

ADVANCE  
PERFORM  
ACHIEVE

**1Q 2016**

Reach Subsea ASA

QUARTERLY CONSOLIDATED REPORT

**REACH**  
SUBSEA

## Report 1<sup>st</sup> QUARTER 2016

### // HIGHLIGHTS

REACH had three vessels in operation during the quarter; *Normand Reach*, *Edda Fonn* and *Stril Explorer*, as well as all six WROV-systems and offshore personnel. Further, we provided ROV services, personnel, tooling and engineering for *Viking Neptun* operations during the quarter.

REACH had a 1Q EBITDA of NOK -5.9 million and a cash flow from operating activities of NOK -8.8 million. The negative result is a reflection of seasonality and challenging market conditions, but also impacted by transit periods and docking. In fact, the majority of the 1Q pre-tax loss was incurred in March when 2/3 of our assets were either in transit between regions or undergoing dry docking and maintenance.

REACH launched a new offshore personnel contracting business, Connect Offshore, during Q1. The business model is flexible, sourcing highly skilled offshore personnel and hiring out on a project by project basis to both Reach and third party customers. Connect Offshore is off to a promising start with profitable operations from day one.

REACH has per 31.03.16 an order book of close to NOK 90 million, most of which is related to work for 2016. Tender activity remains high, even though there are fewer opportunities in this challenging market. Outstanding tender value remains at a stable level around NOK 1.4 billion.

### // OPERATIONS

REACH has six complete WROV-systems in operation in addition to “Surveyor Interceptor”, owned by a joint venture between Reach Subsea and MMT Sweden AB.

REACH vessel *Normand Reach*, hired on time charter from Solstad Offshore and equipped with Reach Subsea ROVs and offshore personnel, was on charter to DOF Subsea the whole period. End clients were major oil companies. The firm time charter with DOF Subsea ends in June 2016.

REACH provided ROV services consisting of 1 WROV and offshore personnel to the vessel *Stril Explorer* in the first quarter of 2016. *Stril Explorer* is a survey vessel on a charter contract from Møkster to Reach’ JV-partner MMT Sweden until April 2016. Projects performed by the *Stril Explorer* spread are to a large extent ROV/Survey work handled as a cooperation between Reach and MMT. In 1Q *Stril Explorer* performed under a contract in French Caribbean, an innovative survey of the geophysical and sedimentary context of an area of an offshore power plant outside Martinique, with modest rates and long transit.



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REACH has *Edda Fonn*, a purpose built ROV/Survey vessel, on a charter from Østensjø. The charter expires in December 2017. *Edda Fonn* has been performing under contracts within the renewables sector in the first quarter, closely cooperated with MMT Sweden. Further, she had a two weeks planned docking as well as transit in March, thus eliminating our ability to obtain profitable work for this period.

REACH has two WROVs onboard *Viking Neptun*, a construction vessel on contracts with Technip. The Technip work will extend into 2017. Reach delivers all ROV-services onboard. The vessel has performed very well since delivery in March 2015. Feedback reports from end clients such as Statoil have been excellent, resulting in winning a supplier of the year-award from Technip for 2015. From December 2015-February 2016 the vessel was located in Ghana, while most of March was spent in transit back to the North Sea and preparations for the upcoming summer programs.

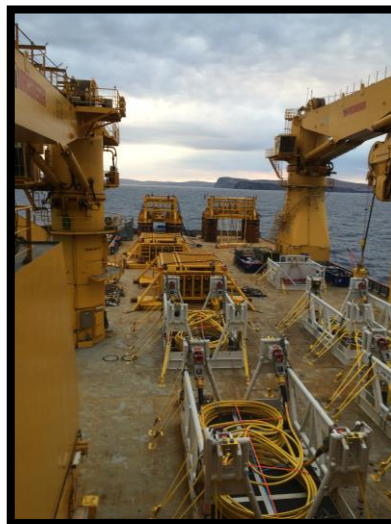
REACH has not had any serious incidents or accidents during the quarter, which support our objective that the right procedures, well trained personnel and state of the art equipment generate operational success.

### // ECONOMY AND FINANCE

Revenue for the quarter was NOK 86 million compared with NOK 87 million for 1Q2015. The previous three quarters *Viking Neptune* revenue has had a significant impact on revenues, though limited margin-effect due to vessel cost and victualling being invoiced through Reach Subsea without fee. As from December 2015 Reach Subsea performs as sub-contractor to Eidesvik, reducing the turnover, however with the same EBITDA-level.

Operating expense for the quarter was NOK 98 million including depreciation. Project-related expense represents the majority of the operating expense for the group. Total operating expense for 1Q2015 was NOK 95 million.

First quarter 2016 represents our achievements in a winter market with over supply. Loss for the quarter was NOK 15 million (NOK 11 million for the same period last year) with an EBITDA of NOK -6 million (NOK -5 million 1Q2015).



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### // FINANCING AND CAPITAL STRUCTURE

Total current assets at the end of the period were NOK 163 million, of which cash and cash equivalents amounted to NOK 37 million. Available liquidity, including NOK 10 million in unutilized credit facility, amounted to NOK 47 million, which is satisfactory. Receivables were NOK 73 million, while total non-interest bearing current liabilities were NOK 64 million.

Cash deposits pledged as security for bank guarantees and leasing debts amount to NOK 53 million and are from 31.03 re-classified as a current asset due to the restructuring agreement for charterparties (see “News after quarter end” and Press Release published 26<sup>th</sup> April 2016).

The Group’s equity is NOK 143 million, which represents 46% of the total balance sheet. Net financial debt amounts to NOK 67 million, or NOK 41 million when including cash deposits pledged as security for leasing facilities. REACH has no committed capital expenditures for 2016 and onwards.

### // THE COMPANY AND ITS SHAREHOLDERS

REACH Subsea ASA is listed on the Oslo Stock Exchange. The Company has per 31.03.16 issued 76.241.065 shares, of which the majority is owned by Norwegian shareholders.

Reach Subsea essentially follows the recommendation for reporting of IR-information issued by the Oslo Stock Exchange's and publish all the news releases on [www.newsweb.no](http://www.newsweb.no), a service provided by the Oslo Stock Exchange.

### // NEWS AFTER QUARTER END

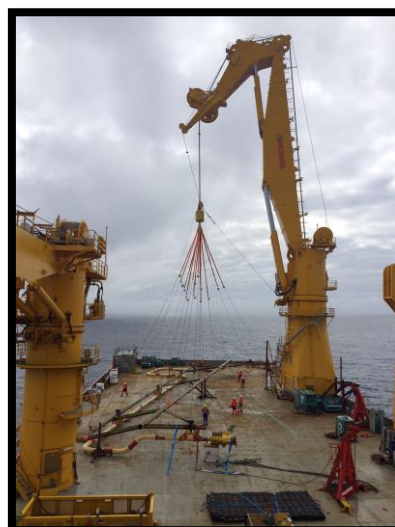
#### TAKING ACTIONS TO REMAIN COMPETITIVE

Reach Subsea has agreed on a comprehensive restructuring of its charter agreements, which will enable Reach to move forward with market based charter-in rates. Solstad Offshore and Østensjø Rederi will as part of the restructuring become new shareholders of Reach Subsea.

Although the details of the agreement are confidential between the parties, we can convey that Reach Subsea will be well equipped to handle a prolonged period of weak market conditions. A significant reduction in charter commitments will provide Reach with a competitive and flexible total cost base. Reach Subsea is now positioned to exploit opportunities in the market, and create shareholder value.

The immediate financial implications for Reach Subsea are:

- Reach's total off-balance sheet bank guarantees of NOK 87 million will be cancelled
- Leasing debt will be reduced by NOK 26 million, while bank debt will increase by NOK 20 million
- As compensation, total restricted cash deposits of NOK 53 million will be released and paid out
- Reach will issue 15 million shares, subscribed at NOK 2 per share, to major shareholders, board members, key employees and the ship owners



As a result, total debt, including bank guarantees, and adjusted for restricted cash deposits, will be reduced from approximately NOK 140 million to approximately NOK 95 million. The

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company's working capital and cash position is unaffected by the restructuring, and remains robust. In particular, in light of the reduced and flexible cost base going forward.

The AGM has today approved the issuance of 15 mill shares at a subscription price of NOK 2 per share. 5 million shares will be issued to each of Solstad and Østensjø, while 5 million shares will be issued to major shareholders, board members and key employees. In addition, the AGM approved the issuance of 4 million options with strike price NOK 3 per share to Solstad Offshore. Further information can be obtained from the AGM documents and a Prospectus that will be issued related to the transactions.

Jostein Alendal, CEO of Reach Subsea, says: "We are pleased to have achieved a mutually acceptable solution that is adapted to the current market climate. This will enable Reach to continue working with ship owners known for quality and reliability - a necessity in our line of business. We are now equipped to face a prolonged period of poor markets, and will continue to deliver services of the highest quality."

### CONTRACTS

Reach Subsea has entered into a firm contract with NTNU for the MarMine Project to complete a scientific research expedition on the mid-Atlantic ridge north of Jan Mayen, financed by the Research Council of Norway (RCN). The project will deploy ROV, AUV and grabs for seabed mapping and sampling for geological and biological research related to marine mining.

Reach will execute the contract using Rieber's *Polar King*. Total contract duration is approximately three weeks.

Aibel AS and Reach Subsea have agreed to enter into a formal cooperation agreement for projects within subsea oil and gas, renewables, ship and rig repairs and decommissioning of existing platforms/subsea structures and other offshore installations.

Aibel and Reach Subsea are operating within the same market segments, however with a different client base and contracting approach. As each party's core business complement each other, a formal cooperation agreement will strengthen both parties' ability to provide a more comprehensive and competitive product. This will give each party a possibility to be qualified for and execute projects, which each party cannot provide alone.

The parties shall utilize resources from both parties in the best way to be able to undertake complex projects that may require project management, engineering, fabrication & installation, mechanical completion, commissioning/de-commissioning and ROV marine services and operations as the case may be.

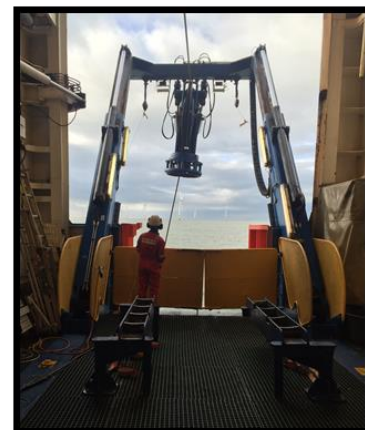


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### // MARKETS AND PROSPECTS

REACH’s strategy is to be a full service provider within subsea service. The Group’s management and board have extensive and long experience in the segment.

REACH markets and operates six WROV-spreads (WROVs and offshore personnel), of which two (The *Viking Neptun*-WROVs) are fixed on contracts until 2017, two (the *Normand Reach* WROVs) are fixed on contracts until June 2016 and the last two are operated on vessels performing in the spot market. The Surveyor ROV, owned 50% by Reach Subsea, is currently on a contract lasting throughout the summer season. Thereafter, the Surveyor is exposed to the spot market in the survey segment.



Of the vessels, *Edda Fonn* is currently exposed to the spot market. The risk/reward on this vessel is shared 50 % with MMT Sweden according to a Joint Venture agreement. Marketing of *Normand Reach* towards existing and new clients continues in order to prepare for her return from DOF Subsea in June 2016. Following the charter restructuring agreement, we have a Normand Reach commitment of 100 days after expiry of the DOF Subsea contract, while commitment in the 2016/17 winter season is Reach’s option. As per 30.05.2016 no further firm work is secured for *Normand Reach*, although we are in discussions on potential commitments. Should these advanced discussions not be concluded with a positive outcome, we will operate her in a challenging spot market, although at competitive charter-in rates.

Tendering and sales activities have been increased to secure good employment for the vessels in a challenging 2016 and beyond.

REACH has now, as previously indicated, restructured charter commitments to obtain flexibility in the business model and be prepared for an extended period with very weak market conditions. This was a necessity to remain as competitive as we have proved so far in this market downturn. We believe this will strengthen the company’s ability to exploit the opportunities we currently see in the market.

Haugesund, 30.05.2016

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Kåre Johannes Lie  
Chairman of the Board

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Anders Onarheim  
Board member

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Sverre B. Mikkelsen  
Board member

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Merete Haugli  
Board member

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Martha Kold Bakkevig  
Board member

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### - Result 1Q 2016 -

Income statement (in NOK '000)	Note	2016 01.01-31.03 <i>unaudited</i>	2015 01.01-31.03 <i>unaudited</i>	2015 01.01-31.12 <i>audited</i>
Operating income		85 962	86 603	634 369
Other operating income		0	0	0
<b>Total operating income</b>		<b>85 962</b>	<b>86 603</b>	<b>634 369</b>
Operating expenses		-91 947	-91 139	-599 981
<b>EBITDA</b>		<b>-5 986</b>	<b>-4 536</b>	<b>34 388</b>
Depreciation	3	-6 182	-3 995	-23 030
<b>Operating result (EBIT)</b>		<b>-12 168</b>	<b>-8 531</b>	<b>11 358</b>
Net financial items		-1 582	161	-2 790
Net result from affiliated companies		-911	-844	-7 173
<b>Profit (loss) before taxes</b>		<b>-14 661</b>	<b>-9 214</b>	<b>1 394</b>
Taxes	9	0	0	0
<b>Profit (loss)</b>		<b>-14 661</b>	<b>-9 214</b>	<b>1 394</b>
<b>Comprehensive income</b>				
Gain/loss on financial derivatives og cash flow hedges		0	-1 715	1 268
<b>Comprehensive income items</b>		<b>0</b>	<b>-1 715</b>	<b>1 268</b>
<b>Total comprehensive income</b>		<b>-14 661</b>	<b>-10 929</b>	<b>2 663</b>
Earnings per share		-0,19	-0,12	0,02
Diluted earnings per share		-0,19	-0,12	0,02

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### - Balance Sheet 1Q 2016 -

Consolidated balance sheet (in NOK '000)	Note	2016 31.03 <i>unaudited</i>	2015 31.03 <i>unaudited</i>	2015 31.12. <i>audited</i>
<b>Non-current assets</b>				
Deffered tax assets	9	8 161	8 161	8 161
Investment in associated companies		5 918	4 517	6 829
Property, plant and equipment	3	134 233	160 549	140 415
Other long term receivables	6	0	53 000	53 000
<b>Total non-current assets</b>		<b>148 312</b>	<b>226 227</b>	<b>208 405</b>
<b>Current assets</b>				
Trade and other receivables	6	125 916	65 392	76 478
Cash and cash equivalents		37 481	44 048	54 370
<b>Total current assets</b>		<b>163 397</b>	<b>109 440</b>	<b>130 848</b>
<b>Total assets</b>		<b>311 709</b>	<b>335 668</b>	<b>339 253</b>
<b>Equity</b>				
Share capital	7	76 241	76 241	76 241
Share premium		67 806	67 806	67 806
Other equity	8	-660	-648	13 397
<b>Total equity</b>		<b>143 387</b>	<b>143 399</b>	<b>157 444</b>
<b>Non-current liabilities</b>				
Interest-bearing debt	4	86 583	106 939	94 601
<b>Total non-current liabilities</b>		<b>86 583</b>	<b>106 939</b>	<b>94 601</b>
<b>Current liabilities</b>				
Current portion of interest bearing debt	4	18 000	18 000	18 000
Other current liabilities		63 738	64 346	69 208
Derivatives		0	2 983	0
<b>Total current liabilities</b>		<b>81 738</b>	<b>85 330</b>	<b>87 208</b>
<b>Total liabilities</b>		<b>168 322</b>	<b>192 269</b>	<b>181 809</b>
<b>Total equity and liabilities</b>		<b>311 709</b>	<b>335 668</b>	<b>339 253</b>



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### - Cash Flow 1Q 2016 -

	2016 01.01-31.12 <i>unaudited</i>	2015 01.01-31.03 <i>unaudited</i>	2015 01.01-31.12 <i>audited</i>
<b>Cash flow statement</b>			
<b>Cash flow from operating activities</b>			
Profit (loss) before tax	-14 661	-9 214	1 394
Net result from affiliated companies	911	844	7 173
Depreciation	6 182	3 995	23 030
Change in trade debtors	995	-26 601	-40 929
Change in trade creditors	-8 777	25 228	12 166
Change in other provisions	5 874	1 749	22 916
Share option cost employees	604	151	604
<b>Net cash flow from operating activities</b>	<b>-8 872</b>	<b>-3 848</b>	<b>26 356</b>
<b>Cash flow from investing activities</b>			
Purchase of fixed assets	0	-9 071	-65 973
Purchase of shares in associated companies	0	0	-8 642
Gurantees Charter-party	0	0	0
<b>Net cash flow from investing activities</b>	<b>0</b>	<b>-9 071</b>	<b>-74 615</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuance of ordinary shares	0	0	0
Proceeds from borrowings	0	0	0
Repayment of long term loans	-8 017	-2 779	42 883
<b>Net cash flow from financing activities</b>	<b>-8 017</b>	<b>-2 779</b>	<b>42 883</b>
<b>Net change in cash and cash equivalents</b>	<b>-16 889</b>	<b>-15 698</b>	<b>-5 376</b>
Cash and cash equivalents in the start of the period	54 370	59 746	59 746
<b>Cash and cash equivalents in the end of the period</b>	<b>37 481</b>	<b>44 048</b>	<b>54 370</b>

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### - Equity 1Q 2016 -

Equity	Note	Share capital and share premium	Other equity	Total equity
Equity 31.12.15		144 047	13 397	157 444
IFRS 2 Opsjonsbased salary	8	0	604	604
Result for the period		0	-14 661	-14 661
Equity 31.03.16		144 047	-660	143 387



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### NOTES TO THE INTERIM FINANCIAL STATEMENT

#### // NOTE 1 - BASIS FOR PREPARATION

These consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. The interim financial statements are unaudited, and do not include all of the information required for the full financial statements, and should be read in conjunction with the consolidated yearly financial statement. The yearly financial statement are audited. Consolidated interim- and yearly financial statements are available on the news services from Oslo Stock Exchange (www.newsweb.no) or the company's webpage (www.reachsubsea.com).

#### // NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting principles used in the preparation of these financial statements are consistent with those used in the annual financial statements. These consolidated condensed financial statements should be read in conjunction with the annual financial statements, which include a full description of the Group's accounting principles.

#### // NOTE 3 - FIXED ASSETS

Fixed assets (NOK 1000)	ROV and equipment	ROV and equipment, leased	Equipment and office machinery	total fixed assets
Purchase cost 01.01.16	53 548	125 805	9 309	188 663
Additions	0	0	0	0
Disposals	0	0	0	0
Purchase cost 31.03.16	53 548	125 805	9 309	188 663
Accumulated depreciation 31.03.16	-16 810	-29 014	-8 606	-54 430
<b>Net book value 31.03.16</b>	<b>36 739</b>	<b>96 791</b>	<b>703</b>	<b>134 233</b>
Depreciation in the period	2 446	3 614	122	6 182
Expected useful life (years)	3-8	3-8	3	
Depreciation plan	Straight line	Straight line	Straight line	

#### // NOTE 4 - BORROWINGS

(NOK 1000)	31.03.2016	31.12.2015
<b>Non-current borrowings</b>		
Bank borrowings	7 350	8 400
Finance lease liabilities	79 233	86 201
<b>Total non-current borrowing</b>	<b>86 583</b>	<b>94 601</b>
<b>Current borrowings</b>		
Bank borrowings	4 200	4 200
Finance lease liabilities	13 800	13 800
<b>Total current borrowings</b>	<b>18 000</b>	<b>18 000</b>
<b>Carrying amount</b>		
Bank borrowings	11 550	12 600
Finance lease liabilities	93 033	100 001
<b>Total carrying amount</b>	<b>104 583</b>	<b>112 601</b>
<b>Fair value</b>		
Bank borrowings	11 550	12 600
Finance lease liabilities	93 033	100 001
<b>Total fair value</b>	<b>104 583</b>	<b>112 601</b>

The company had as of 31.03.2016 debt of NOK 104,6 million to credit institutions. The company's long-term debt consists of financial leasing and bank loan and is secured by pledge of fixed assets and cash deposits. Book value of pledged fixed assets as of 31.03.2016 amounted to NOK 134,2 million. All debt to credit institutions are in NOK

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### NOTES TO THE INTERIM FINANCIAL STATEMENT

#### // NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

The company has undertaken various transactions with related parties consisting of brokerage of vessel and leasing of office premises for one year. All transactions are carried out as part of the normal course of business and the deal is carried out on commercial terms in accordance with the Companies Act § § 3-8 and 3-9.

#### // NOTE 6 - BANK / RECEIVABLES

NOK 53 million of other receivables is a restricted cash deposit and serves as a security for charter guarantees and leasing facilities.

#### // NOTE 7 - SHAREHOLDERS

20 largest shareholders as per 21.05.2016

ACCELLO PARTNERS I A	23 444 254	30,8 %
JOSO INVEST AS	6 964 589	9,1 %
JT INVEST AS	5 301 539	7,0 %
GSE SANDVIK AS	3 031 075	4,0 %
HOLME HOLDING AS	2 297 211	3,0 %
SKEISVOLL & CO AS	2 000 000	2,6 %
TEOMAR AS	2 000 000	2,6 %
A-Å INVEST AS	1 874 975	2,5 %
SMS INVESTERING AS	1 652 366	2,2 %
ONWAY AS	1 623 804	2,1 %
TEM INVEST AS	1 250 000	1,6 %
BARRUS CAPITAL AS	1 112 160	1,5 %
CAIANO EIENDOM AS	952 584	1,2 %
LION INVEST AS	930 000	1,2 %
INVICTA INVEST AS	909 179	1,2 %
CONSUS AS C/O RUNE LANDE	710 925	0,9 %
HAAVAAS BENT VALENTIN	650 050	0,9 %
THORHEIM HELGE	643 750	0,8 %
HAGLAND INVEST AS	625 000	0,8 %
CAIANO SHIP AS	615 292	0,8 %
<b>Total 20 largest</b>	<b>58 588 753</b>	<b>76,8 %</b>
Others	17 652 312	23,2 %
<b>Total</b>	<b>76 241 065</b>	<b>100,0 %</b>

#### // NOTE 8 - SHARE-BASED REMUNERATION

The Group has entered into a stock option program with firm employees that were hired as per 01.09.2013. The 31.03 result in 2016 is reduced by NOK 0,15 million due to related costs. The remaining the stock option program represents 632.011 shares at an exercise price of NOK 3,2.

#### // NOTE 9 - TAX

The Group has, based on contracts and budgets for 2016 and 2017, assumed that parts of the tax loss carried forward can be recognized. Per 31.03.2016 NOK 8,2 million is capitalized.