

Annual Report

A/S Uglands Rederi 2016



*The
J.J. Ugland
Companies*





Contents

- 5 Message from the Chairman
- 6 The J.J. Ugland Companies
– A/S Uglands Rederi
- 8 The Board of Directors' Report
- 15 Income statement
- 16 Balance sheet
- 18 Cash flow statement
- 19 Notes
- 27 Auditor's Report
- 30 Operated Fleet
- 32 Uglen lifting derrick at Nymo
- 36 Long-serving employees
- 37 An ever-changing journey through time
- 39 MV Star Norita - Safety Award Winner 2016
- 40 Corporate Social Responsibility
- 43 Contact details

THE OBJECTIVE OF THE J.J. UGLAND COMPANIES
IS TO CONDUCT BUSINESS IN A SUSTAINABLE AND
PROFITABLE MANNER THAT SECURES EMPLOYMENT AND
CREATES CONFIDENCE AND TRUST AMONG PARTNERS,
CUSTOMERS AND FINANCIAL INSTITUTIONS



Message from the Chairman

2016 was an “annus horribilis” for the shipping industry, as reflected in the lowest ClarkSea Index level since 1990 and severe challenges for the offshore markets on the back of the depressed oil price. The dry cargo market sector started the year with the weakest rates in recorded history as the Baltic Dry Index bottomed out in February with rates below operating costs. However, there were some encouraging signs at the end of the year. The offshore supply market scraped along at rock-bottom levels throughout the year, with no signs of recovery and more vessels being laid up. Tankers, specialised products and gas markets all performed at sustainable levels, albeit more weakly than in the previous year.

Ugland felt the impact of these depressed market conditions during 2016. The company’s bulk carriers and two PSVs were affected by the weak dry bulk and offshore markets. Our barges also suffered from the weak market, but benefited from increased demand from the offshore wind farm industry. Our shuttle tanker continued on a term contract at satisfactory rates. While the company posted an overall loss, the underlying cash flow was positive. Thanks to a robust balance sheet, experienced management and a focus on safety, the environment and quality, the company is well equipped to weather further downturns in the market.



With seaborne transportation accounting for around 85 per cent of the world’s international trade, shipping is an essential part of the global economy. By volume, global seaborne trade in 2016 was almost twice as high as at the turn of the millennium, and over three times as high as in the mid-1980s. Despite these positive megatrends, the shipping markets have always been volatile and cyclical over the shorter term.

2017 has started off more positively. The rates for bulk carriers, which is our main market, have continued to strengthen. Whilst we do not anticipate the market reaching complete equilibrium in the near term, we believe the medium-term outlook for the sector is positive. Demand continues to grow and the recalibration of the supply/demand balance is improving following lower order books and continued scrappings as a result of environmental regulations. Our modern fleet of bulk carriers are on shorter-term contracts and thus ready to take advantage of a rising market. We have fixed our shuttle tanker on a new term contract at a satisfactory rate from the end of the current contract, we have secured our PSV investment over the next three years and there are some positive signs in the barge and crane ship markets. We are therefore moderately optimistic for the future.

Jørgen Lund
Chairman

The J. J. Ugland Companies - A/S Uglands Rederi



The Board of Directors, from left: Peter D. Knudsen, Knut N.T. Ugland, Jørgen Lund (Chairman), Gunnar Frognes and Stein Rynning

The J.J. Ugland Companies presently incorporate:

- 43 owned and operated units totalling about 1.7 million deadweight tonnes.

The operated fleet includes 14 bulk carriers, one icebreaking special bulk carrier, 4 shuttle tankers, 1 oil/chemical tanker, 2 PSVs, 16 barges, 2 tugs and 1 crane vessel.

In addition, two supramax bulk carrier newbuildings are scheduled for delivery in 2017 and 2019.

- A commercial pool for their fleet of supramax bulk carriers based on charter agreements for the transportation of iron ore, coal/coke, cement/clinker, grain, alumina, steel, scrap, salt and other commodities.

- A technical and commercial operation complying with the ISM-code, ISPS-code, ISO 9001:2008, ISO 14001:2004 and OHSAS 18001.

- A strong customer base in the offshore industry for their barge fleet and the self-propelled heavy lift crane vessel Uglen.

- A.S Nymo yard with a proven track record in engineering, procurement and construction (EPC) of modules and equipment for the offshore industry.

- A fully integrated and professionally managed organisation in Norway and in St. John's, Canada.

FROM THEIR HEADQUARTERS LOCATED AT VIKKILEN
IN GRIMSTAD, NORWAY, THE FAMILY OWNED
A/S UGLANDS REDERI, FOUNDED IN 1930, AND ITS
SUBSIDIARIES PROVIDE WORLDWIDE SHIPPING SERVICES

The Board of Director's Report

Introduction

From its headquarters in Grimstad, Norway, the family owned A/S Uglands Rederi and its subsidiaries provide worldwide shipping services. At the end of 2016 the company's fleet comprised 39 owned or operated units with an aggregate tonnage of 1.45 million deadweight tonnes. The fleet consisted of 12 supramax bulk carriers, one ice-breaking special bulk carrier, four advanced tankers equipped for offshore bow loading, one oil/chemical tanker, two platform service vessels (PSVs), 16 sea-going barges, two tugboats and one heavy lift, self-propelled crane vessel. A further four supramax bulk carriers are under construction, three of which are due to be delivered in 2017 and the last one in 2019. In 2016 the company sold two barges.

The companies' main objective is to conduct business in a sustainable and profitable manner that in a long-term perspective secures employment and creates confidence and trust among partners, customers and financial institutions. This involves a focus on stable income, safety, the environment and quality assurance of operations.

Earnings, Finance and Risk

The accounts for 2016 were prepared assuming a long-term going concern scenario.

Both the parent company and its subsidiaries are included in the figures stated below. The 2015 figures are given in brackets.

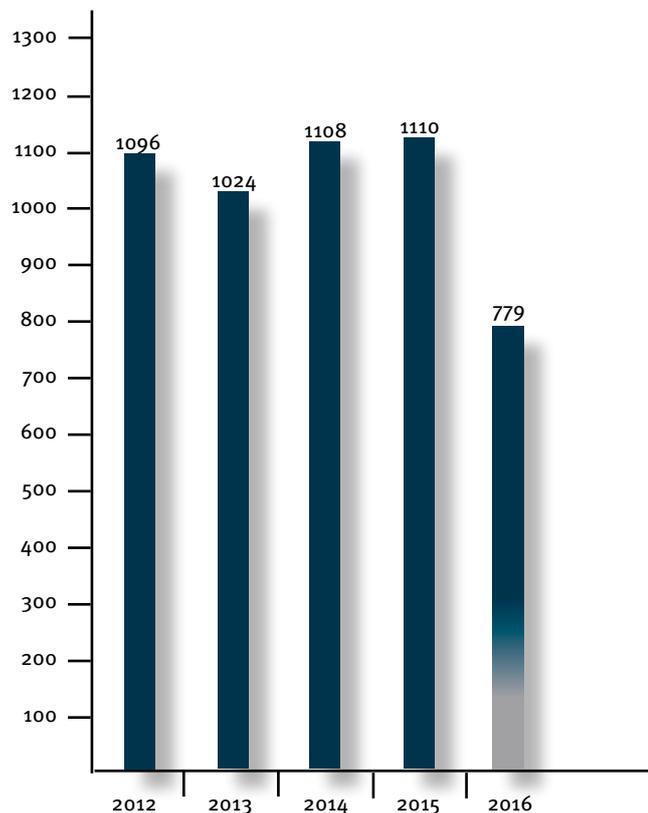
The operating income amounted to NOK 779 million (1 110) and include a profit on the sale of two barges. Operating expenses totalled NOK 803 million (1 286). The operating result before depreciation and impairment losses (EBITDA) came in at NOK 98 million (133), and the operating result (EBIT) totalled NOK -24 million (-177). Depreciation and amortisation of NOK 121 million was recognised in the financial statements (165). In light of developments in the markets in which the company's fleet operates, the board and management have evaluated the need for impairment on ships and other property plant and equipment. Broker valuations were obtained for the fleet of bulk carriers and PSVs in order to be able to

compare the vessels' book values and market values at the reporting date. As the difference between the bulk fleet's market and book values is not considerable, the analysis of recoverable amounts did not reveal a need to recognise a further impairment for the bulk carriers in the business' fleet. However, analysis of recoverable amounts for the two PSVs resulted in the recognition of an impairment of the value of the company's 50 per cent shareholdings in Ugland Supplier AS of NOK 36 million. After impairment losses of the share values, net financial expenses amounted to NOK 76 million (NOK 76 million). The company's share of the results of the companies UM Bulk AS and Ugland Supplier AS (50 per cent shareholdings) are included in net financial expenses. These are companies with investments in respectively bulk carriers and PSVs. The net loss for the year before tax and minority interests totalled NOK 100 million (-252). After the reversal of

a tax expense of NOK 1 million, and minority interests of NOK 1 million, the consolidated loss for the year amounted to NOK 100 million.

The subsidiary Ugland Shipping AS owns 10 supramax bulk carriers. Earnings from the bulk carriers are impacted by market fluctuations. The market was particularly fragile at the start of 2016, but rallied during the second half of the year. However, trading conditions are still too weak to generate satisfactory earnings. Earnings from Ugland Shipping's bulk carriers have been slightly higher than market rates due to the fact that some of the fleet have secured long-term charters. The market value of the bulk carriers measured in USD weakened during the first half before strengthening in the second half of the year, meaning that ship values closed the year largely unchanged from the start of the year.

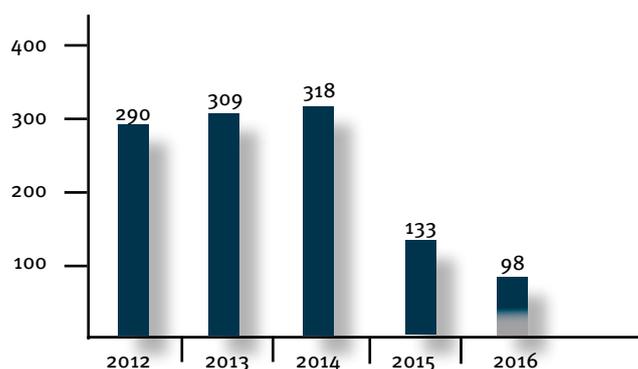
Operating income (NOK million)





From left:
Arnt Olaf Knutsen, Deputy Managing Director,
Øyvind Aasland, Exec. Vice President
Crane Vessel and Barges,
Halvor Ribe, Exec. Vice President
Finance, Insurance & ICT and
Øystein Beisland, President

**EBITDA - Operating results before depreciation
(NOK million)**



The tanker Vinland, which is fixed on a long-term charter, has had a stable operation and generated satisfactory ongoing earnings during the year.

As of 31 December 2016, Ugland Shipping AS owned a barge fleet of 16 units and one heavy lift crane vessel. The barge market deteriorated in 2016, which reduced sales. During 2016, two barges were sold at a profit. Utilisation of the crane vessel strengthened slightly during the year.

During 2016, a total of NOK 100 million was appropriated for amortisation of loans and investments in vessels. A further NOK 51 million was paid in as equity, along with NOK 4 million as a shareholder's loan to UM Bulk AS.

Ugland Supplier AS, of which 50% is owned by A/S Uglands Rederi and 50% is owned by

a Norwegian co-investor, owns two platform service vessels (PSVs). A/S Uglands Rederi owns 50% of UM Bulk AS and 50% is owned by a foreign co-investor. UM Bulk AS owns two supramax bulk carriers and has two vessels on order from yard. Results from the two associated companies are recognised under other financial items in A/S Uglands Rederi's financial statements.

A/S Uglands Rederi and its subsidiaries have satisfactory liquidity, well adapted to the company's activities. As of 31 December 2016, the current ratio was 1.5. Long-term interest-bearing liabilities account for NOK 143 million of a total consolidated group balance of NOK 2 344 million.

During 2016, a long-term loan agreement due to mature was prolonged. This loan finances the tanker owned by Ugland Shipping. A further long-term loan agreement

has been entered into to secure financing for Ugland Shipping's newbuild bulk carrier from Imabari, which is due to be delivered in March 2017. A similar long-term loan agreement has been entered into which will be used as a credit facility to finance the company's share of UM Bulk's two bulk newbuilds due for delivery in 2017, as well as for general corporate purposes. At the end of the year, no loans were drawn under this facility.

For information related to financial market risk and the use of financial instruments, please refer to note 12.

Recognised equity totals NOK 1 923 million, and constitutes 82% of total assets.

The parent company A/S Uglands Rederi posted a loss for the year of NOK 35 751 117. A group contribution of NOK 40 000 000 was given to J.J. Ugland Holding AS.

Bulk Carriers

Specification of the fleet is given in note 2.

All the bulk carriers owned by Ugland Shipping AS are commercially operated by Ugland Bulk Transport AS (UBULK Pool), while Ugland Marine Services AS is responsible for the technical management of the vessels. As of 31 December 2016, the pool operated 10 pool vessels with an average age of 9 years. In 2016 pool revenues totalled NOK 201 million. In addition, Ugland Marine Services AS is responsible for the technical and commercial management of the bulk carriers Ellenita and Lunita, which are owned by UM Bulk AS.

The majority of the fleet is fixed on short-term charter parties. One vessel is fixed on a time charter until summer 2017 at a rate well



above the current spot market. Earnings for the bulk carriers in 2016 were higher than the spot market index.

Historically the bulk fleet has been fixed on long-term charter parties. The very weak bulk market the past few years has made it difficult to source long-term charter parties for the vessels. The vessels are therefore being fixed on short-term charter parties pending a recovery in the market. The company's long-term objective of achieving a mix of short and longer-term charter parties remains unchanged. Two vessels are also fixed on indexed rates.

UM Bulk AS is due to take delivery of two newbuild bulk carriers with 60 500 deadweight tonnes from Sanoyas Shipbuilding Corporation in March and July 2017. Ugland Marine Services AS will be responsible for technical and commercial management of the two newbuilds as for Lunita and Ellenita.

Ugland Shipping AS is due to take delivery

of an additional newbuild bulk carrier of 63 000 deadweight tonnes from Imabari Shipbuilding Co., Ltd. in March 2017. The vessel will be included in the UBULK Pool. After negotiations with the yard, the delivery of the second newbuild from Imabari has been postponed until the first quarter of 2019.

Tankers/PSV

Specification of the fleet is given in note 2.

Canship Ugland Ltd., in St. John's, Newfoundland, has management agreements for the shuttle tanker Vinland, which is owned by Ugland Shipping AS. In addition, Canship Ugland Ltd. manages a further three shuttle tankers operating on Grand Banks and off the coast of Venezuela, one icebreaking bulk carrier, one oil/chemical tanker and two tugs serving Newfoundland's oil terminal.

Vinland is chartered to Petrobras in Brazil until November 2017. We are in negotiations with a charterer concerning deployment of Vinland from November/December 2017.





The PSV Juanita is on time charter to Statoil until June 2017. The company has 4 x 6 months options up to June 2019 thereafter.

The PSV Evita operated in the spot market in the North Sea throughout 2016. Due to a very weak market towards the end of the year/start of 2017, it was decided to lay up the vessel from 1 February 2017. We are working on several alternatives for obtaining long time charter for Evita.

Ugland Offshore AS and Ugland Marine Services AS are responsible for the commercial and technical management of the vessels on behalf of Ugland Supplier AS.

Barges & Crane Vessel

The barges and the heavy lift crane vessel Uglen are operated by Ugland Barge Pool AS.

The barge fleet's deployment in 2016 was down on the previous year. The barges mainly traded in the North Sea and the Baltic Sea. The contract coverage for 2017 is higher than at the same time last year.

During the summer of 2016, the barges UR 94 and UR 111 were sold and delivered to their new owners. The sales generated a total profit of NOK 19 million.

In 2016 the crane vessel Uglen performed assignments along the Norwegian Coast, in Germany and The Netherlands. In spring 2014 Uglen was refurbished and its lifting capacity upgraded from 600 to 800 tonnes. The upgraded lifting capacity has increased the vessel's market opportunities. However, there was a significant deterioration in Uglen's deployment during 2015 as a result

of lower demand for heavy lifting following a decrease in the construction of newbuild offshore vessels. However, in 2016 the company successfully secured alternative deployment for Uglen, which has partially compensated for the loss of deployments in connection with construction of newbuild offshore vessels.

Insurance

In 2016, the hull and machinery, hull and freight interest and loss of hire insurances were renewed with coverage until 30 November 2017. The P&I insurance expires on 20 February 2018. War risk insurance is covered by Den Norske Krigsforsikring for Skib.

The total insurance coverage for the group's fleet is NOK 3 billion.

Left:

Newbuilding MV Olita delivered March 2017

Below:

Mooring of PSV Evita





Above: Shuttle tanker MT Vinland

Organisation, Health & The Environment

Ugland Marine Services AS is the commercial and/or technical manager of the supramax drybulk carriers, one shuttle tanker and two PSV vessels. The company is also the technical manager of the barges and the heavy lift crane vessel Uglen, while Ugland Construction AS is in charge of the commercial management of the latter vessels.

At the end of 2016, the workforce engaged in shipping activities totalled 664 people.

The office staff included 53 people employed by Ugland Marine Services AS in Grimstad, 6 people employed by Ugland Construction AS in Stavanger and 21 people employed by Canship Ugland Ltd. in St. John's. Women constituted 31% of the total office staff. Vacancies are filled with the best qualified individuals, and the same practice is also used to avoid discrimination. Seafarers constituted 584 people, including 319 Filipinos, 177 Canadians, 66 Norwegians, 10 Swedes and 12 people from other nations. The crew members' nationality reflects the vessels' trading area. The company has a long-standing partnership with a Philippine recruitment agency for vessels trading in international waters. The seafarers are employed on contracts complying with approved employment settlements in their respective countries.

Ugland Marine Services AS owns 100% of the shares in Ugland Construction AS, Ugland Offshore AS, and Ugland Marine Management AS, which employs the Norwegian, Swedish and Filipino crew members, and 51% of the shares in Canship Ugland Ltd, which employs the Canadian crew members.

No vessels were involved in any accidents causing serious damage or injuries, or environmental pollution. Absence due to illness onboard and onshore amounted to 1.8%

and 1.7% respectively. Health, safety and the environment are accorded top priority, and continuous efforts are made to further reduce the risk of accidents and pollution. Recorded lost-time injuries (LTIs) in 2016 were slightly higher than the target for the year.

Shipping is an environmental-friendly mode of transport. Nevertheless, a number of measures can be implemented to further reduce any adverse impacts on the environment. The shipping industry is encountering increasingly stringent environmental requirements and demands from both the authorities and customers. In recent years, the international authorities have adopted limits for the sulphur content of fuel oil in some exposed areas, and have tightened requirements in previously established areas. A significant greenhouse gas emission reduction can be achieved by focusing on reduced fuel oil consumption and by using low-sulphur marine fuel. New regulations for the treatment of ballast water was approved in September 2016, and will be implemented in September 2017. We continuously keep abreast of the development and effect of new ballast treatment systems. Ballast water contains micro-organisms which may harm the local marine environment when transferred from one part of the world to

another. The company prioritises the environment and has prepared a dedicated environmental policy and defined procedures and practices to achieve its environmental targets. Each year, specific targets are set in order to prevent or reduce negative impacts on the environment. Harmful emissions and energy consumption are recorded and subsequently accounted for in a report prepared annually.

Ugland Marine Services AS, Canship Ugland Ltd. and the vessels are certified according to IMO's "International Ship Management Code" (ISM). In addition, the vessels are certified in compliance with "The International Ship and Port Security Code" (ISPS). Both companies are also ISO 9001:2008 quality certified, environmentally certified according to ISO 14001:2004 and OHSAS 18001 certified.

Right:
PSV Evita

Below:

Barge UR 141 onboard heavy lift vessel bound for crossing the Pacific





Outlook

Almost all shipping segments encountered weak markets in 2016. Normally, some segments will do better than others. However, during 2016 virtually only the tanker segment achieved acceptable rates. The shuttle tanker Vinland is on a firm time charter, and enjoying smooth operations with almost no off-hire. The vessel is operating profitably, which has helped to offset the weak performance from the bulk segment, which has been at a historically low level. With the exception of the PSV segment, we are cautiously optimistic that market conditions will normalise in our other shipping segments in 2017.

With a modern and low-mortgaged fleet, and a respectable cash reserve, the Board of Directors considers the company to be well equipped to meet the challenges of the years ahead. Three new bulk carriers are due to be delivered in 2017, and one in 2019, of which two of the vessels to be delivered in 2017 will be owned by UM Bulk AS.

Supramax dry bulk vessels owned by Ugland Shipping AS will continue to operate in the Ugland Bulk Transport AS pool, most of whose capacity is fixed on short-term time charter parties to solid charterers. Two of the vessels are fixed on indexed rates, while one vessel is on a time charter party until summer 2017.

The contract coverage for 2017 is approximately 40%. The dry bulk market remained weak at the start of 2017, though significantly better than at the same time the previous year. The improved market balance indicates that the market will probably tighten during 2017. Consequently, we expect higher rates for the bulk carriers in 2017 than in 2016.

The company is actively endeavouring to reduce the vessels' operating expenses and is pleased to note that significant progress has been made in this regard in 2016 without compromising the safety of the vessels or crew or day-to-day operation of the vessels. We aim to achieve further reductions in 2017.

The barge fleet and the heavy lift vessel Uglen are expected to face slightly improved market conditions in 2017 compared with 2016.

The shuttle tanker Vinland is on a time charter with Petrobras until November 2017. The company is in negotiations with a charterer concerning deployment of Vinland from December 2017.

The PSV Juanita is contracted to Statoil until June 2017, with options until June 2019. Evita operated in the spot market in the North Sea throughout 2016. Due to a very weak market

towards the end of the year and start of 2017, it was decided to lay up the vessel from 1 February 2017. The company is considering several alternatives to obtain profitable employment for Evita. The PSV segment will remain challenging for the next few years, and significant uncertainty attaches to future earnings and value development.

Further expansion and renewal of the fleet has been postponed due to challenging market conditions and the delivery of bulk newbuilds in 2017 and 2019. Our objective for 2017 is to recover the values of the existing fleet. With our fleet of modern, high quality vessels, we are well positioned for the anticipated market improvement.

Our main priorities are safeguarding lives, the environment, vessels and cargo. Long-term relationships, financial solvency and liquidity are also high on our agenda.

Good customer relationships and financial strength coupled with experienced and dedicated employees, make A/S Uglands Rederi and its subsidiaries a robust and serious actor in their targeted market segments.

The Board of Directors would like to take this opportunity to thank its employees both onshore and offshore for their contributions to the safe operation of the company's vessels.

Grimstad, 21 February 2017

Gunnar Frognes
Deputy Chairman

Jørgen Lund
Chairman

Knut N.T. Ugland

Stein Rynning

Øystein Beisland
President

Peter D. Knudsen

The 86th Annual Accounts

Income statement 01.01.-31.12 (NOK)

Consolidated				A/S Uglands Rederi	
2016	2015			2016	2015
		NOTE	NOTE		
Operating income					
432 891 548	613 740 533			101 375	1 275 413
346 072 018	496 108 273			124 200	121 800
778 963 566	1 109 848 806	2		225 575	1 397 213
Operating expenses					
-435 192 892	-482 654 308	3/8	3	-1 426 250	-1 426 250
-121 423 118	-164 769 316	4		0	0
0	-145 009 114	4		0	0
-246 168 778	-493 978 113			-9 743 911	-11 149 780
-802 784 788	-1 286 410 851			-11 170 161	-12 576 030
-23 821 222	-176 562 045			-10 944 586	-11 178 817
Financial income and expenses					
-69 813 850	-84 266 502	6		-70 045 439	-84 580 141
0	0			48 093 985	210 104 726
0	0			390 507	0
5 015 792	5 424 850			4 531 480	4 713 757
1 743 207	14 068 879	13	13	0	31 807 643
0	0			0	-481 922
-5 617 844	-10 588 614			-121	0
-7 672 142	-222 498	13	13	-8 862 195	-5 510
-76 344 837	-75 583 885			-25 891 783	161 558 553
-100 166 059	-252 145 930			-36 836 369	150 379 736
1 207 158	1 780 947	10	10	1 085 252	-11 183 102
-98 958 901	-250 364 983			-35 751 117	139 196 634
-859 451	-1 330 417				
-99 818 352	-251 695 400				
Information regarding:					
				-75 751 117	119 319 022
				40 000 000	19 877 612
				-35 751 117	139 196 634

Balance sheet as of 31.12. (NOK)

Consolidated			A/S Uglands Rederi	
2016	2015		2016	2015
		NOTE		
ASSETS				
Tangible fixed assets				
1 435 931 284	1 599 901 272	4	0	0
2 465 026	2 640 375	4	657 034	657 034
174 404 743	76 885 600	4	0	0
1 612 801 053	1 679 427 247		657 034	657 034
Financial fixed assets				
0	0		173 230 270	192 898 659
194 553 046	213 356 315	6	192 275 197	211 310 055
206 470 024	204 152 230	7	153 423 061	151 144 118
401 023 070	417 508 545		518 928 528	555 352 832
2 013 824 123	2 096 935 792		519 585 562	556 009 866
Current assets				
Receivables				
119 765 734	132 279 349	7	7 261 109	226 313
119 765 734	132 279 349		7 261 109	226 313
Bank deposits, cash etc.				
210 239 913	309 139 840	9	48 097 168	86 956 371
330 005 647	441 419 189		55 358 277	87 182 684
2 343 829 770	2 538 354 981		574 943 839	643 192 550

Consolidated				A/S Uglands Rederi	
2016	2015			2016	2015
		NOTE			
EQUITY AND LIABILITIES					
Equity					
Paid-in capital					
2 160 610	2 160 610		Share capital (432 122 shares of NOK 5 each)	2 160 610	2 160 610
686 977	686 977		Other paid-in equity	686 977	686 977
Retained earnings					
1 913 847 531	2 057 947 512		Other equity	527 413 217	603 164 334
6 212 042	5 913 660		Minority interests	0	0
1 922 907 160	2 066 708 759	11	Total equity	530 260 804	606 011 921
Liabilities					
Provisions					
6 273 164	9 552 908	10	Deferred tax liability	3 399 410	6 918 539
56 519 801	53 433 765	8	Other provisions	0	0
62 792 965	62 986 673		Total provisions	3 399 410	6 918 539
Other non-current liabilities					
143 220 000	182 600 000	9	Liabilities to financial institutions	0	0
143 220 000	182 600 000		Total other non-current liabilities	0	0
Current liabilities					
113 613	32 138 630	10	Income tax payable	0	0
214 796 032	193 920 919	7	Other current liabilities	41 283 625	30 262 090
214 909 645	226 059 549		Total current liabilities	41 283 625	30 262 090
420 922 610	471 646 222		Total liabilities	44 683 035	37 180 629
2 343 829 770	2 538 354 981		Total equity and liabilities	574 943 839	643 192 550

Grimstad, 31 December 2016

21 February 2017

Gunnar Frognes
Deputy ChairmanJørgen Lund
Chairman

Knut N.T. Ugland

Stein Rynning

Øystein Beisland
President

Peter D. Knudsen

Cash flow statement (NOK)

Consolidated			A/S Uglands Rederi	
2016	2015		2016	2015
		Cash flow from operating activities		
-100 166 059	-252 145 930	Operating result before tax	-36 836 369	150 379 736
69 813 850	84 266 502	Result from associated companies	70 045 439	84 580 141
-34 572 507	-27 895 969	Tax paid / tax refund from previous years	-2 433 877	-4 622 551
-18 793 462	69 591 861	Gain / loss on sale of assets	0	0
121 423 118	309 778 430	Ordinary depreciation and impairment losses	0	0
-2 639 453	-8 289 499	Currency adjustments	4 297 569	-29 626 339
12 287 262	-56 212 143	Changes in other accruals	-18 569 527	6 154 259
47 352 749	119 093 252	Net cash flow from operating activities	16 503 235	206 865 246
		Cash flow from investing activities		
-51 010 580	-36 644 000	Cash outflow, investment in associated companies	-51 010 580	-36 644 000
0	0	Cash outflow, unwinding of subsidiary company	19 668 389	0
29 466 828	90 046 005	Cash inflow, sale of assets	0	0
-65 144 576	-54 220 504	Cash outflow, purchase of assets	0	0
0	-65 044 034	Cash inflow/outflow other long-term investments	0	-65 044 034
-3 821 485	5 934 550	Cash inflow/outflow other long-term receivables	-4 142 635	5 754 550
-90 509 813	-59 927 983	Net cash flow from investing activities	-35 484 826	-95 933 484
		Cash flow from financing activities		
-35 236 856	-100 741 050	Cash outflow, amortization of long-term debt	0	0
-19 877 612	-45 804 932	Cash outflow, dividend /group contribution	-19 877 612	-45 804 932
-628 396	-670 569	Cash outflow, minority interests	0	0
-55 742 864	-147 216 551	Net cash flow from financing activities	-19 877 612	-45 804 932
-98 899 927	-88 051 282	Net change cash and bank deposits	-38 859 203	65 126 831
309 139 840	397 191 122	Cash and bank deposits 01.01	86 956 371	21 829 540
210 239 913	309 139 840	Cash and bank deposits 31.12	48 097 168	86 956 371

Notes to the accounts

Note 1 - Accounting principles

General

The Annual Report and Accounts has been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP).

The Annual Report and Accounts is translated into English for information purposes only.

Consolidation

The consolidated financial statements show the financial position and financial performance of the parent company and its subsidiaries presented as a single economic entity. In the consolidated statements all intercompany transactions and balances have been eliminated.

The consolidated accounts have been prepared in accordance with the same accounting principles for both parent and subsidiaries. Foreign subsidiaries are translated into NOK using the rate of exchange as of 31.12. Translation gain or loss is accounted for as change in consolidated equity.

Operating income/Operating costs

Freight income is recognized at the time of execution, and operating costs are recognized as expenses in the same period as the related income. Costs not related to future income are recorded as expenses as they occur. Allocations for periodical maintenance and classification costs are made over the period up to the actual time of drydocking.

Classification of assets and liabilities

Fixed assets include intangible, tangible and financial assets intended for long-term ownership and use in the business.

Other assets are current assets. Receivables to be paid within a year are always classified as current assets. The same principles are used for the classification of current and long-term liabilities.

Current assets are recognized at the lower of historical cost and net realizable value. Fixed assets are recognized at historical cost, but reduced to net realizable value if and when the reduction is considered permanent.

Foreign exchange

Monetary items in foreign currency are recognized at the rate of exchange as of 31.12.16,

which for NOK/USD was 8.68. As of 31.12.15 the rate of exchange was 8.80.

Fixed assets and depreciation

Fixed assets are valued at acquisition cost less accumulated depreciation. Fixed assets are depreciated linearly over the estimated economic lifespan, which is 25 years for the bulk carriers, barges and the crane vessel. The depreciation plan for the shuttle tanker is 20 years with an estimated residual value.

If recoverable amount of the fixed asset is lower than the book value, the asset is written down to recoverable amount. Recoverable amount is the higher of net realizable sales value and value in use. Value in use is the present value of future cash flows that the asset is expected to generate.

Upgrading costs of owned vessels are capitalized and written off over the remaining estimated economic lifespan.

Estimates

When preparing the annuals accounts in accordance with Norwegian GAAP, management has used estimates and assumptions that has affected the income statement and the valuation of assets and liabilities, including any contingent assets and liabilities as of the balance-sheet date.

Cash flow

The cash flow statement is prepared under the indirect method.

Shares

Investments in subsidiaries are valued at acquisition cost.

Investments in associated companies are recognized under the equity method.

Taxes and change in deferred tax

Taxes consist of tax payable on the financial result and changes in deferred tax liability/asset. Deferred tax liability/asset is calculated on temporary differences between values for taxation and those used for financial reporting. Tax-increasing and tax-reducing temporary differences are netted if they are reversed or reversible in the same period. A net deferred tax asset is only recorded in the balance sheet when

utilization is considered probable.

The shipping activity in the Norwegian shipping companies is subject to the Norwegian tonnage tax regime for shipping companies. Under the present regime profits derived from shipping operations are tax exempt on a permanent basis. However, finance income can be taxable according to specific rules. Instead of being subject to ordinary tax on profit, the shipping companies are required to pay a tonnage tax based on the net tonnage of its ship portfolio.

Deferred tax asset related to financial loss carry-forward in shipping companies is not recorded in the balance sheet as there is uncertainty about its future application.

Pension schemes with defined future benefits

Pension costs and pension obligations are estimated and recognized on a straight line basis considering final salary. The calculations are based on a number of criteria such as discount rate, estimated future salary increases, pensions and benefits from National Insurance, future return on pension funds as well as actuary assumptions related to age of death and voluntary attrition.

Pension funds are recognized at market value and are deducted in net pension obligations in the balance sheet. Adjustments in pension obligations due to pension scheme changes are distributed over anticipated remaining service period. Any adjustments in the obligations and the pension funds caused by changes and deviations in actuarial assumptions (estimate adjustments) are distributed over estimated average remaining service period, provided that the deviations at the beginning of the year exceed 10% of the higher of the maximum gross pension obligations and pension funds.

Contribution pension schemes (Unit Link)

Contributions paid are five percent of salaries between 1G and 6G and eight percent of salaries between 6G and 12G. (G=statutory basic amount, currently NOK 92 576)

Operating pension schemes

Liabilities related to early retirement contracts are calculated using the same assumptions as for the defined benefit scheme and are recorded as pension obligations in the balance sheet.

Note 2 - Fleet / Sales revenue per area of activity

	Year built	DWT	Owner	% Share	Employment
Shuttle tanker					
VINLAND	2000	125 827	Ugland Shipping AS	100	TC
Supramax bulk carriers					
FERMITA	2001	52 380	Ugland Shipping AS	100	Pool
TAMARITA	2001	52 292	Ugland Shipping AS	100	Pool
ROSITA	2004	52 338	Ugland Shipping AS	100	Pool
FAVORITA	2005	52 220	Ugland Shipping AS	100	Pool
SENRITA	2008	58 663	Ugland Shipping AS	100	Pool
CARMENCITA	2009	58 773	Ugland Shipping AS	100	Pool
ISABELITA	2010	58 080	Ugland Shipping AS	100	Pool
BONITA	2010	58 105	Ugland Shipping AS	100	Pool
KRISTINITA	2011	58 105	Ugland Shipping AS	100	Pool
STAR NORITA	2012	58 097	Ugland Shipping AS	100	Pool
S-K095 / LIVITA	2017	63 000	Ugland Shipping AS	100	Pool/2017
S-K096	2019	63 000	Ugland Shipping AS	100	Pool/2019
Barges and crane vessel					
UR 2	1995	9 750	Ugland Shipping AS	100	Pool
UR 3	1995	9 750	Ugland Shipping AS	100	Pool
UR 5	1996	9 750	Ugland Shipping AS	100	Pool
UR 6	1997	9 750	Ugland Shipping AS	100	Pool
UR 7	1999	9 750	Ugland Shipping AS	100	Pool
UR 8	1999	9 750	Ugland Shipping AS	100	Pool
UR 93	2001	9 040	Ugland Shipping AS	100	Pool
UR 95	2001	9 025	Ugland Shipping AS	100	Pool
UR 96	2008	9 025	Ugland Shipping AS	100	Pool
UR 97	2008	9 025	Ugland Shipping AS	100	Pool
UR 98	2011	9 025	Ugland Shipping AS	100	Pool
UR 99	2011	9 025	Ugland Shipping AS	100	Pool
UR 141	1993	14 011	Ugland Shipping AS	100	Pool
UR 171	2011	16 800	Ugland Shipping AS	100	Pool
UR 901	2013	9 019	Ugland Shipping AS	100	Pool
UR 902	2013	9 019	Ugland Shipping AS	100	Pool
UGLEN	1978	2 600	Ugland Shipping AS	100	Pool

Sales revenue per area of activity	Consolidated 2016	Consolidated 2015
Shuttle tankers	157 043 367	251 457 777
Bulk carriers	183 671 801	241 079 551
Barges and crane vessel	64 106 118	93 776 677
Gain on sale of vessels/barges	18 793 462	8 190 101
Invoiced vessel costs/ Management fee	355 348 818	515 344 700
	778 963 566	1 109 848 806

In 2016, the shuttle tanker operated in the Atlantic Ocean. Up until September 2015, another owned shuttle tanker operated in the waters off the east coast of Canada.

The barges and the crane vessel mainly traded in the North Sea.

Income from the bulk carriers was generated worldwide.

Note 3 - Salaries, number of employees and remuneration

Salaries etc.	Parent Company	Parent Company	Consolidated	Consolidated
	2016	2015	2016	2015
Salaries	1 250 000	1 250 000	356 672 777	392 026 485
Employment duty	176 250	176 250	25 862 253	27 350 180
Other salary related costs	0	0	33 779 707	32 393 771
Pension costs	0	0	18 878 156	30 883 872
	1 426 250	1 426 250	435 192 892	482 654 308

(2015 figures in brackets)

Average full time employees - office

77 (80)

Average full time employees - officers and crew

632 (722)

The president receives his salary from the subsidiary Ugland Marine Services AS. The president and board members do not have share based remuneration, bonus or severance pay. Pension benefits are accounted for in note 8.

Salaries etc. to the President and Board of Directors	President	Board of Directors
Salaries	1 980 334	1 250 000
Other benefits	18 210	0

Auditor

Auditor's remuneration (exclusive of VAT) from the parent company was NOK 110 975 (consolidated 863 932). In addition, the auditor received fees related to tax consultancy and accounting advice in the amount of NOK 38 000 (consolidated 146 619) and NOK 41 000 (consolidated NOK 200 000) respectively. In addition NOK 24 400 was remunerated for other certifications.

Note 4 - Tangible fixed assets / Tenancy agreements

	Parent Company	Consolidated		
	Other Assets	Vessels	Other Assets	Total
Cost price 01.01.	657 034	2 609 913 981	8 337 297	2 618 251 278
Additions	0	64 470 285	674 291	65 144 576
Disposals	0	-33 238 237	-1 229 959	-34 468 196
Currency adjustments	0	0	1 175	1 175
Cost price 31.12.	657 034	2 641 146 029	7 782 804	2 648 928 833
Acc. depreciation and impairment	0	-1 030 810 003	-5 317 777	-1 036 127 781
Book value 31.12.	657 034	1 610 336 026	2 465 026	1 612 801 053
Depreciations 2016	0	120 894 473	528 645	121 423 118

Sale of vessel

In 2016, A/S Uglands Rederi and its subsidiaries sold two barges and net gain on the sale amounted to NOK 18 793 462, and is included in Other operating income.

Tenancy agreements

A/S Uglands Rederi and its subsidiaries have three long-term office tenancy agreements. Total rent recorded through the year was NOK 5 020 615.

Note 5 - Shares in subsidiaries

	Office	Ownership and voting share	Book Value
Ugland Shipping AS	Grimstad	100%	150 150 000
Ugland Marine Services AS	Grimstad	100%	23 080 270
Total			173 230 270

Note 6 - Shares and ownership interests in other companies

Company	Office location	Ownership share	Book Value 01.01.	Addition 2016	Share of result after tax	Book Value 31.12
Associated Companies:						
Ugland Supplier AS	Grimstad	50%	171 056 899	0	-58 744 734	112 312 165
UM Bulk AS	Grimstad	50%	40 243 156	51 010 580	-11 300 705	79 953 032
Other Company:						
Bjoren AS	Bygland	3,9%	10 000	0	0	10 000
Total parent company			211 310 055	51 010 580	-70 045 439	192 275 197
Associated Company:						
11030 Newfoundland Inc.	Canada	45.4%	2 046 260	0	231 589	2 277 849
Total consolidated			213 356 315	51 010 580	-69 813 850	194 553 046

Associated companies are recognized under the equity method.

Note 7 - Receivables and liabilities

	Parent Company		Consolidated	
	2016	2015	2016	2015
Pension funds	0	0	21 471 962	20 538 113
Receivables associated companies	153 423 061	151 144 118	153 423 061	151 144 118
Other receivables falling due after one year	0	0	31 575 000	32 469 999
Total long-term receivables	153 423 061	151 144 118	206 470 023	204 152 230
Intercompany receivables / liabilities				
Long-term receivables group companies	0	0	31 000 000	31 820 000
Short-term receivables group companies	0	0	2 572 786	5 242 901
Short-term liabilities group companies	0	0	22 554 089	21 600 341
Short-term liabilities subsidiaries	0	6 087 418	0	0
Short-term receivables subsidiaries	6 268 504	0	0	0
Short-term receivables parent company	0	0	0	609 205
Short-term liabilities parent company	462 433	19 877 612	462 433	19 877 612
Receivables / Liabilities with associated companies:				
Receivables associated companies	153 423 061	151 144 118	153 423 061	151 144 118

Related parties - transactions	Parent Company		Consolidated	
	2016	2015	2016	2015
Income				
Ugland Marine Services AS - rental income	124 200	121 800	0	0
Penney Ugland Inc. - guarantee commission	0	1 046 431	0	0
Penney Ugland Inc. - management fee	101 375	1 275 413	0	0
Ugland Bulk Transport AS - freight income	0	0	183 671 801	241 079 551
Ugland Barge Pool AS - freight income	0	0	64 106 118	93 776 677
J.J. Ugland Holding AS - administration fee	0	0	1 845 000	1 800 000
Vikkilen Industri AS - administration fee	0	0	1 500 000	1 464 000
J.J. Ugland AS - administration fee	0	0	1 500 000	1 462 200
Ugland Bulk Transport AS - other fees	0	0	15 138 025	15 850 829
AS Nymo - administration fee	0	0	2 318 457	2 295 709
Ugland Supplier AS - administration fee	0	0	4 933 094	5 343 069
UM Bulk AS - administration fee	0	0	866 284	813 008
J.J. Ugland Holding AS - interest income	0	0	22 255	22 697
Ugland Barge Pool AS - interest income	0	0	36 607	156 176
Ugland Marine Services AS - interest income	390 507	0	0	0
Expenses				
Ugland Marine Services AS - administration fee	-9 000 000	-9 003 061	0	0
J.J. Ugland AS - rent	0	0	-2 876 001	-2 819 000
Knut N.T. Ugland - rent	0	0	-187 040	-187 040
Ugland Marine Services AS - interest expense	0	-481 922	0	0
Ugland Bulk Transport AS - interest expense	0	0	-556 291	-746 678

Note 8 - Provisions and pensions

	Consolidated	
	2016	2015
Provisions for maintenance and classification	50 444 457	45 010 791
Other provisions	0	2 198 600
Pension obligations	6 075 345	6 224 374
Total	56 519 802	53 433 765

The parent company has no employees and therefore no obligations under the compulsory company pension act. Subsidiaries with a staff have a pension scheme which entitles 164 people (including 88 seafarers) to receive defined future pension benefits. Additionally, 27 employees in Norway have joined a contribution pension scheme (Unit Link). All pension schemes are covered through an insurance company and comply with the regulations set forth in the pension act. As from now, pension schemes with defined future benefits are closed and future shore based employees will join the contribution pension scheme (Unit Link). One subsidiary company also has early retirement pension scheme obligations for one employee.

In addition, a contribution pension scheme (Unit Link) has been entered into for 198 Canadian employees.

Note 8 - Provisions and pensions (continued)

	Consolidated	
	2016	2015
Service costs	4 690 058	5 241 772
Interest cost on pension obligations	3 659 102	3 527 007
Expected return on pension funds	-4 083 583	-3 891 213
Amortisation of actuarial gain/loss	3 558 343	5 459 808
Pension scheme change	-433 423	0
Administration costs	1 026 394	996 113
Payment to defined contribution pension scheme	9 179 198	18 137 682
Social security tax	1 436 424	1 586 620
Charged other companies	-154 356	-173 918
Net pension costs	18 878 156	30 883 872

	2016	2015
Pension obligations operating pension schemes		
Projected pension obligation as of 31.12.	-6 381 753	-6 475 088
Unrecognised actuarial gain/loss	1 094 997	1 076 631
Social security tax	-788 589	-825 917
Recognised gross pension obligation	-6 075 345	-6 224 374

	2016	2015
Net pension funds		
Accrued pension obligations as of 31.12.	-156 170 078	-147 578 592
Pension scheme assets as of 31.12.	132 009 572	125 910 880
Unrecognised actuarial gain/loss	45 632 468	42 205 825
Net pension fund as of 31.12.	21 471 962	20 538 113

Net pension funds are included under long-term receivables in the balance sheet.

	2016	2015
Actuarial assumptions		
Discount rate	2.1%	2.5%
Assumed return on pension funds	3.0%	3.3%
“ salary increase	2.25%	2.5%
“ statutory basic amount increase (cf note 1)	2.0%	2.25%
“ pension benefit increase	1.2%	1.2%

Estimated voluntary attrition before retirement age is 0-8% for employees under 50 years and zero after 50 years. The actuarial assumptions are based on demographic factors normally used within the insurance industry.

Note 9 - Mortgage liabilities/Guarantees/Pledged assets

Liabilities secured by mortgage	Consolidated
Liabilities to financial institutions	143 220 000
Book value of pledged assets	184 521 251

Future income and insurances related to mortgaged assets are pledged as security for liabilities to financial institutions. All group long-term liabilities to financial institutions fall due before 31.12.2021.

Restricted consolidated bank deposits as of 31.12.2016 amounted to NOK 5 118 815.

Note 10 - Taxes

	Parent Company		Consolidated	
	2016	2015	2016	2015
Current year's tax expense				
Tax payable	0	1 068 442	1 354 913	55 379 489
Withholding tax paid	2 399 614	4 622 551	2 431 934	4 655 110
Adjusted tax from previous years	34 263	-316 799	-1 282 224	-316 852
Change deferred tax	-3 519 129	5 808 908	-3 711 781	-61 498 694
Income tax expense	-1 085 252	11 183 102	-1 207 158	-1 780 947
Tax payable as of 31.12.				
Recognized tax payable	0	1 068 442	1 354 913	55 379 489
Tax on group contribution	0	-1 068 442	0	
Prepaid tax Canada			-1 241 300	-23 240 859
Tax payable as of 31.12.	0	0	113 613	32 138 630
Reconciliation of effective rate and applicable corporate tax rate				
Result for the year before tax	-36 836 369	150 379 736	-100 166 058	-252 145 930
Expected income tax, nominal tax rate	-9 209 092	40 602 529	-19 866 550	-21 386 172
Tax effect of the following items				
Non-deductible expenses/non-taxable income	5 831 573	-33 138 275	17 985 648	23 588 230
Withholding tax paid	2 399 614	4 622 551	2 431 934	4 655 110
Currency adjustments	0	0	0	10 163 407
Effect of tax rate adjustments	-141 610	-553 483	-261 349	-708 556
Adjusted tax from previous years	34 263	-350 220	-1 496 841	-18 092 966
Tax on financial result shipping company	0	0	0	0
Tax expense	-1 085 252	11 183 102	-1 207 158	-1 780 947

Specification of change in deferred tax:	Parent Company		Consolidated	
	2016	2015	2016	2015
Deferred tax 01.01.	6 918 539	1 109 631	9 552 908	60 502 678
Change recognized in income statement	-3 519 129	5 808 908	-3 383 550	-62 194 659
Adjusted tax from previous years	0	0	103 806	695 966
Currency adjustments	0	0	0	10 548 923
Deferred tax/tax asset 31.12.	3 399 410	6 918 539	6 273 164	9 552 908

Specification of tax asset/liability effect of temporary differences	Parent Company			Consolidated		
	2016	2015		2016	2015	
	Tax Liabilities	Tax Liabilities	Tax Assets	Tax Liabilities	Tax Assets	Tax Liabilities
Consolidated						
Tangible fixed assets	0	0	186 382	0	192 348	0
Pension obligations / funds	0	0	0	15 396 617	0	14 313 739
Unrealised currency gain/loss	25 810 465	27 674 157	0	25 810 465	0	27 674 157
Tax loss carry-forward	-11 646 255	0	14 882 523	0	3 583 919	0
Total 31.12	14 164 210	27 674 157	15 068 905	41 207 082	3 776 267	41 987 896
Net deferred tax asset/liability	3 399 410	6 918 539		6 273 163		9 552 908

Under the Norwegian tonnage tax regime for shipping companies, tax is paid on finance income and high equity ratio according to special rules and defined limits. Instead of ordinary tax on income earned, the company pays a tonnage tax which is recorded as an ordinary operating expense. The tonnage tax of NOK 1 121 280 (2015: NOK 1 133 648) is recognized in the consolidated accounts and classified as an ordinary operating expense.

Note 11 - Equity

	Share Capital	Other Paid-in Equity	Other Equity	Minority Interests	Total
Parent Company					
Balance 01.01.	2 160 610	686 977	603 164 334	0	606 011 921
Result for the year	0	0	-35 751 117	0	-35 751 117
Group contribution	0	0	-40 000 000	0	-40 000 000
Balance 31.12.	2 160 610	686 977	527 413 217	0	530 260 804
Consolidated					
Balance 01.01	2 160 610	686 977	2 057 947 512	5 913 660	2 066 708 759
Result for the year	0	0	-99 818 352	859 451	-98 958 901
Group contribution	0	0	-40 000 000	0	-40 000 000
Redemption of minority interest	0	0	0	-628 396	-628 396
Currency adjustment	0	0	-4 281 629	67 327	-4 214 303
Balance 31.12.	2 160 610	686 977	1 913 847 531	6 212 042	1 922 907 160

A/S Uglands Rederi's shareholders

The share capital consists of 432 122 shares with a total nominal value of NOK 2 160 610. All shares have equal rights.

Shares owned directly and indirectly:

J.J. Ugland Holding AS	389 961 shares
Knut N.T. Ugland	<u>42 161 shares</u>
Total	<u>432 122 shares</u>

J.J. Ugland Holding AS owns 90.24% of the shares in A/S Uglands Rederi and prepares its own consolidated accounts available at the company's office address, J.M. Uglands vei 20, 4878 Grimstad.

Note 12 - Financial market risks / Financial instruments

A/S Uglands Rederi and its subsidiaries are only to a minor extent exposed to fluctuations in exchange rates since the debt, operating income and most of the expenses are in USD. In the second-hand market the bulk vessels and shuttle tanker are valued in USD.

Note 13 - Other financial items

	Parent Company		Consolidated	
	2016	2015	2016	2015
Currency loss (disagio)	-2 824 866	0	0	0
Other financial items	-6 037 329	-5 510	-7 672 142	-222 498
Other financial expenses	-8 862 195	-5 510	-7 672 142	-222 498
Currency gain (agio)	0	30 761 212	1 718 086	14 052 228
Other financial items	0	1 046 431	25 121	16 651
Other financial income	0	31 807 643	1 743 207	14 068 879



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of A/S Uglands Rederi

Report on the audit of the financial statements

Opinion

We have audited the financial statements of A/S Uglands Rederi, 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, the income statement showing a loss of NOK 35 751 117 for the company and a loss of NOK 98 958 901 for the Group, 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 have been prepared in accordance with laws and regulations and 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 the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

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

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are 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 management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

continued..



going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.



Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Arendal, 21 February 2017
ERNST & YOUNG AS

Johan Bringsverd
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Operated Fleet as of May 2017

Bulk Carriers		
Vessel Name	DW tonnes	Year built
MV BONITA	58 105	2010
MV CARMENCITA	58 773	2009
MV ELLENITA	57 501	2015
MV FAVORITA	52 220	2005
MV FERMITA	52 380	2001
MV ISABELITA	58 080	2010
MV KRISTINITA	58 105	2011
MV LUNITA	57 572	2014
MV LIVITA	63 532	2017
MV OLITA	60 495	2017
MV ROSITA	52 338	2004
MV SENORITA	58 663	2008
MV STAR NORITA	58 097	2012
MV TAMARITA	52 292	2001
MV UMIAK 1 *)	31 992	2006
2 Newbuildings - 1 x 60 000 dwt + 1 x 63 000 dwt	123 000	2017/2019
17 Vessels	953 145	

Tankers		
Vessel Name	DW tonnes	Year built
MT GERD KNUITSEN *)	146 273	1996
MT HEATHER KNUITSEN *)	148 644	2005
MT JASMINE KNUITSEN *)	148 706	2005
MT VINLAND *)	125 827	2000
NORTH ATLANTIC KAIROS *)	3 569	2008
5 Vessels	573 019	

PSV			
Vessel Name	Deck Area	DW tonnes	Year built
MV EVITA	1 000 m ²	5 433	2012
MV JUANITA	1 016 m ²	5 456	2014
2 Vessels		10 889	

Tugs		
Vessel Name	DW tonnes	Year built
PLACENTIA PRIDE *)	N/A	1998
PLACENTIA HOPE *)	N/A	1998
2 Vessels	N/A	

*) Managed by Canship Ugland Ltd.

Operated Fleet as of May 2017 continued

HLV & Barges		
Vessel Name	DW tonnes	Year built
HLV UGLEN 800 t crane	2 600	1978
Barge UR 2	9 750	1995
Barge UR 3	9 750	1995
Barge UR 5	9 750	1996
Barge UR 6	9 750	1997
Barge UR 7	9 750	1999
Barge UR 8	9 750	1999
Barge UR 93	9 040	2001
Barge UR 95	9 025	2001
Barge UR 96	9 025	2008
Barge UR 97	9 025	2008
Barge UR 98	9 025	2011
Barge UR 99	9 025	2011
Barge UR 141	14 011	1993
Barge UR 171	16 800	2011
Barge UR 901	9 019	2013
Barge UR 902	9 019	2013
17 Units	164 114	
Total Operated Fleet	43 units	1 701 167 dwt

Uglen lifting derrick at Nymo - drilling module to be installed in Johan Sverdrup oil field

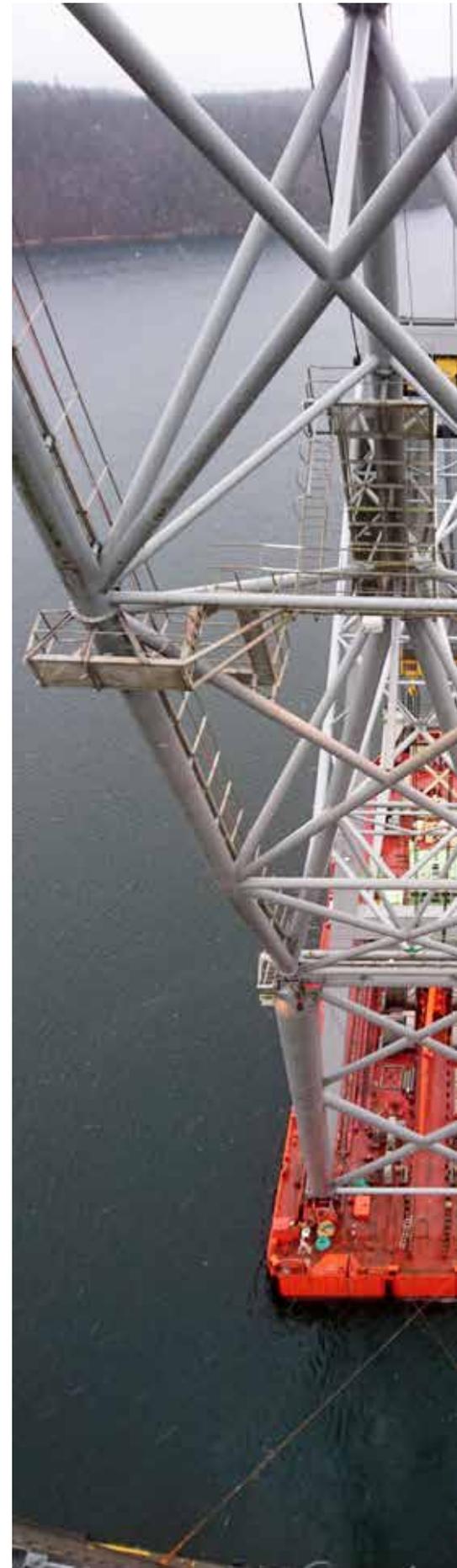
In March this year HLV Uglen lifted the lower derrick, hydra-racker and upper derrick onto the drilling module currently being constructed by Nymo at its yard in Vikkilen. The drilling module will be delivered to Aibel, with Statoil as the end-customer.

Ugland Construction was commissioned to lift the lower derrick, hydra-racker and upper derrick into place from the vessel that transported them from Korea, to the drilling module assembly area at Nymo's quay.

Nymo has subcontracted Ugland Construction and HLV Uglen to perform these lifting operations as part of the drilling module in the Johan Sverdrup oil field project.

To be able to perform these lifting operations, the HLV Uglen had to utilise the high-lift boom, which can lift 340 tonnes up to a height of 111 metres above sea level. This kind of lifting operation requires very precise and accurate maneuvering to set the modules down in their precise location.

The Heavy Lift Vessel Uglen is operated by Ugland Construction AS in Stavanger. From the very outset the vessel has performed most satisfactory and has proved an invaluable "working tool" for various lifting operations in connection with the construction of numerous oil platforms and modules for the offshore yards, as well as accommodation buildings and sections for shipbuilding yards.





In addition, when it comes to bridge-building in Norway, Uglen's high-lift boom has been utilised to achieve sufficient lifting height when installing suspension bridges. In fact, most of Norway's suspension bridges have been lifted and installed by Uglen utilising this high-lift boom.

In 2014 the lifting capacity of the main lifting hooks was upgraded from 600 tonnes to 800 tonnes at Nymo's yard.

Despite being in operation for many years now, Uglen is still in excellent condition and has proved attractive in its market segment as an efficient lifting vessel offering outstanding manoeuvrability and lifting capability.

Facts about Johan Sverdrup:

Johan Sverdrup is one of the five largest oil fields on the Norwegian continental shelf. It will also be one of the most important industrial projects in Norway in the next 50 years. First – phase development work can provide 51 000 man-years in Norway, with 2 700 man – years in the production phase.

- Located on the Utsira Height in the North Sea, 160 kilometers west of Stavanger
- Oil from the field will be piped to the Mongstad terminal in Hordaland. Gas will be transported to Kårstø processing plant in North Rogaland.
- First – phase investment estimated at NOK 99 billion
- Total production revenues of NOK 1 350 billion over 50 years
- Estimated corporation tax paid to the Norwegian state will be NOK 670 billion
- Daily production during first phase estimated at 440 000 barrels per day. Peak production estimated to reach 660 000 barrels daily.
- Water depth is 110 – 120 meters, the reservoir is located at a depth of 1 900 meters
- The field will be operated by electrical power generated onshore
- Production start for Phase One is planned late 2019



THE MAIN PRIORITIES FOR OUR TEAM OF PROFESSIONALS ARE TO ENSURE THE SAFETY AND SECURITY OF LIFE, THE ENVIRONMENT, VESSEL AND CARGO. IN ADDITION, EMPHASIS IS PLACED ON LONG-TERM RELATIONSHIPS, SOLIDITY AND STRONG LIQUIDITY

Long-serving employees

Long-term relationships, whether with employees, partners or clients, are an important core value at A/S Ugland Rederi. The three employees below can vouch for this value. Between them, Eva Svantesen, Olaug Boye Neset, and Magne Bringsverd can look back on a total of 140 years' service with The Ugland Companies when they retire in 2017. They have all played a big part in the transformations and changes in working life that have taken place at The J.J. Ugland Companies over the last decades.

Eva Svantesen was employed at J.M. Ugland & Co. in December 1969 as a temporary switchboard operator. She later served in various positions including as chauffeur, bookkeeping assistant, HR secretary and HR consultant. In 1996 she was appointed senior HR manager, a position she will hold until retirement in May 2017. In 2012 Eva had the honour of being named Godmother of the PSV Evita. When she retires in May 2017, she will have served 48 years on-board The J.J. Ugland Companies.

Olaug Boye Neset was employed in August 1970. She has served as a secretary for both the crewing and technical departments, and was a secretary to the Managing Director Bernhard B. Samuelsen. From 1980–89 she was HR secretary and from 1996 she shared a HR consultant position with Eva Svantesen. In the same year she was promoted to senior HR manager until she chose to reduce her working hours and became a part-time receptionist. When she retired in January 2017, she had completed 46 years' service with JJUC. Olaug had the honour of being named Godmother of MV Olita in March 2017.



Above:
Eva Svantesen with Captain Tommy Antonsen onboard PSV Evita at the naming ceremony

Left:
Olaug Boye Neset with her husband Ole Martin Neset at the naming ceremony of MV Olita



Magne Bringsverd was employed in May 1970 as a bookkeeping assistant. He later became accounting assistant, then accounting secretary before being promoted to accounting manager, a position he held until retirement in January 2017. Traditions are important in our business, and tradition decrees that a vessel can only be assigned

a Godmother. Therefore, JJUC Owner Knut Ugland decided that Magne should be the "Godfather" of the canteen. The JJUC canteen was named "Magnes" during his 70th birthday celebrations. Magne's friends and family were present to witness the ceremony.

Above:

Magne Bringsverd in front of the sign stating that our canteen now is named "Magnes"

An ever-changing journey through time

The undersigned's Ugland odyssey started at the end of 1969, at the tender age of 20 with an exciting and inviting world ahead of me.

There have been many major and considerable changes in the intervening years. Technology has occupied centre-stage in most areas, and working patterns have changed beyond all recognition.

Our offices were at the "farm", a rural idyll which even had offices above the pig sty. The grunting of pigs – and of course their smell – gave the environment a unique flavour.

Shipping, workshops, farm operations – everything took place side by side, then as now.

How things have changed in most areas! I guess we could start with the job of secretary, which was really quite different back then. Secretary schools trained women to be their superiors' "right hand". Secretaries performed all sorts of roles. If you were a shipowner, then your private secretary would be stationed outside your office. These individuals were generally highly presentable

types who carried out their bosses' instructions to full satisfaction. Some typed using a Dictaphone, while others worked from a tape recorder. Then again, you could always write letters by hand!

Private secretaries also worked for managing directors and other directors, while other secretaries were assigned to individual departments.

In the early years we used a manual typewriter. Letters were written on thin sheets paper separated by carbon paper. There were many copies and mistakes had to be erased/corrected on each copy – which was extremely time-consuming.

Spirit duplicators were used when you wanted to make a lot of copies.

The next great leap forward was a stencil machine. Operators had to wear aprons to protect their clothes.

The advent of the photocopier heralded a new world – a revolution.

Gradually electric typewriters appeared,

eventually evolving into modern machines with an electric print ball.

Saturday was also a working day – until 1 p.m.

While we now communicate via e-mail or chat (electronically) with each other – instantly – back then there were several post rounds each day. Someone based at the switchboard wandered round with an "accordion folder" from desk to desk delivering and picking up post from everyone, effectively acting as an internal postman. Such rounds could certainly be fun and at times seem to take forever – pretty much the social highlight of the day – people had time for each other, or to be more exact, made time for each other back then.

In 1971 we moved into our current building, which was then all shiny, new and inviting. The "farm" era was over for most people.

We had many Norwegian seamen back then. Among the Norwegian crewed vessels were: Evita, Favorita, Carmencita, Livanita, Lisita, Vivita, Tamarita, to name but a few. Ships were at sea for long periods, which resulted in substantial signing-off pay when sailors returned home. The pay cheque was



intended to cover the entire discharge period, which could sometimes make people feel richer than they actually were. The maritime personnel department received daily visits from sailors bringing in post – or reporting for any new voyages. Our cash office disbursed advance pay/advance travel money or subsistence allowances. Naturally the sailors regularly visited for coffee and the tales of life at sea were often raucous and could be long-winded – TIME – we had more of this in those days!

We also had several chauffeurs who provided a pick-up and drop-off service, mainly to/from Kjevik airport. Office staff or seamen were picked up at home when they were about to embark on a journey. Business partners were also ferried round – whatever the time of day, or night.

The chauffeurs were resplendent in their tailored uniforms and caps. Stylish!

Eventually the airport bus took over this role – significantly reducing costs. An era was over – here too!

There was only a small HSE department then. There were nowhere near as many regulations/manuals to refer to.

Believe it or not, wages were paid in cash. The coins and notes required to make up wage packets were ordered from the bank. These included 5, 10 and 50 øre coins. Payslips were written by hand on columnised sheets with serrated lines to be detached later. These were folded together to form a narrow strip and held together with a binder. The payslip was put in an envelope together with the money and distributed to the recipients.

Gradually we switched to bank cheques and transfers and administration became easier.

Bookkeeping was performed on a massive machine – the size of a washing machine. Because of the noise, the machine was placed in a separate room where the bookkeeper sat and did his/her sums.

A separate room with a telex machine was a useful communication tool. Telex operators were employed to send telexes across the world.

I hope the above gives just some idea of a world that has not stood still – and of changes that have been incredible and exciting to experience in so many ways.

I'm intrigued to see what lies ahead – one big question is whether many people will unfortunately become redundant.

Thank you for all the great times, thank you for allowing me to be a little part of the Ugland odyssey!

Wishing you all the best for the future!

Eva Svantesen

MV Star Norita - Safety Award Winner 2016

“Safety is given the highest priority on board all our vessels”



Safety is given the highest priority on board all vessels operated by Ugland Marine Services AS. As a result, all vessels have a good safety record. Each year the company selects a Safety Award Winner. MV Star Norita had the best score in 2016.

PRIZE CRITERIA:

1. Zero reported personnel injuries
2. Most reported Near Accidents related to personnel
3. Port State Control results
4. General operational performance

MV STAR NORITA'S RESULTS

Reported accidents (crew)	0
Reported near accidents (crew)	10
Port State Controls	5 PSC / 2 deficiencies
Operational performance	Good



Congratulations to all onboard MV Star Norita!

Corporate Social Responsibility

Global Compact - Communicating on Progress



A/S Uglands Rederi has traditionally focused, and continues to focus, on sustainable business practice. While safety has always been our number one priority, we have increasingly highlighted other key elements such as environmental and social impact as a consequence of our business operations. Knowing that company activities impact society in many ways, and that the company is affected by its surroundings, it is important for A/S Uglands Rederi to

help to create and maintain a positive and sustainable shipping environment. As a consequence of the above, A/S Uglands Rederi signed up to the UN Global Compact during 2012. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

Global Reporting Initiative

The Global Reporting Initiative, as the most widely applied standard for reporting on the ten principles of Global Compact, has been chosen as the company's reporting framework. The objective of the Global Reporting Initiative is to create a platform for transparent, reliable, comparable and precise reporting of information.

For a full report and further details and information, please visit the company's website www.jjuc.no.



Practical Aspects

Corporate Social Responsibility (CSR) embraces many ideas, actions and individuals.

The above illustrates some important principles by way of CSR structure and reporting. The company has always

attached importance to employees' long-term perspectives and relations with the local community.

One tangible example of CSR can be seen in the company's longstanding practice of taking on trainees onboard

vessels, and apprentices in the office.

On the following pages we provide two examples to show the human side of CSR.



From left: Øyvind Christensen and crewing manager Vidar Røinås in front of PSV Evita

Øyvind Christensen started as a trainee electrician onboard PSV Evita on 17 June 2013. His interest in becoming a marine electrician was sparked during a 14-day secondment onboard HLV Uglen in 2012 as an assistant electrician. Since completing his time as a trainee in 2015, he has worked onboard the PSV Juanita as a fully fledged electrician.

Øyvind confirms that his time with Ugland has been varied, interesting and rewarding. He has served onboard various vessels, both PSVs and HLV Uglen.

He was also part of the Ugland site team during the construction of the PSV

Juanita. “JJUC have been very helpful. They really support the trainees. They let you participate in every side of operations and really look after you.”

Right:
Øyvind Christensen checking that all is well onboard





From left: Espen Skoog, Torje Salvesen, Evaldas Narmontas and Kim Eirik Kvasshheim

The photo above shows three generations of ICT apprentices, together with Senior ICT Advisor Espen Skoog, who has been responsible for following up the apprentices since 2004.

Kim Eirik Kvasshheim started as an ICT apprentice in 2010. After finishing his final exam in 2012, he started working as an ICT operator for Ugland Marine Services AS, a position he still holds. Torje Salvesen started his apprenticeship

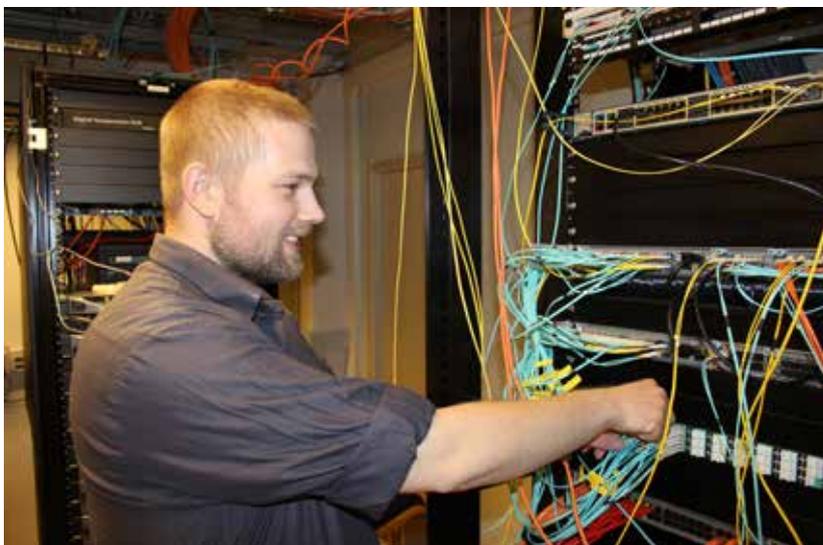
in 2015, while Evaldas Narmontas will start his two-year training period later this year.

Kim Eirik was introduced to UMS by his teacher. "I wasn't aware that the company recruited ICT apprentices. However, as a Grimstad resident I have always been fascinated by the Ugland companies here in Vikkilen, so I was very motivated and tried my best to get the position.

I really enjoyed my time as an ap-

prentice for UMS at the ICT Department. The working environment at UMS is fantastic with great colleagues who are both kind and professional. I have made many friends and expanded my social network, from both in-house and external companies. The experience I gained from my years as an apprentice has definitely been invaluable and put me in a strong position for whatever comes next. I have also learned a lot in other shipping-related fields. UMS offers a great working environment with challenging and exciting tasks and I have personally developed a lot as a person."

As employers of the above, having apprentices and trainees is considered a win-win situation. The testimonies above clearly illustrate the benefits for employees. The employer is also a winner on several levels, which makes this a long-term and sustainable relationship.



Left: Kim Eirik Kvasshheim inspecting cables

The J.J. Ugland Companies

www.jjuc.no

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UGLAND MARINE SERVICES AS
UGLAND MARINE MANAGEMENT AS
UGLAND BULK TRANSPORT AS
UGLAND BARGE POOL AS
UGLAND OFFSHORE AS
UGLAND SHIPPING AS
UGLAND SUPPLIER AS
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