

ADVANCE
PERFORM
ACHIEVE

3Q 2016

Reach Subsea ASA

QUARTERLY CONSOLIDATED REPORT

REACH
SUBSEA

Report 3rd QUARTER 2016

// HIGHLIGHTS

REACH had three vessels in operation during the quarter; *Normand Reach*, *Edda Fonn* and *Polar King* 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 3Q EBITDA before amortization of termination fee (see explanation under “Economy and Finance”) of NOK 8 million, giving a total EBITDA before amortization of termination fee for the first three quarters in 2016 of NOK 14.5 million. The third quarter activity level was all time high, however with continued weak rates. Transit and non-utilization days had a significant impact on the result.

REACH and MMT developed Surveyor Interceptor has had a breakthrough in the second and third quarter 2016. Performance is above expectations on speed as well as data quality, compared to any other ROV survey systems available in the market. Our clients are now recognizing the value of the Surveyor Interceptor’s performance.

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 3Q.

REACH has per today an order book of NOK 54.5 million, with the vast majority related to work for 4Q. Tender activity remains quite high for work in 2017, primarily for work after 1Q. Outstanding tender value remains at a stable level around NOK 1.4 billion.

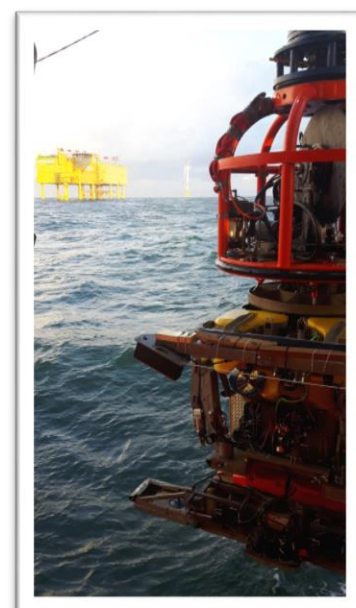
// OPERATIONS

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

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.

REACH vessel *Normand Reach*, hired on time charter from Solstad Offshore and equipped with Reach Subsea WROVs and offshore personnel, ended the two-year charter party in July. Thereafter the vessel worked in the short-term market with high utilization. End clients were major oil companies. The firm charter commitment for Reach Subsea for the vessel in 2016 ended in September, and will recommence in March/April 2017. *Normand Reach* will during the winter be available for work obtained by Solstad or Reach.

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 in the JV with MMT. *Edda Fonn* spent most of the quarter in the renewables sector under various spot contracts in the North Sea, Baltic and German regions, closely cooperated with MMT Sweden.



Report 3rd QUARTER 2016

REACH hired the subsea vessel *Polar King* for a subsea mining contract with NTNU in August due to no availability in own fleet. The vessel performed very well in this new market segment for Reach Subsea.

REACH has two WROVs and delivers all ROV-services onboard onboard *Viking Neptun*, a construction vessel on contracts with Technip through 1Q2017. The vessel has performed very well since delivery in March 2015 with excellent feedback reports from end clients of Technip. Following completion of work on the Quad project in October 2017, the vessel started transit for a contract in South East Asia.

REACH provided ROV services consisting of 1 WROV and offshore personnel to the vessel *Stril Explorer* in the third 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. The Surveyor Interceptor is mobilized onboard *Stril Explorer* and worked in the third quarter in the Black Sea region. The end-client was very satisfied with the performance of the Surveyor Interceptor and the WROV.



The Remotely Operated Vehicle (ROV) Surveyor Interceptor. It flies at 4-6 knots, 3-4 times as fast as conventional ROVs. It carries multibeam and sidescan sonar, sub-bottom profiler, HD cameras, powerful lights and a laser scanner. It was Black Sea MAP’s principal survey tool in 2016 and operated at depths down to 1800m (over a mile down). Photo credit: MMT



A shipwreck from the Ottoman period discovered in 300m of water. Many of its timbers are carved. This image is a photogrammetric model created from photographs taken by cameras on the ROV, rendered with light sources (model Rodrigo Pacheco-Ruiz). ©Black Sea Maritime Archaeology Project



A photogrammetric model of a Byzantine wreck discovered in 95m of water illustrating the Surveyor ROV passing over it gathering 3D data. Constructed from photographs taken by cameras on the ROV. (Model Rodrigo Pacheco-Ruiz). ©Black Sea Maritime Archaeology Project

Report 3rd QUARTER 2016

// ECONOMY AND FINANCE

Revenue for the quarter was NOK 86 million compared with NOK 193 million for 3Q2015. Until 4Q2015 *Viking Neptune* revenue 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 has performed as sub-contractor to Eidesvik, reducing the turnover, however with the same EBITDA-level.

Operating expense for the quarter was NOK 91.5 million including depreciation. Project-related expense represents the majority of the operating expense for the group. Total operating expense for 3Q2015 was NOK 189.6 million. The substantial Y/Y reduction in operating expenses is mostly explained by the above-mentioned change to the *Viking Neptune* contract format, but the charter restructuring executed earlier this year also explain some of the reduction. Having a market regulated cost base has been essential in obtaining new contracts for the vessels during the quarter.

Third quarter 2016 net loss was NOK 6.2 million (NOK 2.4 million profit for the same period last year) with an EBITDA before amortization of termination fee of NOK 7.9 million (NOK 9.5 million 3Q2015). EBITDA before amortization of termination fee recognizes the effect of renegotiated vessel charter rates for *Edda Fonn* and *Normand Reach*. As part of the restructuring of charter commitments in June 2016 a termination fee of NOK 76 million was paid out to Østensjø and Solstad. The termination fee has been capitalized and will be amortized over the rest of the charter party periods. This termination fee occurs as an amortized pre-payment in the operating cost, although it has no cash effect. EBITDA will during the amortization period be split in two: before and after amortization of termination fee.

Revenue for the three quarters of 2016 is NOK 261.4 million (NOK 498.8 million in 2015). The reduction compared to last year is mainly related to the restructuring of the *Viking Neptune* charter party. EBITDA before amortization of termination fee for the same period is NOK 14.5

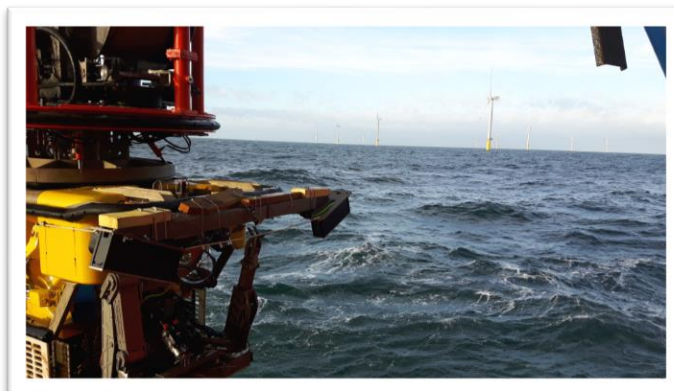


million compared to NOK 23.6 million for the same period in 2015. The down turn in the oil service market with lowered spread rates is the main reason for the reduction.

Report 3rd QUARTER 2016

// FINANCING AND CAPITAL STRUCTURE

Total current assets at the end of the period were NOK 151.7 million, of which cash and cash equivalents amounted to NOK 14.8 million. Available liquidity, including NOK 10 million in unutilized credit facility, amounted to NOK 24.8 million. Receivables were NOK 136.9 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 69.5 million.



As part of the restructuring of charter commitments a termination fee of NOK 76 million to Østensjø and Solstad was paid out. The termination fee has been capitalized and will be amortized over the rest of the charter party periods. AS per 30.09.16 NOK 40 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 the first nine months of 2016 was NOK -24.8 million, which includes NOK -10 million in effect from the charter restructuring. The underlying negative cash flow from operations of NOK -14.8 million is mainly explained by a NOK 20 million seasonal build-up of working capital.

The Group's equity is NOK 168.6 million, which represents 51.3 % of the total balance sheet. REACH has no committed capital expenditures for 2016 and onwards and no major debt maturities in 2016 or 2017.

// THE COMPANY AND ITS SHAREHOLDERS

REACH Subsea ASA is listed on the Oslo Stock Exchange. The Company has per 30.09.16 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 4Q2016. Rates are according to market level. The order book figure of NOK 54.5 million mentioned on page 2 take these contracts into account.

Report 3rd 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*, *Stril Explorer* and *Edda Fonn* WROVs) are fixed on contracts until early December 2016, thereafter thus exposed to the spot market. The Surveyor Interceptor, owned 50% by Reach Subsea, is exposed to the spot market in the survey segment.

Edda Fonn is exposed to the spot market from early December. The risk/reward on this vessel as well as the WROV onboard *Edda Fonn* and *Stril Explorer* 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 on a "pay as you earn" basis. "Warm" lay up is being considered for the winter season.

Marketing of *Normand Reach* towards existing and new clients continues, although Reach Subsea's 2016 charter commitment for the vessel ended 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 28.11.2016 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.

Tendering and sales activities remain high to secure good utilisation for vessels and equipment in a market that will continue to be challenging in 2017.

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.

Haugesund, 29.11.2016

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

Contact:

Jostein Alendal (CEO)
+47 92 88 04 12

Birgitte Wendelbo Johansen (CFO)
+47 99 45 12 79

Report 3rd QUARTER 2016

- Result 3Q 2016 -

Income statement (in NOK '000)	Note	2016	2015	2016	2015	2015
		01.07-30.09 <i>unaudited</i>	01.07-30.09 <i>unaudited</i>	01.01-30.09 <i>unaudited</i>	01.01-30.09 <i>unaudited</i>	01.01-31.12 <i>audited</i>
Operating income		85 962	192 738	261 441	498 780	634 369
Other operating income		0	0	0	0	0
Total operating income		85 962	192 738	261 441	498 780	634 369
Operating expenses		-78 018	-183 256	-246 897	-475 180	-599 981
EBITDA before amortized Termination Fee		7 944	9 482	14 543	23 600	34 388
Amortized Termination Fee		-7 262		-7 262		
EBITDA after amortized Termination Fee		682	9 482	7 282	23 600	34 388
Depreciation	3	-6 192	-6 282	-18 560	-16 775	-23 030
Operating result (EBIT)		-5 510	3 200	-11 279	6 825	11 358
Net financial items		-1 297	-467	-5 722	-3 163	-2 790
Net result from affiliated companies		606	-356	-602	-3 069	-7 173
Profit (loss) before taxes		-6 201	2 377	-17 602	594	1 394
Taxes	9	0	0	0	0	0
Profit (loss)		-6 201	2 377	-17 602	594	1 394
Comprehensive income						
Gain/loss on financial derivatives and cash flow hedges		0	1 271	0	1 268	1 268
Comprehensive income items		0	1 271	0	1 268	1 268
Total comprehensive income		-6 201	3 649	-17 602	1 862	2 663
Earnings per share		-0,08	0,03	-0,23	0,01	0,02
Diluted earnings per share		-0,08	0,03	-0,23	0,01	0,02

Report 3rd QUARTER 2016

- Balance Sheet 3Q 2016 -

Consolidated balance sheet (in NOK '000)	Note	2016 30.9. <i>unaudited</i>	2015 30.9. <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		6 227	2 292	6 829
Property, plant and equipment	3	122 674	149 425	140 415
Other long term receivables	6	39 756	53 000	53 000
Total non-current assets		176 819	212 878	208 405
Current assets				
Trade and other receivables	6	136 926	175 352	76 478
Cash and cash equivalents		14 755	30 972	54 370
Total current assets		151 681	206 324	130 848
Total assets		328 500	419 201	339 253
Equity				
Share capital	7	91 241	76 241	76 241
Share premium		80 919	67 806	67 806
Other equity	8	-3 602	12 445	13 397
Total equity		168 558	156 492	157 444
Non-current liabilities				
Interest-bearing debt	4	70 750	99 990	94 601
Total non-current liabilities		70 750	99 990	94 601
Current liabilities				
Current portion of interest bearing debt	4	19 698	18 000	18 000
Other current liabilities		69 493	144 719	69 208
Derivatives		0	0	0
Total current liabilities		89 192	162 719	87 208
Total liabilities		159 942	262 709	181 809
Total equity and liabilities		328 500	419 201	339 253

Report 3rd QUARTER 2016

- Cash Flow 3Q 2016 -

	2016 01.01-30.09 <i>unaudited</i>	2015 01.01-30.09 <i>unaudited</i>	2015 01.01-31.12 <i>audited</i>
Cash flow statement			
Cash flow from operating activities			
Profit (loss) before tax	-17 602	594	1 394
Net result from affiliated companies	602	3 069	7 173
Depreciation	18 560	16 775	23 030
Change in trade debtors	-14 771	-138 166	-40 929
Change in trade creditors	-459	102 309	12 166
Change in other provisions	-11 690	6 647	22 916
Share option cost employees	604	453	604
Net cash flow from operating activities	-24 756	-8 320	26 356
Cash flow from investing activities			
Purchase of fixed assets	-820	-11 938	-65 973
Purchase of shares in associated companies	0	0	-8 642
Guarantees Charter-party	0	0	0
Net cash flow from investing activities	-820	-11 938	-74 615
Cash flow from financing activities			
Proceeds from issuance of ordinary shares	8 113	0	0
Proceeds from borrowings	0	0	0
Repayment of long term loans	-22 152	-8 516	42 883
Net cash flow from financing activities	-14 040	-8 516	42 883
Net change in cash and cash equivalents	-39 615	-28 774	-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	14 755	30 972	54 370

Report 3rd QUARTER 2016

- Equity 3Q 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		-1 887		-1 887
IFRS 2 Optionbased salary	8	0	604	604
Result for the period		0	-17 602	-17 602
Equity 30.09.16		172 160	-3 602	168 558

Report 3rd 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	576	243	0	820
Disposals	0	0	0	0
Purchase cost 30.09.16	54 125	126 048	9 309	189 482
Accumulated depreciation 30.09.16	-21 727	-36 230	-8 851	-66 808
Net book value 30.09.16	32 397	89 818	459	122 674
Depreciation in the period	7 364	10 830	367	18 560
Expected useful life (years)	3-8	3-8	3	
Depreciation plan	Straight line	Straight line	Straight line	

Report 3rd QUARTER 2016

// NOTE 4 - BORROWINGS

(NOK 1000)	30.09.2016	31.12.2015
Non-current borrowings		
Bank borrowings	18 375	8 400
Finance lease liabilities	52 375	86 201
Total non-current borrowing	70 750	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	28 875	12 600
Finance lease liabilities	61 573	100 001
Total carrying amount	90 448	112 601
Fair value		
Bank borrowings	28 875	12 600
Finance lease liabilities	61 573	100 001
Total fair value	90 448	112 601

The company had as of 30.09.2016 debt of NOK 90.5 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 30.09.2016 amounted to NOK 122.7 million. All debt to credit institutions are in NOK.

// 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. At 30 September 2016 NOK 40 million is classified as long term receivable in the balance sheet with the remaining NOK 29 million as a current receivable.

Report 3rd QUARTER 2016

// NOTE 7 - SHAREHOLDERS

20 largest shareholders as per 22.11.2016

ACCELLO PARTNERS I AS	27 644 254	36,3 %
NORTH ENERGY CAPITAL AS	8 945 319	11,7 %
JOSO INVEST AS	7 214 589	9,5 %
JT INVEST AS	5 301 539	7,0 %
NORMAND DRIFT AS	5 000 000	6,6 %
HOLME HOLDING AS	2 429 011	3,2 %
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	1 588 804	2,1 %
TEM INVEST AS	1 250 000	1,6 %
LION INVEST AS	1 157 813	1,5 %
BARRUS CAPITAL AS	1 112 160	1,5 %
INVICTA INVEST AS	909 179	1,2 %
CONSUS AS	760 925	1,0 %
HAAVAAS	650 050	0,9 %
THORHEIM	643 750	0,8 %
HAGLAND INVEST AS	625 000	0,8 %
DØVING INVEST AS	584 008	0,8 %
Total 20 largest	73 343 742	96,2 %
Others	2 897 323	3,8 %
Total	76 241 065	100,0 %

// NOTE 8 - SHARE-BASED REMUNERATION

The stock option program expired in September 2016. The Board has decided to establish a new stock option program for leading employees.

// 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 30.09.2016 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.