BUILDING A SUSTAINABLE FUTURE

DOF Subsea

CORPORATE GOVERNANCE

2016

Corporate Governance

Introduction

DOF Subsea AS ("DOF Subsea" or the "Company") is a private limited company established and registered in Norway, and is subject to Norwegian law, hereunder corporate laws and other laws and regulations. The Company is 100 per cent owned by DOF Subsea Holding AS, and it is the parent company in the DOF Subsea Group (the "Group").

DOF Subsea Holding AS is a Norwegian private limited company owned by DOF ASA (51 per cent) and First Reserve Corporation (49 per cent). DOF ASA is a public limited company listed on the Oslo Stock Exchange. First Reserve Corporation is a global private equity and infrastructure investment company focused on energy.

DOF Subsea's Corporate Governance Policy is based on the latest revision of the Norwegian Code of Practice for Corporate Governance ("the Code") which was published by the Norwegian Committee for Corporate Governance (NUES) on 30 October 2014.

As at year-end 2016 the Company had one listed bond on the Oslo Stock Exchange. The Company is at all times obliged to act in compliance with laws and regulations as applicable from time to time in respect of handling and control of insider trading rules and information to the shareholders and the investors of the listed bond and the market in general.

1. Implementation and reporting on Corporate Governance

The Company's Corporate Governance Policy is a governing document containing measures which are continuously implemented to secure efficient management and control of the Company's activities. The main objective is to ensure that the business is operated in an equitable and profitable manner for the benefit of shareholders and other stakeholders. The development and improvement of the Company's Corporate Governance is a continuous and important process on which the Board of Directors and the Executive Management keep a keen focus.

The Corporate Governance Policy is considered and approved by the Board of Directors, and it describes DOF Subsea's approach to corporate governance based on the 15 chapters in the Norwegian Code of Practice for Corporate Governance. More detailed information about the Company's corporate governance can be found in the Board of Directors report, the Code of Business Conduct and the Sustainability Report.

2. The Company's business

DOF Subsea was founded in 2005. Since its inception, the Group has developed into a worldwide supplier of subsea project services and subsea vessels, and is present in all major offshore regions in the world. As at year-end 2016, the Group had 1 278 employees, excluding marine crew. The subsea vessel fleet owned by the Group has grown from three vessels in 2005 to 24 vessels at the end of 2016, including four vessels under construction.

The Company's objective is clearly defined in its Articles of Association. DOF Subsea's business involves carrying out shipping and ship owning activities, hereunder contracting, purchasing, selling, possessing and letting of ships, in addition to geotechnical surveys and work below the waterline, inspection, maintenance and repair (IMR) activities on offshore installations and anything connected thereto. The Company may engage in partnerships with other companies with the same or similar objectives, e.g. joint ventures with selected partners to obtain expertise.

The DOF Subsea Group's two business segments are Subsea projects and Chartering of vessels. The business model is reflected in the Group's Vision: *"To be a world class integrated offshore company, delivering marine services and subsea solutions responsibly, balancing risk and opportunity in a sustainable way, together, every day"*. The Management regularly revises the corporate strategy and underlying business areas' strategies and targets to ensure that the business develops in accordance with the overall objective, to the benefit of its stakeholders.

3. Equity and dividends

The Group has a capital strategy to align operational and financial risk in accordance with the two business segments, and has an objective to achieve a good overall credit rating in order to obtain favourable terms and conditions for the long-term funding of the Group's operations. The Board of Directors considers the Company's consolidated equity to be satisfactory, and the need for financial flexibility is considered at any time in the light of its overall objective, strategy and risk profile.

The Company does not have a defined dividend policy since it has been through a growth phase and in addition has an investment program on going. In line with the capital strategy defined above, the Company does not plan to define a dividend policy at current time.

Any mandates granted to the Board of Directors to increase the Company's share capital are subject to defined purposes and frames, and are limited in time to no later than the date of the next annual General Meeting. If a General Meeting is to consider mandates to the Board of Directors for the issue of shares for different purposes, each mandate will be considered separately. This also applies to mandates granted to the Board of Directors for the Company to purchase own shares.

4. Equal treatment of shareholders and transactions with close associates

The Company has one class of shares which carry equal rights including equal voting rights at annual or extraordinary General Meetings.

Transactions between related parties

In the event of any material transaction between the Company and shareholders, related parties to the shareholders, Board of Directors, Executive Management and other related parties, transactions are presented in notes to the Financial Statements of the Company. The same applies to transactions with subsidiaries of the Company with minority shareholders. Executive Management has a register for material transactions, and the Audit Committee has arranged for valuation from an independent third party for all material transactions in 2016. The Company has listed all material transactions in the Financial Statements for 2016.

Material transactions are defined as transactions that will be material for one of the parties in the transaction. In the event that it is related to successive deliveries or major class of transactions, materiality shall be assessed for the full year.

As part of on going operations, the Company has had the following types of material transactions with related parties:

- Equipment and asset hire
- Management services
- Asset transfer
- Loans and guarantees

Members of the Board of Directors and the Executive Management are obliged to notify the Board of Directors if they have any material direct or indirect interest in any transaction entered into by the Company. There have not been reported any other transactions in 2016 than those listed in note 23 'Related parties' in the Financial Statements.

References

Learn more about shareholders in note 30 'Share capital and share information' and transactions with related parties in note 23 'Related parties' in the Financial Statements for 2016.

5. Freely negotiable shares

This section of the Code is not applicable, as DOF Subsea is a privately owned company.

6. General meetings

The Board of Directors ensures that the Company is acting in accordance with applicable Norwegian law with regards to General Meetings.

7. Nomination Committee

Due to the ownership structure of the Group (two shareholders) the Company has decided not to establish a Nomination Committee.

8. Board of Directors composition

The Board of Directors consists of equal members representing the two shareholders. The Chairman of the Board of Directors is elected by the General Meeting, and members of the Board of Directors are not elected for more than two years at a time.

The Chief Executive Officer (CEO) in the Company also holds the position as CEO in the majority shareholder, DOF ASA, and serves as a member of the Board of Directors in the Company.

With a view to effective group management, representatives from the Executive Management may serve as Directors in Group subsidiaries.

References

Further information on each member of the Board of Directors is provided in the Annual Report.

9. The work of the Board of Directors

The Board of Directors agrees on an annual schedule for its work, with particular emphasis on objectives, strategy and implementation.

From time to time the Board of Directors issues instructions for its own work as well as for the Executive Management with particular emphasis on clear internal allocation of responsibilities and duties. The Chief Executive Officer (CEO) is obliged to participate in the meetings of the Board of Directors, and the Chief Financial Officer (CFO) is authorised to participate in the meetings of the Board of Directors as long as nothing to the contrary has been decided.

The Board of Directors has appointed an Audit Committee for the Group. The primary purpose of the Audit Committee is to assist the Board of Directors in monitoring the Group`s internal control of the risk management and financial reporting. This includes but is not limited to:

- all critical accounting policies and practices,
- quality, integrity and control of the Group's financial statements and reports,
- compliance with legal and regulatory requirements,
- qualifications and independence of the external auditors and
- performance of the internal audit function and external auditors.

10. Risk management and internal control

The Board of Directors ensures that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. Internal control and the systems also encompass the Company's corporate values and ethical guidelines. The internal control of financial reporting has been based on methodology prepared by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

The Board of Directors carries out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Board of Directors receives weekly, monthly, quarterly and annual reports that cover financial status and important Key Performance Indicators (KPIs) for the operating companies within the Group. The quarterly financial statements, management reports and operational reports are also subject to detailed review by the Audit Committee and at the quarterly meetings of the Board of Directors.

The Board of Directors has annual meetings with the Company's auditor where the auditor gives an assessment on important internal control areas. The Board of Directors presents a review of the Company's financial status in the Annual Report.

Internal audit reports have been presented to the Audit Committee on a regular basis.

References

Further information about internal control and risk management is provided in the Board of Directors Report and in the notes to the Financial Statements in the Annual Report.

11. Remuneration of the Board of Directors

None of the members of the Board of Directors have during 2016 received remuneration from the Company for holding the position as Directors. The Board of Directors consists of equal members representing the two shareholders.

In general, any remuneration to the Board of Directors is not linked to the Company's performance. The Company shall not grant share options to members of the Board of Directors. Members of the Board of Directors and/or companies with which they are associated will normally not take on or be given specific assignments for the Company. If they nevertheless are requested to take on such assignments this will be disclosed to and discussed by the full Board of Directors. The remuneration for such additional duties must in any case be approved by the Board of Directors and the annual General Meeting.

The Annual Report provides information on remuneration paid to each member of the Board of Directors. Remuneration, if any, in addition to normal Directors' fees will be specifically identified. The Directors' fees are decided by the annual General Meeting. The Directors' fees are not linked to the Company's performance.

12. Remuneration of the Executive Management

The Board of Directors has established guidelines for the remuneration of the members of the Executive Management. To execute these guidelines the Board of Directors has established a Compensation Committee. More information about the Compensation Committee is given in notes to the Financial Statements in the Annual Report. These guidelines are communicated to and approved by the annual General Meeting.

The Remuneration Committee's statement on the remuneration of Executive Management is communicated to the Board of Directors.

The guidelines for the remuneration of the Executive Management set out the main principles applied in determining the salary and other remuneration of the Executive Management. The guidelines help ensure convergence of the financial interests of the Executive Management and the shareholders.

Performance-related remuneration of the Executive Management in the form of bonus programs or the like are linked to value creation for shareholders or the Company's earnings performance over time. Such arrangements emphasise performance and are based on quantifiable factors over which the employee in question can have influence. Guidelines for remuneration of Executive Management and other information about compensations are included in notes to the Financial Statements in the Annual Report.

The existing remuneration policy allows performance-related remuneration. The Executive Management currently has no share option programs.

13. Information and communication

The Board of Directors has established guidelines for the Company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in securities markets.

The purpose of the guideline is to ensure that timely and correct information about the Company is made available to shareholders, bond investors and society in general. The Company follows the financial calendar as published by the parent company DOF ASA, and is published at www.dof.no.

The Chief Executive Officer (CEO) is responsible for coordinating the Group's communication with investors and the capital market, and regularly arranges meetings with investors and potential investors. All information distributed by the Company is published at the Oslo Stock Exchange and on the Company's websites simultaneously. The Chief Executive Officer is responsible for ensuring that the Company publishes information in accordance with applicable legislation and regulation.

14. Take-overs

The Code Chapter 14 addresses governing principles for how a company should act in the event of take-over bids. As the Company's shares are not publicly traded, and the Company has only two shareholders, any take-over bids will be subject to discussions by both shareholders. On this basis there is no purpose in adopting the governing principles for take-over bids under the Code Chapter 14.

15. Auditor

The Auditor participates in the meeting with the Board of Directors where the annual accounts are addressed. At this meeting the Auditor walks through and comments on material changes in the Company's accounting principles, material estimated accounting figures and material matters on which there has been disagreement between the Auditor and the Executive Management of the Company.

The Board of Directors holds a meeting with the Auditor at least once a year at which neither the CEO nor any other member of the Executive Management is present.

Once a year the Auditor presents a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement to the Audit Committee.

The Board of Directors reviews guidelines in respect of the use of the Auditor by the Company's Executive Management for services other than the audit of the Company. The Board of Directors reports the remuneration paid to the auditor at each annual General Meeting, including details regarding the fee paid for audit work and fees paid for any other specific services provided by the Auditor, as long as such information is available at the time of the annual General Meeting.

The Auditor prepares a plan each autumn for auditing activities in the subsequent year. In addition to the ordinary audit, the auditing company might provide consultancy services related to accounting. Reference is made to the notes to the Financial Statements in the Annual Report.

References

Learn more about external auditor in note 24 to the Financial Statements in the Annual report, 'Remuneration to Board of Directors, Executives and Auditor'.

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