Enhanced Drilling is a provider of specialist drilling technology and services to the international offshore oil and gas industry.

The company’s head office is in Straume (near Bergen), Norway.

Offices and workshops globally include Aberdeen in the UK, Houston in the US, Perth in Australia and Baku, Azerbaijan. There are also workshop facilities in St John’s, Canada, as well as an office in Kuala Lumpur, Malaysia.

Enhanced Drilling has, for almost 30 years, built an enviable track record and world-class reputation for its innovative offshore drilling technology and services which have been deployed on more than 600 wells.
ENHANCED DRILLING’S PRODUCTS

EC-DRILL® - Managed Pressure Drilling system

EC-Drill® is a Managed Pressure Drilling (MPD) system based on a Dual Gradient Drilling (DGD) method. It can be used in both shallow and deep water (including depleted wells), either from a jack-up, platform or a floating drilling vessel.

EC-Drill® solves a long-standing challenge commonly associated with deep-water wells – drilling through a narrow pore/fracture gradient pressure window.

It is a field proven, simple-yet-smart extension of conventional drilling – meaning familiarity for a small project team, with the advantage of a short training period.

EC-Drill® does not use a rotating control device (RCD) and utilizes the rig’s LP drilling riser and subsea BOP. Its top-side footprint is limited, meaning easy rig integration.

RMR® - Riserless Mud Recovery system

Riserless Mud Recovery (RMR®) is a risk-reduction system that allows you to drill a better, more stable top hole safely, quickly and with less environmental impact.

The system is an innovative way to return mud and cuttings to the rig before the marine riser is run, without discharge to the seabed: there is no ‘Pump and Dump’.

MPC - Managed Pressure Cementing system

MPC is a risk-reduction tool that enables the successful isolation of high pressure, unconsolidated water/gas bearing formations with high-performance cement.

The wellbore pressure can be managed in such a way that unwanted fluid exchanges between the wellbore and casing annulus are avoided during circulation of cement slurry and its setting time.

With MPC, precise control over the pressure and return flow is possible to keep the wellbore pressure profile within the drilling pressure window.

CTS - Cuttings Transportation System

The CTS Cuttings Transportation System is based on proven technology used in the offshore market for more than 18 years.

The system was developed to transport cuttings away from the well area during top-hole drilling on semi-submersible rigs and during clean-up operations on the seabed. The system is of modular design, allowing ease of installation on most rig types.

CTS has evolved to complement our RMR® operations. It is capable of running for long periods of time without maintenance and is able to pump large particles without blockages to the system.
Building a Sustainable Business

2016 was another year of markets trying to find the trough. The hope of a rebalanced demand-supply failed to eventuate with further capital expenditure cuts, delayed project sanctions and reduced activity. Most relevant to Enhanced Drilling was the offshore drilling market, in particular deep water and ultra-deep water markets characterized with unforeseen levels of stacked & scrapped MODUs and hence depressed level of activity.

Health, Safety, Environment & Quality

The welfare of our people is always at the front of our thoughts and actions. Protracted market conditions, and associated uncertainty create a difficult balancing act with retention and re-sizing at the same time. One important indicator of our efforts is reflected throughout annual organizational survey. Although we continue to have work to do in general there is a consistent sentiment of commitment to the company.

To quote our own mission statement, “…get everyone home safely”, it is with humble pride we are able to share that we met our mission in 2016. In tandem we not only continued our vigilance towards safety but increased our efforts in further training programs, least the implementation of Competency Log Books and in-house courses across our RMR & EC-Drill Product Lines, thereby further developing our personnel and their competency in safely performing their roles.

Environmental impact continues to be high on our radar. We have made further progress in our efforts in recycling, least ensuring we minimize the environmental impact of our services offshore. As with safety it goes without saying that Health, Safety, Environment & Quality are a journey of continued focus and improvement.

Meeting the Market

Despite aggressive cost-reduction measures taken in 2015, once again the business was forced to respond to reduced activity. This included a re-structuring of the organization, resulting in moving from a matrix based organization to a line/function model. In addition, further geographic consolidation was put in place towards the end of 2016, with planned implementation early 2017. The net result being both a reduction in Full Time Employees (FTEs) and facilities tailored to new and forecasted market conditions.

The combination of both cost reduction and efficiency based efforts in 2015 & 2016 put Enhanced Drilling in a stronger position towards both the market in general and our competitors. As difficult as these changes have been, they have been critical to secure sustainability and a profitable business going forward.

Strategic Implementation; Product Line Diversification

Despite challenging market conditions, we continued execution on our Product Line strategy, in particular the commercialization of our Managed Pressure Product Lines, MPC & EC-Drill

TOUGH CHOICES IN AN EXTENUATING MARKET;
David Hine, CEO, Enhanced Drilling
TECHNOLOGY ADOPTION / COMMERCIALIZATION, STEP-BY-STEP

Despite market conditions EC-Drill®, Enhanced Drilling’s answer to Managed Pressure Drilling system gained significant traction with blue chip E&P clients.

Enhanced Drilling entered two significant EC-Drill multi-year contracts at the end of 2015 with both Statoil & BP. Both contracts were negotiated and awarded during a period of low oil prices and significant market uncertainty. The first delivery of several systems for Statoil took place late 2015, and for BP mid-2016. In addition, Enhanced Drilling was awarded the first of a multi-well campaign with Lundin on the Norwegian Continental Shelf (NCS) late Q3 2016. The Lundin project represented a step change in system build & delivery lead times, setting a significant milestone in building scalability in the business.

Unfortunately, the first commercial EC-Drill system for Statoil, deployed on the Troll field, was subject to significant delays as a consequence of drilling rig operational issues. In addition, despite a successful delivery and implementation phase together with BP, there is uncertainty with respect to operational start-up.

Late Q4 a further EC-Drill system was called off by Statoil with deployment planned during 2017. In parallel, modest levels of CTS, RMR and MPC were experienced throughout the year, predominantly in Russia, the UK, Norway and Caspian regions.

In Summary

We continued to take responsible steps towards reshaping our business in a challenging market whilst keeping our eye firmly on safety and the welfare of our personnel. In tandem we have maintained our focus on strategic implementation, namely the further technology adoption and hence commercialization of our MPD product lines. Our backlog has become increasingly shaped by a more stable product mix with strengthened barriers to entry through a superior value proposition.

David Hine, Chief Executive Officer
Key Figures

EDS Group AS – 2016 Consolidated (Full year figures in TNOK)

Profit and loss

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>331,795</td>
<td>489,516</td>
</tr>
<tr>
<td>EBITDA</td>
<td>20,633</td>
<td>57,443</td>
</tr>
<tr>
<td>EBIT</td>
<td>(70,434)</td>
<td>(135,235)</td>
</tr>
<tr>
<td>Loss from continued operations</td>
<td>(118,071)</td>
<td>(144,185)</td>
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</table>

Balance / liquidity/capital

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>120,424</td>
<td>199,935</td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>89,471</td>
<td>37,213</td>
</tr>
<tr>
<td>Total capital</td>
<td>818,360</td>
<td>851,179</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>488,104</td>
<td>400,107</td>
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</table>

Key figures per share

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>109,254</td>
<td>109,254</td>
</tr>
<tr>
<td>Average number of outstanding shares</td>
<td>124,152,393</td>
<td>124,152,393</td>
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<tr>
<td>Outstanding shares 31.12</td>
<td>124,152,393</td>
<td>124,152,393</td>
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<tr>
<td>Dividend per share (NOK)</td>
<td>-</td>
<td>-</td>
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<tr>
<td>EBITDA per share (NOK)</td>
<td>0,17</td>
<td>0,46</td>
</tr>
<tr>
<td>Equity per share (NOK)</td>
<td>0,97</td>
<td>1,61</td>
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Business areas 2016

<table>
<thead>
<tr>
<th></th>
<th>Enhanced</th>
<th>Cannseal</th>
<th>Group</th>
<th>Elimin.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External operating revenues</td>
<td>317,649</td>
<td>9,775</td>
<td>4,371</td>
<td>-</td>
<td>331,795</td>
</tr>
<tr>
<td>Intercompany operating revenues</td>
<td>1,000</td>
<td>-</td>
<td>3,110</td>
<td>(4,110)</td>
<td>-</td>
</tr>
<tr>
<td>Project expenses/payroll expenses</td>
<td>(278,078)</td>
<td>(25,160)</td>
<td>(12,035)</td>
<td>4,110</td>
<td>(311,162)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>40,571</td>
<td>(15,385)</td>
<td>(4,553)</td>
<td>-</td>
<td>20,633</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>74,595</td>
<td>(14,313)</td>
<td>(2,160)</td>
<td>-</td>
<td>(91,068)</td>
</tr>
<tr>
<td>Operating profit/ (loss)</td>
<td>(34,024)</td>
<td>(29,697)</td>
<td>(6,713)</td>
<td>-</td>
<td>(70,434)</td>
</tr>
<tr>
<td>Net financial items</td>
<td>(32,103)</td>
<td>81</td>
<td>(14,835)</td>
<td>-</td>
<td>(46,856)</td>
</tr>
<tr>
<td>Tax</td>
<td>(780)</td>
<td>-</td>
<td></td>
<td>-</td>
<td>(780)</td>
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</table>

Business areas 2015

<table>
<thead>
<tr>
<th></th>
<th>Enhanced</th>
<th>Cannseal</th>
<th>Group</th>
<th>Elimin.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External operating revenues</td>
<td>473,702</td>
<td>10,019</td>
<td>5,795</td>
<td>-</td>
<td>489,516</td>
</tr>
<tr>
<td>Intercompany operating revenues</td>
<td>2,000</td>
<td>2,777</td>
<td>3,713</td>
<td>(8,490)</td>
<td>0</td>
</tr>
<tr>
<td>Project expenses/payroll expenses</td>
<td>(413,534)</td>
<td>(11,306)</td>
<td>(15,724)</td>
<td>8,490</td>
<td>(432,074)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>62,168</td>
<td>1,490</td>
<td>(6,216)</td>
<td>-</td>
<td>57,443</td>
</tr>
<tr>
<td>Impairment, depreciation and amortisation</td>
<td>(86,803)</td>
<td>(105,874)</td>
<td>-</td>
<td>(192,677)</td>
<td></td>
</tr>
<tr>
<td>Operating profit/ (loss)</td>
<td>(24,635)</td>
<td>(104,384)</td>
<td>(6,216)</td>
<td>-</td>
<td>(135,235)</td>
</tr>
<tr>
<td>Net financial items</td>
<td>2,079</td>
<td>(6,495)</td>
<td>(9,304)</td>
<td>-</td>
<td>(13,719)</td>
</tr>
<tr>
<td>Tax</td>
<td>(4,361)</td>
<td>-</td>
<td>(409)</td>
<td>-</td>
<td>(4,769)</td>
</tr>
</tbody>
</table>
Annual Report 2016

The official and audited financial results for EDS Group AS reflect the period January through December 2016.

2016 has been yet a challenging year, however positive for the EDS Group of companies. During the year, significant focus was placed on ‘right-sizing’ the Enhanced Drilling business in line with the contracting offshore drilling segment. Subsequent measures included both temporary and permanent redundancies throughout the company. 2016 followed a positive trend in HSEQ statistics, namely:

- Lost Time Incidents (LTI) – 0
- Medical Treatment Incidents (MTI) – 0
- First Aid Incidents (FAI) – 0
- Total Recordable Incident Frequency (TRIF) – 0%
- Global Internal Audit Team (GIAT) Audits - 12
- Environmental Spills – 0
- Recycling – 91%

Our focus on continuous improvement through both Quality Assurance and Control is reflected through a significant audit program that was performed as planned throughout the year.

A frame agreement for EC-Drill® systems for Statoil was signed at the end of 2015. The start-up of the first system was delayed when Statoil cancelled the contract with the rig owner for the rig where the system was intended. In Q4 16 Statoil called off a further system, bringing the total to 2, for delivery in Q2 17 and operational start-up in Q3 17.

For BP Baku a contract was signed for 1 system at the end of 2015 with installation in Q2 2016. The system was successfully installed, but due to changes in drilling plans, the customer has demobilized the kit from the rig until further notice.

At the end of 2016, 3 EC-Drill® systems are either in operation or in the process of being built, the highest number so far in the commercialization of EC-Drill®.

Operations with Lundin in the Barents Sea are seen as a success by the customer. This has been instrumental in increasing market awareness of EC-Drill®, the associated benefits and the ease-of-use. Well Evaluation and Rig Integration studies focusing on customer business case and rig integration cost continues to be an important stage in the EC-Drill® sales pipeline.

FOCUS The importance of Continuous improvement is emphasised to all of the Enhanced Drilling team

The global RMR® well count in 2016 was 20, down from 26 the previous year. 4 of these wells also used the MPC service. 16 of these wells came from 5 different batch drilling campaigns. CTS saw 26 wells in 2016, up from 23 on the year before. 8 batch campaigns in Norway and Canada accounted for 19 of these wells. EC-Drill® activity ended at 2 wells, the same number as the year before.

CannSeal continued to develop it’s tool portfolio for enhanced oil recovery in 2016, supported by oil companies. The field trial and tool debut performed late 2015 in the North Sea, proved to be a success. The customer officially claims recovery of 200,000 barrels of oil per year, hence demonstrating the CannSeal mission. The same customer contributed 6MNOK to develop a tool extension to support rig-less operation. This modular high volume tool is finally tested. We expect to test the tool in the North Sea in 2017. The option of doing rig less operation may contribute to large cost savings for the customer and increase the solution attractiveness even further. Late in 2016, the company got support from international oil companies to extend the product portfolio to handle Sustained Casing Pressure that is a well-known challenge in the industry, caused by gas distributing through cemented annulus. This particular solution will be finally tested during 2017.

In September 2016, Saudi Aramco Energy Venture, SAEV, joined as shareholder in CannSeal.
EDS Group AS Company Overview

EDS Group AS (EDS) is a leading supplier of services and technology to the global oil and gas industry. The Group’s main operations are based at Straume (Bergen) and Houston, with other offices around the world including, Baku, Stavanger, Oslo, Aberdeen, St. John’s and Perth.

EDS Group AS consists of the following segments: Enhanced Drilling, Cannseal and Other.

**Segments**

### Enhanced Drilling

EC-Drill® is a step-change solution, solving a challenge commonly encountered in deep-water wells: drilling in narrow pressure windows. This is achieved by manipulating the bottom hole pressure in the wellbore by altering the level of drilling fluid in the riser. This is done by means of a pump fitted onto the riser. It is possible to cost-effectively negotiate narrow pressure windows and reach deep targets that would otherwise be impractical.

Other benefits include improved safety due to faster kick/loss detection, rig-time savings, drilling capabilities with near-constant BHP, reduced casing strings and the ability to change riser mud levels within minutes, rather than mud weights within hours.

In 2016, one EC-Drill® system were deployed offshore on the Norwegian Continental Shelf (NCS) for Lundin, and two systems are poised for deployment in 2017 by Statoil.

MPC® (Managed Pressure cementing) continues to be made known to the market. MPC® uses conventional cement to facilitate the safe isolation of challenging pressure zones (shallow gas or water) in narrow pressure window scenarios.

The system resolves two major challenges: effective cement slurry placement, plus gas flow after cementing. The technology provides operators with precise control over the pressure and flow parameters of returning cement. Constant pressure is achieved at weak zones, preventing losses to the formation. The system is safety enhancing in that any influx or loss is quickly detected, enabling a rapid operator response to prevent the situation from escalating. Subsequent to the success of the MPC system in Azerbaijan, it was commercialized during 2015 and rolled out in 2016.

In addition to these solutions the cornerstone technologies remain as Cutting Transportation System (CTS®) and Riserless Mud Recovery system (RMR®). Both technologies have been developed internally.

The RMR® encompasses a subsea pump thereby enabling a closed-loop circulation system. The system improves drilling operations by reducing the risk and cost of drilling top-hole sections; it also replaces “pump and dump” and ensures zero discharge to the environment. The system has been in use since 2003 and is a well-proven concept.

CTS® consists of a powerful and versatile subsea electrical-drive pump. The system enables the operator to keep the well-head area clear of cuttings by transporting them away from the site. This means later procedures, such as tying in umbilical, are more swiftly carried out, plus the system can create drilling opportunities in areas deemed to be environmentally sensitive (coral reefs, etc).

During 2016, 2 wells were drilled with EC-Drill®, 26 wells with RMR® /MPC® and 23 with CTS®.

2015 saw zero major incidents, zero first aid incidents (FAI), zero medical treatment (MTI) and zero lost time incidents (LTI). There were zero dropped objects.
recorded during 2016. EDS Group will as a company continue to strive to keep a clean record and keep safety as our highest priority.

2016’s strong focus on HSEQ will continue to be followed up and developed during 2017. Our Global Internal Audit Team (GIAT) continues to foster positive results, thanks to internal ownership and cross-functional scrutiny, as well as improved process compliance and transparency.

**CannSeal**

CannSeal is a unique tool for sealing off water and gas inflow into oil wells, hence contributing to recovered oil from mature fields. The wireline tool carries a specialized resin that provides zonal isolation in the annulus after the well has been completed. The tool has been further developed during 2016.

**Group /Other**

Group consists of some corporate administration shared cost, AGR Subsea Ltd and Marine Engineering AS which are companies that have no operations.

The claim relating to the excavation project in 2012 is still not resolved and the provision in AGR Subsea Ltd is still in force. Arbitration has started and is expected to be finalized during 2017. AGR Subsea Ltd has also received a tax claim from Norwegian tax authorities relating to the Ormen Lange excavation work in 2011.

‘**TRACTION**’ Four year EC-Drill ® contract signed with Lundin

**Research and Development 2016**

Innovation is at the core of the Enhanced Drilling story, hence the continuing investment in both further product development as well as next-generation concepts and technologies.

**EC-Drill®** Equivalent Circulating Density (ECD) effects arise from fluid frictional losses in the wellbore during pumping and circulation. ECD effects cause undesirable variations in bottom hole pressure during drilling. The EC-Drill® Concept compensates for these effects, and is as such a Managed Pressure Drilling (MPD) system developed by Enhanced Drilling.

Other key developments included the following:

**ECD-C** – Alternative Riser mounted MPD service; joint development project with Statoil  
**Remote operations of EDR services** – Onshore real-time follow up of offshore operations  
**Bottom Hole Estimator** – Integration of hydraulic model for Enhanced Drilling MPD services
2016 Key Events

January
- 8 well RMR campaign contracted for Woosaide, Australia, with operations from 2018
- 1 + 1 optional well RMR project contracted for Gazflot, Russia.

February
- Five-day Leadership & Project Management Program in collaboration with BI Norwegian Business School.

April
- Series of three public EC-Drill® Webinar series successfully completed
- Call-off for EC-Drill® rig integration on Leiv Eiriksson for Lundin

May
- Mobilization of CTS equipment on the Husky Energy contracted drill rig Henry Goodrich was successfully concluded with the issuance of an annual Fit For Purpose Certificate by DNV-GL to Enhanced Drilling
- EDR receive praise on delivering a four-well campaign on the Shah Deniz platform in the Caspian Sea. BP rated both EDR’s personnel and HSSE (Health, Safety, Security, Environment) activity as ‘exceeding expectations. BP stated in a post-job satisfaction report that the performance of the EDR crew ‘has been of the highest standard
- Enhanced Drilling receives the Fully Compliant rating with Suncor Energy
- Enhanced Drilling Receives Fit for Purpose Certificate from DNV

June
- Series of three public EC-Drill® Webinar series successfully completed

July
- Enhanced Drilling opened a new workshop and office facility in Baku, Azerbaijan. Enhanced Drilling’s Vice President for Operations, Dr Anthony Brown, said: ‘Our new Baku workshop and office space will help future-proof Enhanced Drilling’s capabilities in the Caspian region.’
August
- Release of Global and National Employee Handbooks

September
- Lundin signs four-year contract for our EC-Drill® technology and services
- Enquest praises 'excellent performance' from Enhanced Drilling in their project evaluation
- Saudi Aramco Energy Venture, SAEV, joined as shareholder in CannSeal
- Opening of the new cantina at Straume

November
- EDR receives two POs for EC-Drill system and services from Statoil
- Suncor issues 3-year contract in Canada to use Enhanced Drilling’s CTS services.

December
- Enhanced Drilling is certified ISO9001:2015 (Quality management system) and recertified ISO14001:2004 (Environment management system) and OHSAS18001:2007 (Occupational health and safety)

Working Environment and Personnel

A core objective of EDS Group is to have a safe and healthy working environment. We manage our business in accordance with the OSHAS 18001:2004 standard and parts of the company is certified.

EDS Group monitors performance continuously, and report status to the Executive Management Team and the Board of Directors on a regular basis. We have functioning safety organizations and Working Environment Committees; ensuring employee involvement in HSE related issues. Average illness absence during 2016 was 4.3%. There were some variations between the regions: Europe 5.9%, ACIS 0.6, APAC 5.3%, and Americas 0.8%. During 2016 Enhanced Drilling had zero lost time injuries, zero medical treatment (MTI) and zero first aid incidents. One of the main focus areas continued from 2015 into 2016 was dropped objects, where we registered 0 near misses during 2016. Dropped objects and near misses continue to be a key focus in 2016.

Gender equality
As of 31st December 2016, the Board of EDS had 3 Board Members, comprising 2 males and 1 female.

EDS aspires to be an attractive employer for people with different backgrounds, regardless of their ethnicity, gender, religion or age. In its policy, the company has implemented conditions to ensure equal opportunities in areas such as salary, promotion and recruitment.

The competence principle is decisive in all appointment processes. In a department where one gender is heavily under-represented, this is taken into account during the appointment process if other qualifications are otherwise equal. In connection with the yearly salary evaluation, attention is shown to possible inequality regarding average level of pay for men and women. The EDS Group provides equal pay for equal work and rewards good results.

Environmental Reporting
All EDS activities that affect the environment are managed by means of well-established systems and processes in order to identify and eliminate or reduce any negative impact, and to ensure, as a minimum, compliance with legislation and regulations set out by the authorities.
The environmental aspects of our activities are identified and managed. EDS aims to facilitate the continuous environmental improvement in our operations by adopting the principles of ISO 14001:2007, international standard for environmental management, and an increasing part of the EDS business are being certified. We are running internal control activities to verify compliance.

Furthermore, many of the operational activities and products of the business are focused on protecting the environment. As an example the RMR® is a product which in addition to its operational advantages offers environmental friendly solutions to clients, by allowing zero discharge of chemicals and cuttings in drilling of top hole sections.

**Environmental Performance**

**Summary 2016**

- Energy consumption is at a normal level for our type of business
- Waste management is performed to minimize waste amounts, and to facilitate for reuse and recycling of generated waste
- Chemicals are managed to reduce use and planned discharge of environmentally hazardous chemicals
- We had zero spills from our operations during 2016
- Recycling of generated waste
- Chemicals are managed to reduce use and planned discharge of environmentally hazardous chemicals

**Remuneration**

Information concerning remuneration of the Board of Directors and the Chief Executive Officer can be found in Note 24 to the consolidated financial statements.

The compensation for the external auditor can also be found in Note 24.

**Risk Management and Internal Control**

**Internal control**

Effective controls ensure that the group is not exposed to avoidable risk, that proper accounting records have been maintained, that the financial information used within the business is reliable and that the consolidated accounts preparation and financial reporting processes comply with all relevant regulatory reporting requirements.

The dynamics of the group and the environment within which it operates are continually evolving together with its exposure to risk. The internal control system is designed to manage rather than eliminate the risk of assets being unprotected and to guard against their unauthorized use and the failure to achieve business objectives. Internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors confirm that there is an ongoing process for identifying, evaluating and managing the risk faced by the group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly reviewed the system of internal control utilizing the review process set out below.

**Standard**

EDS has defined roles, responsibilities and timelines for the accounting procedures including guidelines on the minimum level of internal control that each of the subsidiary companies should exercise over specified processes.
All companies prepare annual operating plans and budgets, and business strategies are prepared at regional level and approved by the board. In addition EDS prepares financial forecast that are presented to the board. Detailed actual financial segment information is prepared monthly; performance compared to budget is monitored at company, regional and group level. In addition, actual performance is compared to latest forecast and prior year on a monthly basis including analysis of any significant variances.

Capital expenditure and investment decisions are treated as a part of the budget and forecast processes. Details about who has the right to approve investments are described in an authorization matrix. The cash position of the group is monitored on a daily basis and variances from expected levels are investigated thoroughly.

An important factor in ensuring proper financial reporting is good IT controls. There are many IT controls in place to access the accounting systems for the year as a whole and at the year-end these controls have been intensified.

Results, Cash Flow, Investments, Finance and Liquidity

Turnover for EDS Group decreased from NOK 490 million (for 2015) to NOK 332 million in 2016.

Operating loss for EDS was 70 million compared to a loss of 135 million in 2015. Net losses from continued operations for the financial year 2016 were NOK 118 million compared to NOK 144 million in 2015. For more information about the background for the results, see the operational section and the notes to the accounts.

Accumulated cash flow from EDS’s operational activities was positive NOK 59 million, compared to negative NOK 7 million in 2015. Total investments for EDS were NOK 69 million, compared to NOK 90 million in 2015, and were mainly related to development of EC-Drill® equipment as well as CannSeal equipment. Cash and cash equivalents for the Group on 31.12.16 were NOK 89 million.

EDS’s total interest-bearing debt at year end 2016 was NOK 488 million, which represent 59 % of EDS’s total assets, compared to 47 % year-end 2015.

At the end of the year, total assets amounted to NOK 818 million, down from NOK 851 million the previous year.

The equity to total assets ratio at 31.12.2016 was 15 %, down from 23 % at 31.12.2015. The debt to equity ratio per 31.12.2016 was 5.8 and 3.3 per 31.12.2015.
Financial risk

Financial risk factors
The Group’s activities are exposed to a variety of financial risks. Market risks including currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in cooperation with the Group’s operating units. The board provides risk management policies covering specific areas, such as foreign exchange risk, interest rate risk, liquidity risk and credit risk.

Market risk
(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, CAD, GBP and USD. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Positions are reviewed quarterly. The group held no FX derivatives at year end 2016 or 2015.

(ii) Price risk
The Group is indirectly exposed to changes in the oil price, however current group policy is to not hedge oil price changes.

(iii) As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Group policy is that long term borrowings shall be based on floating interest rates, however interest rate derivatives shall be applied in order to avoid significant losses due to interest rate changes.

The Group’s interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Based on the risk analysis where a 1% interest rate increase/decrease is applied, the impact of net interest expenses would be negative NOK 4 million and positive NOK 4 million respectively.

Credit risk
Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposure to customers, including receivables and committed transactions. The Group’s customers are mainly the large international oil companies with limited to low credit risk potential. The Group seeks to obtain financial guarantees from debtors where the credit risk and exposure is considered to be high. In addition, majority of the Group’s re-ceivables are credit insured in order to reduce credit risk. The Group’s main bank at 31st December 2015 is DNB.

Liquidity risk
The Group has a customer portfolio with large, medium and small cap customers. Delayed payments from some of the largest customers at the same time could have a significant impact on the Group’s liquidity situation. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. At 31st December 2016 the Group had undrawn committed short-term credit lines amounting to NOK 30 million plus cash deposits of NOK 89 million. As a result of the EC-Drill® new build program, Enhanced Drilling entered into a capex facility of NOK 90 million in 2016.
Parent Company

EDS Group AS is the parent company and its main activity is to act as the owner of the shares in its subsidiaries. The operating result in 2016 was negative NOK 2 million compared to negative NOK 3 million in 2015. The net result in 2016 was negative NOK 7 million compared to negative NOK 161 million in 2015.

Accumulated cash flow from the company’s operations was NOK 0 million.

The total assets were NOK 559 million compared to NOK 550 million the previous year.

The equity to asset ratio was 52% at 31.12.2016.

Continued Operation

EDS Group is financed through a traditional bank loan. The original loan agreement signed in February 2013, was rolled over for additional 3.5 years at year end 2015. In addition, a substantial CapEx Expansion facility was added to the existing SFA in line with the anticipated build plan for EC-Drill® systems.

EDS Group has not met the financial covenants during 2016. EDS Group has during 2017 reached an agreement with DNB on changing the terms and resetting the covenants. EDS Group has secured a waiver for 2017 that applies until Q3 2017 and new covenants for Q4 2017 to Q2 2018. The changes include an adjustment of the ratio between gross interest bearing debt and EBITDA, and EBITDA in ratio to gross cash interest expenses. Available revolving credit facility is reduced by 13 MNOK and there is introduced a covenant of minimum liquidity of 20 MNOK and an increase in equity of 20 MNOK.

Based on the Group’s forecast, the Board considers that there is no risk of breaching the covenants per Q4 2017 to Q2 2018.

The key assumptions made in the impairment test reflect the Board’s current assessment of EDS’s potential to adapt to and benefit from trends in the oil services industry. Management believes that the expectations reflected in the forward-looking forecasts used as a basis for the impairment reviews, are reasonable. However, as the impairment valuations are based on forward looking information, they will involve risk and uncertainty. For more information, please refer to note 3. The Board has considered the factors above in relation to continued operations and concluded that in accordance with the Accounting Act §3-3a, we confirm that the financial statements have been prepared under the assumption of a going concern.
Annual Result and Allocations

The Board proposes the following allocations of the EDS Group’s net loss for the financial year:

Figures in TNOK

Loss for the year
Non-controlling interests’ share of loss for the year
Total loss allocated to retained earnings

The Board proposes the following allocations of the parent company EDS Group AS’ net loss for the financial year:

Loss for the year
Total loss allocated to retained earnings

Oslo, 28 June 2017

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