issued. No provision is made.

In addition to the cases mentioned above, the Group also from time to time have tax audits and other minor disputes with clients or vendors. Provisions or claims are recognised in accordance with the accounting policies as stated in Note 2.

NOTE 26 TRADE AND OTHER PAYABLES

USD MILLION	2016	2015
Trade payables	34.4	57.3
Accrued vessel expenses	34.5	53.4
Accrued other expenses	70.5	63.6
Accrued conversion expenses	12.8	8.1
Public duties payables	12.9	17.3
Deferred revenues	62.8	76.2
Total	227.9	275.9

NOTE 27 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

During January 2017, BW Offshore signed an interim extension agreement for Abo FPSO with Nigerian Agip Exploration Ltd, a subsidiary of ENI S.p.A., until 20 January 2017. Later during the same month, another short-term extension was signed until 31 March 2017. The short-term extensions have been agreed to secure operational continuity while joint work is continuing to conclude the negotiations.

On 4 January 2017, BW Offshore signed an agreement with its insurers for an early repair cost settlement for the FPSO Cidade de São Mateus. The agreed settlement amount is approximately USD 250 million. Proceeds from the settlement is expected to be received during Q1 2017 and has partially already been received as of the date of this report. The FPSO Cidade de São Mateus is currently in lay-up. Before final discussions are concluded and agreed with the client, it is not possible to establish a firm plan for when the unit will return to the field.

On 6 February 2017, BW Kudu Limited (a wholly owned subsidiary of BW Offshore) entered into a Farm-Out Agreement for a 56% stake of the Kudu license offshore Namibia. National Petroleum Corporation of Namibia (NAMCOR), the Namibian state-owned oil company, will hold the remaining 44% of the license. BW Kudu will become operator of the Kudu license. BW Kudu will pay for past costs upon transfer of the field interest to the company. The final investment decision is planned for Q4 2017. The Kudu field was discovered by Chevron

in 1974 approximately 170 km off the coast of Namibia. A further seven appraisal wells have been drilled since then by various oil companies including Shell and Tullow who subsequently withdrew from the project. The Kudu field is estimated to contain 1C-2C-3C Contingent Resource range within the main reservoir ("K3") of 755-1330-2308 Bscf respectively. The Kudu Gas to Power project calls for gas to be produced by a Floating Production Unit before being exported by pipeline to a new 885 MW gas to power plant onshore Namibia.

On 22 February 2017, BW Energy Gabon Pte Ltd (a subsidiary of BW Offshore), entered into a definitive Sale and Purchase Agreement with Pan-Petroleum Gabon B.V. (a fully owned subsidiary of Panoro Energy ASA) to acquire a further 25% working interest in the Dussafu production sharing contract in Gabon. Upon completion of the Sale and Purchase Agreement, BW Energy Gabon will pay Pan-Petroleum Gabon a total cash consideration of USD 12 million and provide a credit of up to USD 12.5 million in order to fund capital expenditures of Pan-Petroleum Gabon's retained interest in the Dussafu block through to first oil production. BW Energy Gabon will, pursuant to closing of the transactions with Pan-Petroleum Gabon and Harvest Energia B.V., hold a 91.667% working interest in the Dussafu production sharing contract, subject to discussions with the Gabon Oil Company for their potential participation. Panoro Energy will hold the remaining 8.33% working interest in the Dussafu license.



BW OFFSHORE LIMITED

PARENT COMPANY FINANCIAL STATEMENTS

82	FINANCIAL STATEMENTS
85	NOTES
91	RESPONSIBILITY STATEMENT
92	INDEPENDENT AUDITOR'S REPORT

STATEMENTS OF INCOME

USD MILLION (YEAR ENDED 31 DECEMBER)	NOTE	2016	2015
Dividend income		-	205.5
OPERATING EXPENSES			
Other expenses	3	(31.9)	(38.6)
Total operating expenses before amortisation		(31.9)	(38.6)
Operating profit/(loss)		(31.9)	166.9
FINANCIAL INCOME AND FINANCIAL EXPENSES			
Interest income		27.3	47.6
Interest expense		(26.2)	(33.1)
Net currency exchange gain/ (loss)		4.1	(6.4)
Fair value gain/ (loss) on financial instruments		(19.3)	(1.7)
Gain on sale of subsidiaries	4	32.1	-
Reversal of impairment/(impairment)	4,5	(199.6)	(405.7)
Other financial income		2.6	4.0
Other financial expenses		(0.4)	(0.6)
Net financial items		(179.3)	(395.9)
Profit / (loss) before tax		(211.2)	(229.0)
Income tax expense		(0.6)	(2.7)
Net profit/ (loss) for the year		(211.8)	(231.7)
Net profit/ (loss) attributable to equity shareholders		(211.8)	(231.7)

STATEMENTS OF COMPREHENSIVE INCOME

USD MILLION (YEAR ENDED 31 DECEMBER)	NOTE	2016	2015
Profit / (loss) for the year		(211.8)	(231.7)
Other comprehensive income			
Cash flow hedges*	12	20.1	(57.7)
Currency gain/(loss) relating to cash flow hedges*		(14.7)	50.9
Total comprehensive income for the year		(206.4)	(238.6)
Attributable to:			
Equity holders of the parent		(206.4)	(238.6)

*As a result of the amended terms on the swaps, the Company has reversed the mark-to-market effect previously recorded over other comprehensive income, as the swaps does not qualify for hedge accounting due to the amended terms. See note 12 for further details

The notes in pages 85-90 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

USD MILLION (AS AT 31 DECEMBER)	NOTE	2016	2015
ASSETS			
Shares in subsidiaries	4	983.6	1,354.6
Derivatives		-	-
Total non-current assets		983.6	1,354.6
Trade and other receivables		-	0.2
Intercompany receivables		610.8	909.2
Derivatives		0.1	-
Cash and cash equivalents	8	19.1	29.8
Total current assets		630.0	939.3
TOTAL ASSETS		1,613.6	2,293.9
EQUITY			
Share capital	7	92.5	6.9
Share premium	7	1,095.5	1,085.0
Other equity		(161.7)	44.4
Total shareholders' equity		1,026.3	1,136.3
LIABILITIES			
Long-term liabilities	9,11	288.5	297.0
Derivatives		138.0	138.2
Total long-term liabilities		426.4	435.2
Interest-bearing short-term debt	9,11	15.6	-
Trade and other payables	10,11	6.2	8.3
Intercompany payables		138.3	709.9
Derivatives		0.8	4.1
Total current liabilities		160.9	722.3
Total liabilities		587.4	1,157.6
TOTAL EQUITY AND LIABILITIES		1,613.6	2,293.9

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD MILLION	Share capital	Share premium	Treasury shares	Cash flow hedges*	Other equity	TOTAL
At 1 January 2015	6.9	1,085.0	(9.2)	(9.8)	335.7	1,408.6
Dividend distribution	-	-	-	-	(34.3)	(34.3)
Share-based payments	-	-	0.1	-	0.4	0.5
Profit/ (loss) for the period	-	-	-	-	(231.7)	(231.7)
Total comprehensive income	-	-	-	(6.9)	-	(6.9)
At 31 December 2015	6.9	1,085.0	(9.1)	(16.7)	70.2	1,136.3
At 1 January 2016	6.9	1,085.0	(9.1)	(16.7)	70.2	1,136.3
Proceeds from share issue	85.6	14.4	-	-	-	100.0
Transaction costs on issue of shares	-	(4.0)	-	-	-	(4.0)
Share-based payments	-	-	-	-	0.3	0.3
Profit/ (loss) for the period	-	-	-	-	(211.8)	(211.8)
Total comprehensive income	-	-	-	5.4	-	5.4
At 31 December 2016	92.5	1,095.5	(9.1)	(11.3)	(141.3)	1,026.3

*As a result of the amended terms on the swaps, the Company has reversed the mark-to-market effect previously recorded over other comprehensive income, as the swaps does not qualify for hedge accounting due to the amended terms. See note 12 for further details

The notes in pages 85-90 are an integral part of these financial statements.

STATEMENTS OF CASH FLOW

USD MILLION (YEAR ENDED 31 DECEMBER)	2016	2015
Operating activities		
Profit/ (loss) before tax	(211.2)	(229.0)
Income tax paid	(0.6)	(2.7)
Impairment charges/(Reversal of impairment)	199.6	405.7
Gain on sale of shares	(32.1)	-
Fair value change on financial derivatives	11.5	(1.8)
Changes in receivables and accounts payable	(2.9)	6.0
Add back of net interest expense	1.2	(10.4)
Other items from operating activities	(1.6)	(0.2)
Net cash flow from/ (used in) operating activities	(35.9)	167.6
Investing activities		
Investments in subsidiaries	186.5	(850.0)
Interest received	27.3	47.6
Net proceeds from sale of subsidiaries	32.1	-
Net cash flow from/ (used in) investing activities	245.9	(802.4)
Financing activities		
Changes in intercompany receivables/debt	(288.2)	589.4
Received payments from raising new long-term debt	-	116.1
Proceeds from share issue	100.0	-
Transaction costs on issue of shares	(4.0)	-
Dividend paid	-	(34.3)
Interest paid	(28.6)	(37.2)
Net cash flow from/ (used in) financing activities	(220.7)	634.1
Net change in cash and cash equivalents	(10.7)	(0.8)
Cash and cash equivalents at 1 January	29.8	30.6
Cash and cash equivalents at 31 December	19.1	29.8

The notes in pages 85-90 are an integral part of these financial statements.

NOTE 1 GENERAL INFORMATION

BW Offshore Limited ('BW Offshore' or the 'Company') was incorporated in Bermuda in 2005 and is domiciled in Bermuda with registered address Clarendon House 2 Church Street Hamilton HM11 Bermuda BW Offshore is the holding company.

The Company is listed on the Oslo Børs (OSE:OSLO).

BW Offshore and its subsidiaries are referred to as the 'Group'. The Group build, owns and operates Oil and Gas FPSOs (Floating Production, Storage and Offloading vessels) and FSOs (Floating, Storage and Offloading vessels).

All figures are in USD million if not otherwise stated. As a result of rounding differences, numbers and or percentages may not add up to the total. Figures in brackets refer to corresponding figures for 2015.

The financial statements were approved by the Board of Directors on 27 February 2017.

NOTE 2 ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union (IFRSs as adopted by the EU). The consolidated financial statements have been prepared pursuant to the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through equity or the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

REVENUE RECOGNITION**Interest income**

Interest income is recognised on a time proportion basis applying the effective interest method.

Dividend income

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

Other revenues

Sales are recognised after transfer of the significant risks and rewards that are connected with the ownership of goods being sold to the buyer. The Company retains neither a continuing right to dispose of the goods, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are presented net of indirect sales taxes and discounts.

ACCOUNTING FOR SUBSIDIARIES

The subsidiaries are all entities (including special purpose entities) over which the Company has power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are stated at cost less any impairment.

BORROWINGS

Borrowings are recognised 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 value is recognised in the income statement during the period of the borrowings applying the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at originally invoiced amount, where this approximates fair value, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not

NOTE 2 ACCOUNTING POLICIES cont.

be able to collect all amounts due according to the original terms of the receivables. The allowance amount 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 amount of the allowance is recognised in the income statement.

Trade and other receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost, applying the effective interest method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and short-term deposits with an original maturity of three months or less.

CURRENCY TRANSLATION
Functional and presentation currency

The Company's presentation currency is United States Dollars ('USD'). This is also the functional currency of the Company and most of its subsidiaries.

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates prevailing at the date of transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Currency translation gains and losses, from items which are hedged as part of a connecting cash flow hedge, are recognised in other comprehensive income.

Provisions for other liabilities and charges

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

NOTE 3 OPERATING EXPENSES

USD MILLION	2016	2015
Management fee	21.3	18.7
Lawyer's fee	1.4	1.1
Consultant's fee	2.1	3.9
Auditor's fee	0.3	0.3
Other operating expenses	6.8	14.6
Total operating expenses	31.9	38.6

Management fee is fee for management services provided to the Company by subsidiaries in the Group.

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 recognised as interest expense.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Shares in subsidiaries and intercompany receivables are subject to impairment testing at the end of each reporting period. Valuation is subject to assessment of the recoverability in the underlying investment or receivable. Management's assessment can affect the level of impairment loss, or reversal of such, that is recognised in profit or loss.

EVALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES - MAIN PRINCIPLES

Assets for long-term ownership or use are classified as fixed assets. Other assets are classified as current assets. Liabilities which fall due more than one year after being incurred are classified as long-term liabilities, with the exception of following year's instalments on long-term debt. This is presented as current interest-bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are the same as can be found in the BW Offshore Limited Consolidated Financial Statements.

NOTE 4 SHARES IN SUBSIDIARIES

NAME OF COMPANIES	Country of incorporation	Ownership 2016	Ownership 2015
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Pte. Ltd.	Singapore	100%	100%
Berge Okoloba Toru Limited	Bermuda	0%	100%
BW Ara Limited	Bermuda	100%	100%
BW Catcher Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	0%	100%
BW KMZ Limited	Bermuda	0%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore do Brazil Ltda.	Brazil	100%	100%
BW Offshore Nigeria Ltd	Nigeria	0%	100%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Peregrino Limited	Bermuda	100%	100%
BW Offshore Shipholding Ltd	Bermuda	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
BW Offshore Cyprus Limited	Cyprus	100%	100%

Berge Okoloba Toru Limited and BW Endeavour Limited were liquidated during 2016.

BW Offshore Nigeria Ltd bought back its own shares held by the company, while BW KMZ Limited was sold to a 100% owed Group company. Net proceeds from sale of subsidiaries was USD 32.1 million. The Company received a distribution of contributed surplus on USD 186.5 million from one of its subsidiaries.

For the year ended 31 December 2016, the Company has recorded an impairment of USD 188.4 million, mainly related to investments in subsidiaries, to reflect the net equity of the subsidiaries as of 31 December 2016. In addition, the Company has recorded a reversal of impairment of USD 3.8 million to reflect net equity of the subsidiaries as of 31 December 2016.

NOTE 5 INTRA-GROUP LOANS AND RECEIVABLES

USD MILLION	2016	2015
Loan to Group companies	610.8	909.2
Intra-group long-term receivables	610.8	909.2
Outstanding to Group companies	138.3	709.9
Intra-group short-term payables	138.3	709.9

Intra-group loan agreements with subsidiaries are set up based on regular market rates. Outstanding balances at year-end are unsecured. For the year ended 31 December 2016,

the Company has recorded an impairment of USD 15.0 million on intra-group loan.

NOTE 6 INCOME TAX

BW Offshore Limited is a Bermuda company. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that it will be exempt from taxation until 2036.

The income tax for 2016 concerns withholding tax which the Company is subject to in certain countries where the Company has financial income.

NOTE 7 SHARE CAPITAL

In July 2016, The Group raised USD 100 million in new equity capital through a rights issue. The Company issued 8,559,810,000 new shares at a subscription price of NOK 0.10 per share, thereby raising gross proceeds of NOK 855,981,000. The rights issue was fully underwritten. The net proceeds from the rights issue were USD 96 million.

Number of issued shares were 9,247,816,004 and 10,700,000,000 in authorised shares, following the rights issue.

Following a reverse share split in December 2016, the par value of the shares has been reduced, corresponding to a reduced authorised share capital. Further details can be found in the BW Offshore Limited Consolidated Financial Statements.

NOTE 7 SHARE CAPITAL cont.
Share capital

Authorised share capital:

At 1 January 2016: 700,000,000 ordinary shares at par value USD 0.01 each
 Increase during 2016: 10,000,000,000 ordinary shares at par value USD 0.01 each
 Reverse share split: 214,000,000 ordinary shares at par value USD 0.50 each

At 31 December 2016: 214,000,000 ordinary shares at par value USD 0.50 each

Issued and fully paid:	USD '000
At 1 January 2016	6,880.0
Increase during 2016	85,598.2
At 31 December 2016	92,478.2

Following the rights issue and the reverse share split, the number of issued shares was 184,956,320 at 31 December 2016. The Company held a total of 48,627 own shares at 31 December 2016 (2,445,020).

NOTE 8 CASH AND CASH EQUIVALENTS

USD MILLION	2016	2015
Cash and cash equivalents	19.1	29.8
Total cash and cash equivalents	19.1	29.8

NOTE 9 LOAN FACILITIES

USD MILLION LONG-TERM DEBT	Eff. Interest rate*	Maturity date	Carrying amount	
			2016	2015
BWO01 - NOK 500 million Bond	3 month NIBOR + 4.25%	15-Mar-20	41.5	56.4
BWO02 - NOK 500 million Bond	3 month NIBOR + 4.15%	21-Sep-20	57.6	56.2
BWO03 - NOK 750 million Bond	3 month NIBOR + 3.5%	11-Mar-21	86.2	84.0
BWO04 - NOK 900 million Bond	3 month NIBOR + 4.25%	16-Mar-22	103.2	100.5
Total long-term debt			288.5	297.0

USD MILLION SHORT-TERM DEBT	Eff. Interest rate*	Maturity date	Carrying amount	
			2016	2015
BWO01 - NOK 500 million Bond	3 month NIBOR + 4.25%	15-Mar-20	16.1	-
BWO02 - NOK 500 million Bond	3 month NIBOR + 4.15%	21-Sep-20	(0.1)	-
BWO03 - NOK 750 million Bond	3 month NIBOR + 3.5%	11-Mar-21	(0.2)	-
BWO04 - NOK 900 million Bond	3 month NIBOR + 4.25%	16-Mar-22	(0.3)	-
Total short-term debt			15.6	-

*Increase of margin to 450 bps in the extended period

BWO01 - NOK 500 million Bond

During the first quarter of 2012, BW Offshore Limited successfully completed the placement of a new NOK 500 million senior unsecured bond with maturity date on 15 March 2017. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

In 2016, the maturity was extended to 15 March 2020 with NOK 140 million partial redemption on 15 March 2017. The margin will increase to 450 bps in the extended period.

BWO02 - NOK 500 million Bond

During the first quarter of 2013, BW Offshore Limited

successfully completed the placement of a new NOK 500 million senior unsecured bond with maturity date on 21 March 2018. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

In 2016, the maturity was extended to 21 September 2020 with NOK 100 million partial redemption on 21 March 2020. The margin will increase to 450 bps in the extended period.

BWO03 - NOK 750 million Bond

During the first quarter of 2014, BW Offshore Limited successfully completed the placement of a new NOK 750 million senior unsecured bond with maturity date on 11

NOTE 9 LOAN FACILITIES cont.

March 2019. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

In 2016, the maturity was extended to 11 March 2021 with NOK 150 million partial redemption on 11 September 2020. The margin will increase to 450 bps in the extended period.

BWO04 - NOK 900 million Bond

During the second quarter of 2015, BW Offshore Limited

successfully completed the placement of a new NOK 900 million senior unsecured bond with maturity date on 16 June 2020. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 20% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

In 2016, the maturity was extended to 16 March 2022 with NOK 90 million partial redemption on 16 March 2021 and NOK 180 million partial redemption on 16 December 2021. The margin will increase to 450 bps in the extended period.

NOTE 10 OTHER INTEREST-FREE CURRENT LIABILITIES

USD MILLION	2016	2015
Other accruals	6.2	8.3
Total interest-free current liabilities	6.2	8.3

NOTE 11 FINANCIAL ASSETS AND LIABILITIES

As of 31 December the Company had financial assets and liabilities in the following categories:

USD MILLION YEAR ENDED 31 DECEMBER 2016	Financial assets	Financial liabilities measured at amortised cost	Fair value
Cash and cash equivalents	19.1	-	19.1
Interest-bearing debt	-	304.1	248.7
Other current liabilities	-	7.0	7.0
Total	19.1	311.1	274.8

USD MILLION YEAR ENDED 31 DECEMBER 2015	Financial assets	Financial liabilities measured at amortised cost	Fair value
Cash and cash equivalents	29.8	-	29.8
Interest-bearing long-term debt	-	297.0	298.9
Other current liabilities	-	12.4	12.4
Total	29.8	309.4	341.1

NOTE 12 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks. Overall risk management follows and is handled by the BW Offshore Group. These processes and policies are described in more detail under Note 18 of the consolidated financial statements.

(a) Foreign currency exchange risk

The Company's business is not exposed to significant foreign exchange risk as its operating expenses are mainly denominated in United States Dollars, which is the functional currency of the Company. The Company enters into forward/futures contracts in order to reduce the exchange-rate risk in cash flows nominated in foreign currencies related to administrative expenses. The exchange-rate risk is calculated for each foreign currency and takes into account assets

and liabilities, liabilities not recognised in the balance sheet and expected purchases and sales in the currency in question. Currency hedges and other currency effects include changes in fair value of currency hedges, effects or settlement of these hedges, and other currency effects related to operating cash flows.

The Company is exposed to foreign currency risk on bonds issued in NOK, respectively bond BWO01, BWO02, BWO03 and BWO04. The foreign currency exposure on bond BWO01, BWO02 and BWO03 are hedged through cross-currency interest swaps with a nominal value of USD 300.8 million, while BWO04 is hedged through cross-currency swaps with a nominal value of USD 117 million.

RESPONSIBILITY STATEMENT

NOTE 12 FINANCIAL RISK MANAGEMENT cont.

During third quarter, the Company amended the maturities and terms of the cross-currency interest rate swaps, to match the amended maturity on the bonds (see above). As a result of the amended terms on the swaps, the derivatives does not qualify for hedge accounting. Remaining mark-to-market balance at the time when the swaps were amended is amortised in the income statement over the remaining term of the existing underlying bonds. Related to this, the Company has stopped using hedge accounting related to the bonds and the underlying swaps going forward. The consequence is that all mark-to-market effects on the swaps and revaluation effect on the underlying bonds have been recognised directly against financial expenses from the time of the amendment. As the swaps were extended, the implicit funding cost have increased due to the longer duration and was priced into the mark-to-market value at time of amendment and recorded in profit and loss. The profit and loss impact related to the above was USD 18m to finance expenses in the third quarter. There was no immediate cash flow effect due to this change. However, going forward it is expected that net financial income/expense will fluctuate more due to mark-to-market changes of the swaps and revaluation of the bonds.

(b) Interest rate risk

Except for the amount due to and from subsidiaries, the Company's operating cash flows are independent of changes

in market interest rates.

The Company holds interest swaps with a nominal value of USD 100 million in total with maturity in 2018. The swaps are held to hedge the quarterly cash flows from floating rate interest payments on the USD 2,400 million-loan facility.

The cross-currency interest swaps held to hedge the BWO01, BWO02 and BWO03 bonds also hedge the interest rate risk on these bonds.

(c) Credit risk

The Company's credit risk is primarily attributable to the amount due from the subsidiaries (non-trade). At the balance sheet date, this amount due from subsidiaries (non-trade) is not past due. The maximum exposure is represented by the carrying amount of this financial asset on the balance sheet.

(d) Liquidity risk and Capital risk

The funding requirements of the Company are met by the subsidiaries of the BW Offshore Group. The Company's objective when managing capital is to ensure that the Company is adequately capitalised and that funding requirements are met by the BW Offshore Group.

The Company is not subject to any externally imposed capital requirements.

NOTE 13 GUARANTEES

The Company has issued bank guarantees as security for bank debts, relating to the USD 2,400 million facility, the Umuroa facility, the Joko Tole facility, the USD 800 million-

credit facility and the Petr6leo Nautipa facility, as listed in Note 24 of the consolidated financial statements of BW Offshore Limited.

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2016 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole. We also confirm

that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

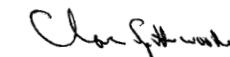
Bermuda, 27 February 2017



Mr. Andreas Sohmen-Pao
Chairman



Mr. Christophe Pettenati-Auzière
Vice Chairman



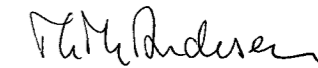
Ms. Clare Spottiswoode
Director



Mr. Maarten Scholten
Director



Mr. Carsten Mortensen
Director



Mr. Thomas Thune Andersen
Director

INDEPENDENT AUDITOR'S REPORT



Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of BW Offshore Limited

Report on the audit of the financial statements**Opinion**

We have audited the financial statements of BW Offshore Limited, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2016, income statement, statements of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of BW Offshore Limited present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016 and their financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with 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.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Estimates relating to impairment testing of vessels

As per 31 December 2016 vessels amounting to USD 2,639.5 million represents 78% of the balance sheet total. Management's assessment of the valuation of vessels was a key audit matter to our audit because the process is complex and requires significant management judgment. Furthermore, there is an increased risk of impairment due to the deteriorated market outlook. The recoverable amount of the assets has been determined based on value in use. Each assessment contains a number of variables that are subject to significant judgment, e.g. redeployment of vessels in lay-up and after end of current contract, capital expenditure, utilization, production- and maintenance bonuses, expectations to future price of oil, operating expenses, useful life, counter-party risk and discount rate. A significant portion of the carrying value of certain vessels is expected to be recovered through redeployment after end of current contract. This primarily relates to vessels in lay-up and vessels with short to medium remaining contract life. Estimation of uncontracted cash flows requires significant judgment related to when a new



contract can be obtained, which charter rates will apply and redeployment expenses, including necessary modifications to the vessel in order to operate on a new field. The group recognized an impairment for the group's vessels of USD 222.6 million in 2016.

We evaluated management's assessment of impairment indications for vessels. We tested management's assumptions used in the value in use calculations and we assessed the historical accuracy of management's estimates. We compared assumptions to data from comparative companies, equity research reports covering the Group and external macroeconomic analysis about the related sector to evaluate revenue projections and utilization assumptions. We compared revenue and operating expenditures to agreed budgets and historical data, and to the long-term market expectations for the sector. We compared assumptions regarding redeployment to current tender activities, historical data and external macroeconomic analysis. We also tested the mathematical accuracy of the valuation model. We involved our valuation expert to assist us in the evaluation of the discount rates used by the Group. We tested sensitivity analyses where considered necessary, and assessed the consistency of valuation methodologies applied throughout the Group.

Furthermore, we evaluated the Group's disclosures regarding the impairments of these vessels, which are included in note 10 of the consolidated financial statements.

Recoverability of trade receivables

At the year-end the group has trade receivables of USD 181.2 million before provisions for impairment of USD 35.1 million. The industry continues to be impacted by certain macroeconomic challenges meaning the group experienced uncertainty over the collectability of trade receivables from specific customers. The determination as to whether a trade receivable is collectable involves management judgement. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for doubtful debt is required either for a specific transaction or for a customer's balance overall. We determined this to be a key audit matter because it requires a high level of management judgement and due to the materiality of the amounts involved.

We tested overdue balances where no provision was recognized to assess that there were no indicators of impairment. This included testing if payments had been received since year-end, reviewing historical payment patterns and reading correspondence with customers on expected settlement dates. We selected a sample of the larger trade receivable balances where a provision for doubtful debt of trade receivables was recognized and considered the rationale behind management's judgement. We tested the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also read correspondence regarding disputes between the parties involved, evaluated management's attempts to recover the amounts outstanding and on the credit status of significant counterparties where available. By performing the procedures mentioned above we also assessed management's rationale where provisions were recognized on transactions that were not overdue as at the balance sheet date and tested supporting documentation.

We considered the accuracy of management's prior year assumptions, and evaluated the level of consistency applied in the valuation methodology from previous years.

The group's assessment of recoverability of trade receivables is disclosed in note 17.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If,



based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of The Board of Directors' and Management for the financial statements

The Board of Directors and Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Management determine 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 and 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 The Board of Directors and 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 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. 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 The Board of Directors' and Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

Oslo, 27 February 2017
ERNST & YOUNG AS

Asbjørn Rødal
State Authorised Public Accountant (Norway)



BW Offshore