

ADVANCE
PERFORM
ACHIEVE

2Q 2016

Reach Subsea ASA

QUARTERLY CONSOLIDATED REPORT

REACH
SUBSEA

Report 2nd QUARTER 2016

// HIGHLIGHTS

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

REACH had a 2Q EBITDA of NOK 12.6 million, giving a total EBITDA for the first half 2016 of NOK 6.6 million. The result for 2Q is a reflection of high utilization, yet marginal rates combined with high vessel cost the first half of the quarter.

REACH renegotiated charter arrangements in 2Q for the vessels *Normand Reach* and *Edda Fonn* with Østensjø and Solstad. As a result, the vessel rates are now market based, and the ship owners have become shareholders in Reach Subsea. Charter guarantees have been cancelled towards a termination fee combined with a share issue. See below and the balance sheet for further details.

REACH offshore personnel contracting business, Connect Offshore, continued sourcing highly skilled offshore personnel and hiring out on a project by project basis to both Reach and third party customers during 2Q.

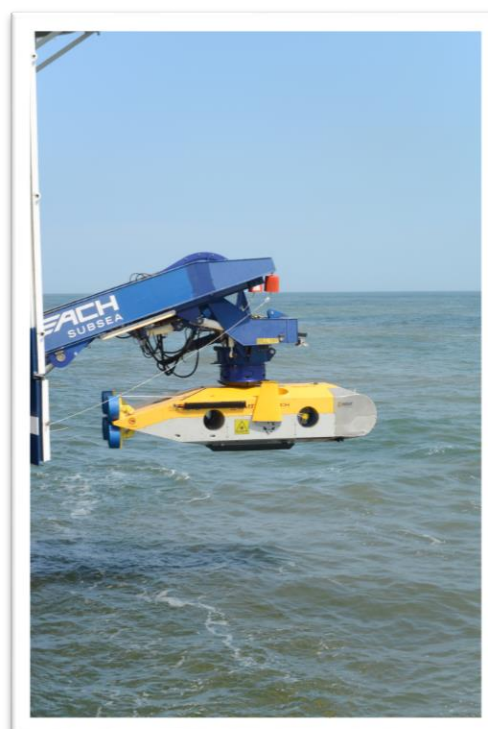
REACH has per 30.06.16 an order book of ca NOK 75 million, most of which is related to work for 3Q 2016. Tender activity remains high, even though there are fewer opportunities in this challenging market. Outstanding tender value remains at a stable level around NOK 1.35 billion.

// 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 WROVs and offshore personnel, was on charter to DOF Subsea the whole period. End clients were major oil companies. The charter with DOF Subsea ended in July 2016.

REACH provided ROV services consisting of 1 WROV and offshore personnel to the vessel *Stril Explorer* in the second quarter of 2016. *Stril Explorer* is a survey vessel on a charter contract from Møkster to Reach Subsea's JV-partner MMT Sweden. Projects performed by the *Stril Explorer* spread are to a large extent ROV/Survey work handled as a cooperation between Reach Subsea and MMT. In April the Surveyor Interceptor was mobilized onboard *Stril Explorer* for survey in the Baltic Sea that lasted throughout the quarter. The end-client was fully satisfied with the performance of the Surveyor Interceptor and the WROV.



Report 2nd QUARTER 2016

REACH has *Edda Fonn*, a purpose built ROV/Survey vessel, on a charter from Østensjø until December 2017. The vessel is utilized for Reach Subsea's own offshore operations. *Edda Fonn* started the quarter doing survey (including UXO) on Hywind, UK sector, closely cooperated with MMT Sweden. Thereafter the vessel spread performed under various spot contracts in the North Sea, Baltic and German regions.

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 are excellent. Since April the vessel has been working for Technip on Quad with expected duration until 3Q. Thereafter the vessel is scheduled for a contract in South East Asia throughout 2016.

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

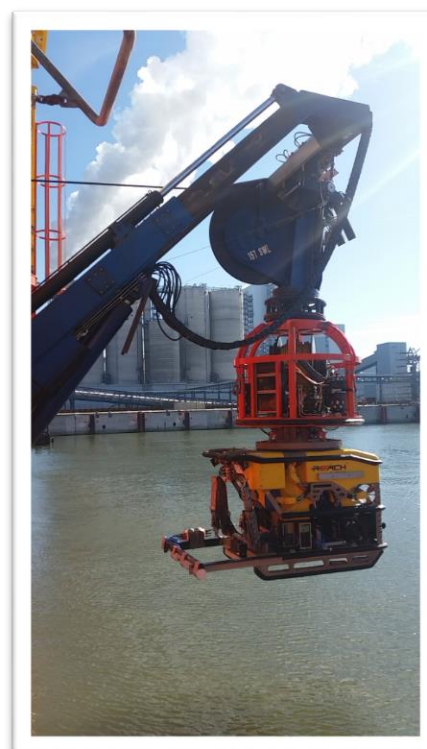
// ECONOMY AND FINANCE

Revenue for the quarter was NOK 89.5 million compared with NOK 219.4 million for 2Q2015. Until 4Q15 *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 83.1 million including depreciation. Project-related expense represents the majority of the operating expense for the group. Total operating expense for 2Q2015 was NOK 207.2 million.

Second quarter 2016 net profit was NOK 3.3 million (NOK 9.1 million for the same period last year) with an EBITDA of NOK 12.6 million (NOK 18.7 million 2Q2015). Renegotiated vessel charter rates had effect from 1 May (*Edda Fonn*) and 12 June (*Normand Reach*). Having a market regulated cost base has been essential in obtaining new contracts for the vessels.

Revenue for the first half 2016 is NOK 175.5 million (NOK 306 million in 2015). The reduction compared to last year is mainly related to the restructuring of the *Viking Neptun* charter party. EBITDA for the same period is NOK 6.6 million compared to NOK 14.1 million for the same period in 2015. The down turn in the oil service market with lowered spread rates is the main reason for the reduction.



Report 2nd QUARTER 2016

// FINANCING AND CAPITAL STRUCTURE

Total current assets at the end of the period were NOK 155.9 million, of which cash and cash equivalents amounted to NOK 26.5 million. Available liquidity, including NOK 10 million in unutilized credit facility, amounted to NOK 36.5 million, which is satisfactory. Receivables were NOK 129.5 million, which includes NOK 29 million in termination fee to Østensjø and Solstad that will be amortized over the next year (non-cash effect). Total non-interest bearing current liabilities were NOK 74.6 million.

As part of the restructuring leasing debt was reduced by NOK 26 million and off-balance sheet charter guarantees of NOK 87 million were cancelled using the cash deposits (NOK 53 million), a new bank loan (NOK 20 million) as well as issuing 15 million new shares (5 million shares to each vessel owner Østensjø and Solstad and 5 million shares in a private placement towards existing shareholders, board members and key employees). The total termination fee of NOK 76 million to Østensjø and Solstad has been capitalized and will be amortized over the rest of the charter party periods, NOK 47 million is classified as a long term receivable in the balance sheet with the remaining NOK 29 million classified as a current receivable.

Net cash flow from operating activities for first half 2016 of NOK -18.8 million includes NOK -10 million in effect from the charter restructuring. The underlying negative cash flow of NOK -8.8 million for first half is explained by seasonal build up of working capital.

The Group's equity is NOK 174.9 million, which represents 50.7 % of the total balance sheet. REACH has no committed capital expenditures for 2016 and onwards.

// THE COMPANY AND ITS SHAREHOLDERS

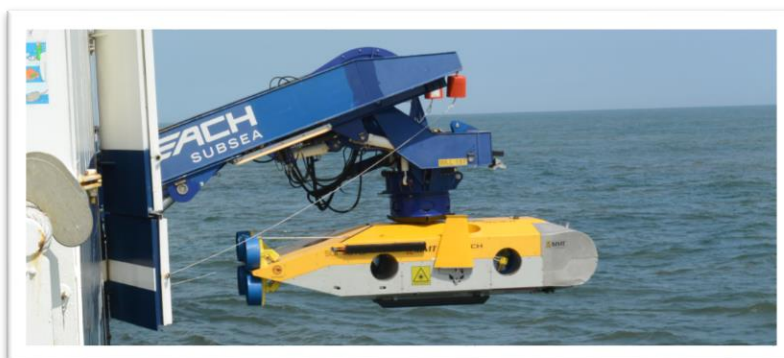
REACH Subsea ASA is listed on the Oslo Stock Exchange. The Company has per 30.06.16 issued 91.241.065 shares, of which the majority is owned by Norwegian shareholders.

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, a service provided by the Oslo Stock Exchange.

// NEWS AFTER QUARTER END

CONTRACTS

Reach Subsea has entered into short- and medium term contracts securing high utilization for vessels, personnel and offshore equipment in 3Q2016. Rates are according to market level.



Report 2nd QUARTER 2016

// 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 early 2017 and four (the *Normand Reach* and *Edda Fonn* WROVs) are fixed on contracts until late September 2016, thereafter thus exposed to the spot market. The Surveyor ROV, owned 50% by Reach Subsea, is currently on a contract lasting throughout the third quarter. Thereafter, the Surveyor is exposed to the spot market in the survey segment.

Of the vessels, *Edda Fonn* is exposed to the spot market from late September. The risk/reward on this vessel is shared 50 % with MMT Sweden according to a Joint Venture agreement. The Joint Venture commitment for *Stril Explorer* ended in April 2016, but was extended between MMT Sweden and Møkster outside the Joint Venture. One WROV and the jointly owned Surveyor Interceptor remains onboard the vessel. Marketing of *Normand Reach* towards existing and new clients continues, although Reach Subsea's 2016 charter commitment for the vessel ends in in September. The future charter commitment for the vessel is 180 days in 2017, 2018 and 100 days for 2019 at competitive charter-in rates with a profit share to the shipowner. As per 29.08.2016 no further firm work is secured for *Normand Reach*, although we are in discussions on potential commitments. Should these tenders not be concluded with a positive outcome, we will operate her in a challenging spot market.



Report 2nd QUARTER 2016

Tendering and sales activities remain high to secure good employment for the vessels in a challenging 2016 and beyond.

REACH now has a sustainable and flexible business model platform with low debt and a competitive cost base. The company aim to exploit the opportunities we currently see in the market.

// STATEMENT FROM THE BOARD AND CEO

We confirm, to the best of our knowledge, that the interim consolidated financial statements for the period 1 January to 30 June 2016, have been prepared in accordance with IAS 34 – Interim Financial Reporting, and give a true and fair view of the Group’s assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the Interim Financial Reporting includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

Haugesund, 29.08.2016

Kåre Johannes Lie
Chairman of the Board

Anders Onarheim
Board member

Sverre B. Mikkelsen
Board member

Merete Haugli
Board member

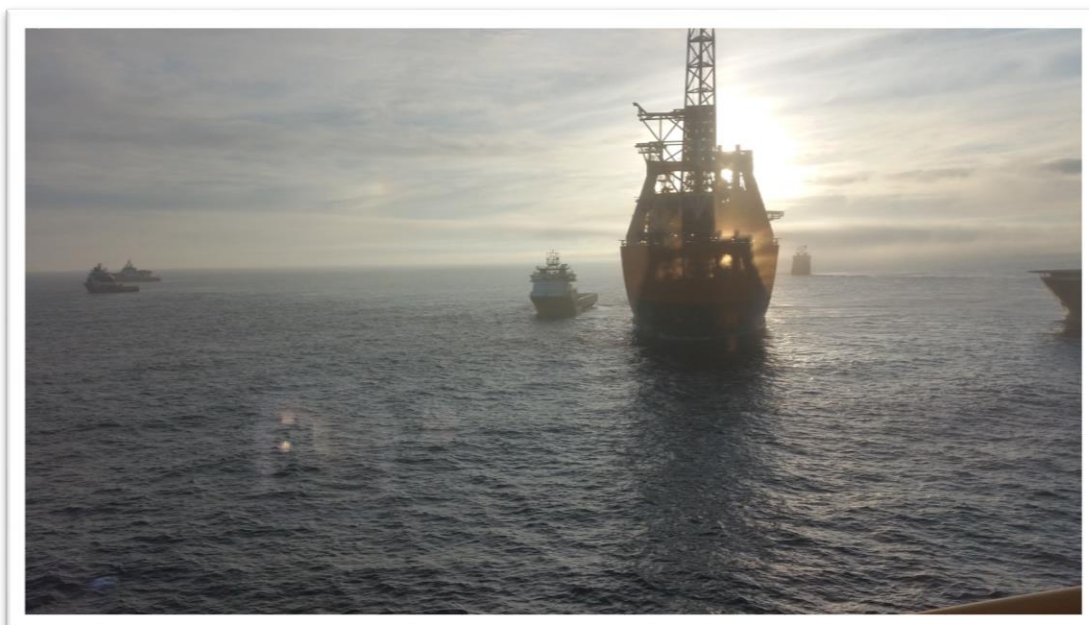
Martha Kold Bakkevig
Board member

Jostein Alendal
CEO

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Report 2nd QUARTER 2016

- Result 2Q 2016 -

Income statement (in NOK '000)	Note	2016	2015	2016	2015	2015
		01.04-30.06 <i>unaudited</i>	01.04-30.06 <i>unaudited</i>	01.01-30.06 <i>unaudited</i>	01.01-30.06 <i>unaudited</i>	01.01-31.12 <i>audited</i>
Operating income		89 517	219 439	175 479	306 042	634 369
Other operating income		0	-	0	0	0
Total operating income		89 517	219 439	175 479	306 042	634 369
Operating expenses		-76 932	-200 785	-168 879	-291 924	-599 981
EBITDA		12 585	18 654	6 600	14 118	34 388
Depreciation	3	-6 186	-6 498	-12 368	-10 493	-23 030
Operating result (EBIT)		6 400	12 156	-5 768	3 625	11 358
Net financial items		-2 842	-2 857	-4 424	-2 696	-2 790
Net result from affiliated companies		-298	-1 869	-1 209	-2 713	-7 173
Profit (loss) before taxes		3 260	7 430	-11 401	-1 784	1 394
Taxes	9	0	-	0	0	0
Profit (loss)		3 260	7 430	-11 401	-1 784	1 394
Comprehensive income						
Gain/loss on financial derivatives and cash flow hedges		0	1 712	0	-3	1 268
Comprehensive income items		0	1 712	0	-3	1 268
Total comprehensive income		3 260	9 142	-11 401	-1 788	2 663
Earnings per share		0,04	0,10	-0,15	-0,02	0,02
Diluted earnings per share		0,04	0,10	-0,15	-0,02	0,02

Report 2nd QUARTER 2016

- Balance Sheet 2Q 2016 -

Consolidated balance sheet (in NOK '000)	Note	2016 30.6. <i>unaudited</i>	2015 30.6. <i>unaudited</i>	2015 31.12. <i>audited</i>
Non-current assets				
Deferred tax assets	9	8 161	8 161	8 161
Investment in associated companies		5 621	2 648	6 829
Property, plant and equipment	3	128 388	162 132	140 415
Other long term receivables	6	47 021	53 000	53 000
Total non-current assets		189 191	225 941	208 405
Current assets				
Trade and other receivables	6	129 446	139 720	76 478
Cash and cash equivalents		26 460	30 117	54 370
Total current assets		155 906	169 837	130 848
Total assets		345 097	395 778	339 253
Equity				
Share capital	7	91 241	76 241	76 241
Share premium		81 036	67 806	67 806
Other equity	8	2 599	8 644	13 397
Total equity		174 876	152 691	157 444
Non-current liabilities				
Interest-bearing debt	4	75 948	112 010	94 601
Total non-current liabilities		75 948	112 010	94 601
Current liabilities				
Current portion of interest bearing debt	4	19 698	18 000	18 000
Other current liabilities		74 575	111 805	69 208
Derivatives		0	1 271	0
Total current liabilities		94 273	131 076	87 208
Total liabilities		170 221	243 086	181 809
Total equity and liabilities		345 097	395 778	339 253

Report 2nd QUARTER 2016

- Cash Flow 2Q 2016 -

	2016 01.01-30.06 <i>unaudited</i>	2015 01.01-30.06 <i>unaudited</i>	2015 01.01-31.12 <i>audited</i>
Cash flow statement			
Cash flow from operating activities			
Profit (loss) before tax	-11 401	-1 784	1 394
Net result from affiliated companies	1 209	2 713	7 173
Depreciation	12 368	10 493	23 030
Change in trade debtors	-4 269	-103 654	-40 929
Change in trade creditors	5 909	74 041	12 166
Change in other provisions	-23 264	3 119	22 916
Share option cost employees	604	302	604
Net cash flow from operating activities	-18 844	-14 769	26 356
Cash flow from investing activities			
Purchase of fixed assets	-341	-9 224	-65 973
Purchase of shares in associated companies	0	0	-8 642
Guarantees Charter-party	0	0	0
Net cash flow from investing activities	-341	-9 224	-74 615
Cash flow from financing activities			
Proceeds from issuance of ordinary shares	8 229	0	0
Proceeds from borrowings	0	0	0
Repayment of long term loans	-16 954	-5 636	42 883
Net cash flow from financing activities	-8 725	-5 636	42 883
Net change in cash and cash equivalents	-27 910	-29 629	-5 376
Cash and cash equivalents in the start of the period	54 370	59 746	59 746
Cash and cash equivalents in the end of the period	26 460	30 117	54 370

Report 2nd QUARTER 2016

- Equity 2Q 2016 -

Equity	Note	Share capital and share premium	Other equity	Total equity
Equity 31.12.15		144 047	13 397	157 444
Capital increase		30 000	0	30 000
Share issue cost		-1 771		-1 771
IFRS 2 Optionbased salary	8	0	604	604
Result for the period		0	-11 401	-11 401
Equity 30.06.16		172 277	2 599	174 876

Report 2nd QUARTER 2016

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 interims- 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	202	139	0	341
Disposals	0	0	0	0
Purchase cost 30.06.16	53 750	125 944	9 309	189 004
Accumulated depreciation 30.06.16	-19 259	-32 628	-8 729	-60 616
Net book value 30.06.16	34 491	93 316	581	128 388
Depreciation in the period	4 896	7 228	244	12 368
Expected useful life (years)	3-8	3-8	3	
Depreciation plan	Straight line	Straight line	Straight line	

// NOTE 4 - BORROWINGS

(NOK 1000)	30.06.2016	31.12.2015
Non-current borrowings		
Bank borrowings	21 000	8 400
Finance lease liabilities	54 948	86 201
Total non-current borrowing	75 948	94 601
Current borrowings		
Bank borrowings	10 500	4 200
Finance lease liabilities	9 198	13 800
Total current borrowings	19 698	18 000
Carrying amount		
Bank borrowings	31 500	12 600
Finance lease liabilities	64 147	100 001
Total carrying amount	95 647	112 601
Fair value		
Bank borrowings	31 500	12 600
Finance lease liabilities	64 147	100 001
Total fair value	95 647	112 601

The company had as of 30.06.2016 debt of NOK 95.6 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. Book value of pledged fixed assets as of 30.06.2016 amounted to NOK 128.4 million. All debt to credit institutions are in NOK

Report 2nd QUARTER 2016

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 - RECEIVABLES

Related to a restructuring of charter party liabilities, a termination fee of NOK 76 million to Østensjø and Solstad has been capitalized and will be amortized over the rest of the charter party periods, NOK 47 million is classified as a long term receivable in the balance sheet with the remaining NOK 29 million classified as a current receivable

// NOTE 7 - SHAREHOLDERS

20 largest shareholders as per 25.08.2016

ACCELLO PARTNERS I A	27 644 254	30 %
JOSO INVEST AS	7 214 589	8 %
JT INVEST AS	5 301 539	6 %
WEST SUPPLY II OPERA	5 000 000	5 %
NORMAND DRIFT AS	5 000 000	5 %
NORTH ENERGY CAPITAL	4 326 305	5 %
HOLME HOLDING AS	2 338 511	3 %
SKEISVOLL & CO AS	2 000 000	2 %
TEOMAR AS	2 000 000	2 %
A-Å INVEST AS	1 874 975	2 %
SMS INVESTERING AS	1 652 366	2 %
ONWAY AS	1 588 804	2 %
TEM INVEST AS	1 250 000	1 %
LION INVEST AS	1 130 000	1 %
BARRUS CAPITAL AS	1 112 160	1 %
INVICTA INVEST AS	909 179	1 %
CONSUS AS C/O RUNE LANDE	760 925	1 %
HAAVAAS BENT VALENTIN	650 050	1 %
THORHEIM HELGE	643 750	1 %
HAGLAND INVEST AS	625 000	1 %
Total 20 largest	73 022 407	80 %
Others	18 218 658	20 %
Total	91 241 065	100 %

// NOTE 8 - SHARE-BASED REMUNERATION

The Group has a stock option program with firm employees that were hired as per 01.09.2013. The 30.06 result in 2016 is reduced by NOK 0.15 million due to related costs. The remaining the stock option program expires in September 2016.

// 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 30.06.2016 NOK 8.2 million is capitalized.

// NOTE 10 - EVENTS AFTER QUARTER END

The Group has not had any major events after the balance date that affects the accounts.