

ADVANCE
PERFORM
ACHIEVE

4Q 2016

Reach Subsea ASA

QUARTERLY CONSOLIDATED REPORT

REACH
SUBSEA

Report 4th QUARTER 2016

// HIGHLIGHTS

REACH had two vessels in operation during the quarter; *Normand Reach* and *Edda Fonn* as well as all six WROV-systems 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 4Q EBITDA before amortization of termination fee (see explanation under “Economy and Finance”) of NOK 10.5 million, giving a total EBITDA before amortization of termination fee for the full year 2016 of NOK 25.1 million. The fourth quarter activity level was higher than expected for the season.

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 4Q.

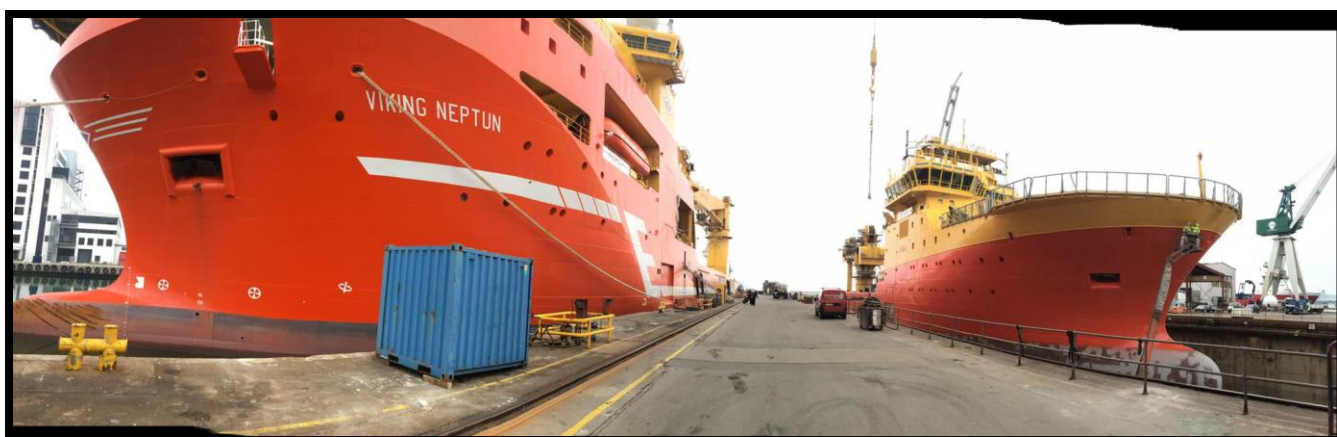
REACH has per today a firm order book of NOK 35 million, with the vast majority related to work in January-April 2017. Tender activity is increasing for work in 2017, primarily for work after 1Q. Outstanding tender value remains at a stable level around NOK 1.5 billion.

// 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 (MMT).

REACH has not had any serious incidents during the quarter, which support our objective that the right procedures, well trained personnel and high quality 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 firm commitment period for 2016 in September. Thereafter the vessel worked in the renewables market for the JV setup between MMT and Reach Subsea. The firm charter commitment for Reach Subsea for the vessel in 2017 is covered due to a direct contract between Solstad Offshore and McDermott in Australia.



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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 cables and renewables sector under various spot contracts in the North Sea, Baltic and German regions, closely cooperated with MMT.

REACH has two WROVs and delivers all ROV-services onboard *Viking Neptun*, a construction vessel on contracts with Technip lasting until 1Q2017. The vessel has performed very well since delivery in March 2015 with excellent feedback reports from end clients of Technip.

REACH provided ROV services consisting of 1 WROV and offshore personnel to the vessel *Stril Explorer* in the fourth quarter of 2016. *Stril Explorer* is a survey vessel on a charter contract from Møkster to Reach Subsea's JV-partner MMT. 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*. The vessel was in the fourth quarter located in the Baltic area working for clients in both the oil & gas and the renewables market.

// ECONOMY AND FINANCE

Revenue for the quarter was NOK 66.1 million compared with NOK 135.6 million for 4Q2015. Until 4Q2015 *Viking Neptun* 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 69.1 million including depreciation and amortization of termination fee. Project-related expense represents the majority of the operating expense for the group. Total operating expense for 4Q2015 was NOK 131.1 million. The substantial Y/Y reduction in operating expenses is mostly explained by the above-mentioned change to the *Viking Neptun* contract format, but the charter restructuring executed in May/June 2016 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.

Fourth quarter 2016 EBITDA before amortization of termination fee was NOK 10.5 million (NOK 10.8 million for 4Q2015) with a net loss of NOK 5.6 million (NOK 0.8 million net profit for 4Q2015). 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



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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 full year 2016 was NOK 327.5 million (NOK 634.4 million in 2015). The reduction compared to last year is mainly related to the change to the *Viking Neptun* contract format. EBITDA before amortization of termination fee for 2016 was NOK 25.1 million compared to NOK 34.4 million for 2015. The down turn in the oil service market with lowered spread rates, and the high charter-in rates in the period prior to the *Normand Reach* and *Edda Fonn* charter restructuring in May/June 2016, are the main reasons for the reduction.

Going forward, the company will in its reporting present revenues and EBITDA before amortization of termination fee for its two main segments; Oil & Gas and Renewable/Other. Oil & Gas entails revenues from survey, IMR and light construction projects where the end client is an oil & gas company. Renewable/Other entails revenues from survey, IMR and light construction projects where the end client is a non-oil & gas company (typically a company in the renewable energy sector).

For 2016, Oil & Gas revenues constituted 62% while Renewable/Other constituted 38% of total revenues. By comparison, for 2015 Oil & Gas revenues were 77 % while Renewable/Other constituted 23 % of total revenues.

// FINANCING AND CAPITAL STRUCTURE

Total current assets at the end of the period were NOK 135.2 million, of which cash and cash equivalents amounted to NOK 30.6 million. Available liquidity, including NOK 10 million in unutilized credit facility, amounted to NOK 40.6 million. Receivables were NOK 104.7 million, which includes NOK 28.5 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 50.4 million.

As part of the restructuring of charter commitments a termination fee of NOK 76 million to Østensjø and Solstad was paid out in 2Q2016. The termination fee has been capitalized and will be amortized over the rest of the charter party periods. As per 31 December 2016 remaining capitalized termination fee amounts to NOK 61.5 million of which NOK 33 million is classified as a long term receivable with the remaining NOK 28.5 million classified as a current receivable.

Net cash flow from operating activities for the year 2016 was NOK -3.2 million, which includes NOK -10 million in one-off effect from the charter restructuring in May/June 2016. Thus, the underlying cash flow from operating activities was NOK 6.8 million, compared with NOK 26.4 million for 2015. The



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decrease in operating cash flow was partly due to an increase in net working capital and partly due to the reduced EBITDA.

13 January 2017 Reach Subsea conducted a private placement issuing 48,609,900 new shares at an issue price of NOK 1.75 per share. Net proceeds from the issue (after payment off transaction related cost) is estimated to be NOK 79 million. A subsequent repair offering approved by the extraordinary general meeting on 7 February 2017, may result in additional net proceeds of up to NOK 15 million.

The Group’s equity as of 31 December 2016 is NOK 163 million, which represents 55 % of the total balance sheet. REACH has no committed capital expenditures or major debt maturities for 2017 and onwards.

// THE COMPANY AND ITS SHAREHOLDERS

REACH Subsea ASA is listed on the Oslo Stock Exchange. The Company has per 31.12.16 issued 91,241,065 shares, of which the majority is owned by Norwegian shareholders.

An extraordinary general meeting 7 February 2017 approved the issuance of 48,609,900 new shares related to the private placement conducted in January 2017. The total number of shares issued after the transaction is 139,850,965. In addition, The Board of Directors was granted an authorization to issue up to 8,571,500 shares in a subsequent repair offering directed towards eligible 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

REACH has entered into short- and medium term contracts securing satisfactory utilization for vessels, personnel and offshore equipment in 1Q2017. The order book figure of NOK 35 million mentioned on page 2 take these contracts into account. Furthermore, our 2017 commitment on *Normand Reach* has been covered through Solstad Offshore’s contract with McDermott in Australia.

As mentioned above, Reach Subsea ASA conducted a private placement 13 January 2017 issuing 48,609,900 new shares approved by an extraordinary general



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meeting 7 February 2017. Net proceeds from the Private Placement will be used for general corporate purposes as well as new opportunities that may arise, such as acquisition of ROVs and associated equipment and working capital for mobilization of potential new subsea spreads (vessel, ROVs and equipment).

Reach Subsea has entered into a charter agreement for the vessel *Havila Subsea*. The vessel will be used for Reach Subsea's own subsea operations with two ROVs onboard. The charter agreement has a "pay as you earn" structure with limited firm commitment for Reach Subsea.

// MARKETS AND PROSPECTS

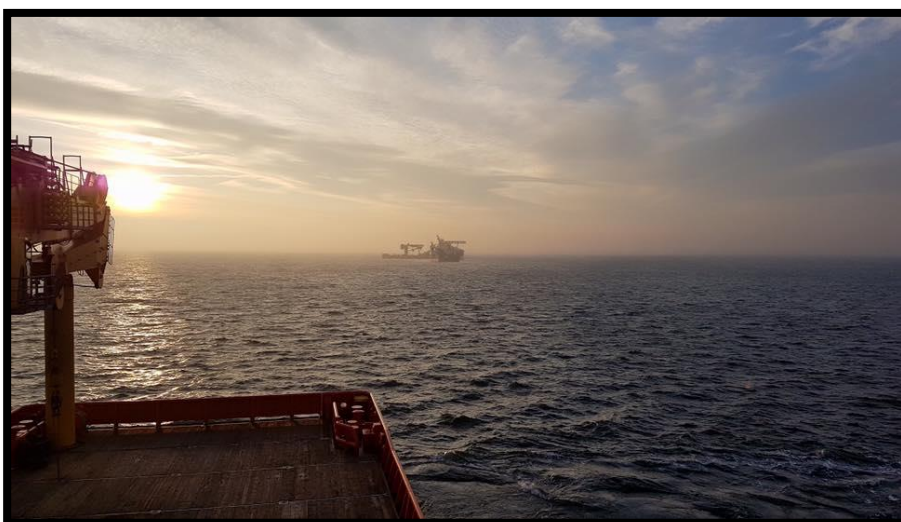
REACH's strategy is to be a full service provider within subsea service. The Group's management and board have extensive and long experience in the segment.

REACH currently markets and operates five subsea spreads (vessel, ROVs, and personnel) alone or together with partners, of which three entails

spreads where Reach Subsea has little or no vessel commitment (co-operation agreement with shipowner, or "pay as you earn" charter structures). The remaining two spreads are on vessels where Reach Subsea have fixed charter commitments, but where the commitments have been restructured to a level that gives the company a competitive cost base. The combination of a lean and agile organization, and the attractive cost structure of our five subsea spreads, gives Reach a flexible and competitive cost base tailored to cope with continued weak markets.

In the absence of fixed long-term contracts all our subsea spreads are operated in the short to medium term project market. The company expects a challenging 2017 subsea service market, much like 2016, although there are some signs of improved visibility in terms both of recent contract awards and LOIs, and in terms of a generally higher tender activity. The Board is pleased to note that all five subsea spreads have secured fairly good utilisation for Q1, which traditionally is the weakest quarter for our business.

Beyond Q1 we have covered the entire 2017 vessel commitment for *Normand Reach* through Solstad Offshore's contract with McDermott in Australia, where Reach Subsea will provide the ROV services. The *Edda Fonn* and *Stril Explorer* spreads, marketed through the JV with MMT Sweden, both have LOIs and contract leads that gives hope of good utilisation through Q2 and Q3.



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The *Havila Subsea* spread, which will enter service from early April 2017, and the *Viking Neptun* spread, currently working for Technip in Indonesia, have no firm work secured from Q2 and onwards. Reach Subsea has historically been successful in achieving high utilisation for subsea spreads exposed to the short term market. Although no guarantees can be given that history will repeat itself, the Board has confidence in the organisation’s ability to find new work. Also, the company is not exposed to vessel costs for any off-hire days on these two particular spreads.

Looking beyond 2017, the remaining charter commitment for REACH is 180 days in 2018 and 100 days in 2019 for the *Normand Reach*, which is at competitive charter-in rates with a profit share to the shipowner.

With the NOK 85 million private placement recently completed, coupled with a flexible business model, the company aim to exploit attractive growth opportunities we currently see in the market.

Haugesund, 15.02.2017

Kåre Johannes Lie
Chairman of the Board

Anders Onarheim
Vice-Chairman of the Board

Sverre B. Mikkelsen
Board member

Merete Haugli
Board member

Martha Kold Bakkevig
Board member

Jostein Alendal
CEO

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- Result 4Q 2016 -

Income statement (in NOK '000)	Note	2016	2015	2016	2015
		01.10-31.12 <i>unaudited</i>	01.10-31.12 <i>unaudited</i>	01.01-31.12 <i>unaudited</i>	01.01-31.12 <i>unaudited*</i>
Operating income		66 052	135 589	327 493	634 369
Other operating income		0	0	0	0
Total operating income		66 052	135 589	327 493	634 369
Operating expenses		-55 532	-124 801	-302 429	-599 981
EBITDA before amortized termination fee		10 521	10 788	25 064	34 388
Amortized termination fee		-7 267	-	-14 529	0
EBITDA after amortized termination fee		3 254	10 788	10 535	34 388
Depreciation	3	-6 254	-6 255	-24 814	-23 030
Operating result (EBIT)		-3 000	4 533	-14 279	11 358
Net financial items		-1 654	373	-7 376	-2 790
Net result from affiliated companies		-955	-4 104	-1 557	-7 173
Profit (loss) before taxes		-5 610	800	-23 212	1 394
Taxes	9	0	0	0	0
Profit (loss)		-5 610	800	-23 212	1 394
Comprehensive income					
Gain/loss on financial derivatives and cash flow hedges		0	-	0	1 268
Comprehensive income items		0	-	0	1 268
Total comprehensive income		-5 610	800	-23 212	2 663
Earnings per share		-0,06	0,01	-0,28	0,02
Diluted earnings per share		-0,06	0,01	-0,28	0,02

*)Change of APM (EBITDA after amortized termination fee) was done after the audit of accounts in 2015

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- Balance Sheet 4Q 2016 -

Consolidated balance sheet (in NOK '000)	Note	2016 31.12. <i>unaudited</i>	2015 31.12. <i>audited</i>
Non-current assets			
Deferred tax assets	9	8 161	8 161
Investment in associated companies		5 272	6 829
Property, plant and equipment	3	116 916	140 415
Other long term receivables	6	33 000	53 000
Total non-current assets		163 349	208 405
Current assets			
Trade and other receivables	6	104 654	76 478
Cash and cash equivalents		30 586	54 370
Total current assets		135 240	130 848
Total assets		298 590	339 253
Equity			
Share capital	7	91 241	76 241
Share premium		80 919	67 806
Other equity	8	-9 211	13 397
Total equity		162 949	157 444
Non-current liabilities			
Interest-bearing debt	4	64 227	94 601
Total non-current liabilities		64 227	94 601
Current liabilities			
Current portion of interest bearing debt	4	21 000	18 000
Other current liabilities		50 414	69 208
Derivatives		0	0
Total current liabilities		71 414	87 208
Total liabilities		135 641	181 809
Total equity and liabilities		298 590	339 253

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- Cash Flow 2016 -

Cash flow statement	2016 01.01-31.12 <i>unaudited</i>	2015 01.01-31.12 <i>audited</i>
Cash flow from operating activities		
Profit (loss) before tax	-23 212	1 394
Net result from affiliated companies	1 557	7 173
Depreciation	24 814	23 030
Change in trade debtors	-567	-40 929
Change in trade creditors	-9 309	12 166
Change in other provisions	2 905	22 916
Share option cost employees	604	604
Net cash flow from operating activities	-3 208	26 353
Cash flow from investing activities		
Purchase of fixed assets	-1 314	-65 973
Purchase of shares in associated companies	0	-8 642
Guarantees Charter-party	0	0
Net cash flow from investing activities	-1 314	-74 615
Cash flow from financing activities		
Proceeds from issuance of ordinary shares	8 113	0
Proceeds from borrowings	0	42 883
Repayment of long term loans	-27 374	0
Net cash flow from financing activities	-19 261	42 883
Net change in cash and cash equivalents	-23 784	-5 379
Cash and cash equivalents in the start of the period	54 370	59 746
Cash and cash equivalents in the end of the period	30 586	54 370

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- Equity 4Q 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 Option based salary	8	0	604	604
Result for the period		0	-23 212	-23 212
Equity 31.12.16		172 160	-9 211	162 949

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// 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	728	538	49	1 314
Disposals	0	0	0	0
Purchase cost 31.12.16	54 276	126 343	9 358	189 977
Accumulated depreciation 31.12.16	-24 233	-39 854	-8 974	-73 062
Net book value 31.12.16	30 043	86 488	385	116 916
Depreciation in the period	9 870	14 454	489	24 814
Expected useful life (years)	3-8	3-8	3	
Depreciation plan	Straight line	Straight line	Straight line	

// NOTE 4 - BORROWINGS

(NOK 1000)	31.12.2016	31.12.2015
Non-current borrowings		
Bank borrowings	15 750	8 400
Finance lease liabilities	48 477	86 201
Total non-current borrowing	64 227	94 601
Current borrowings		
Bank borrowings	10 500	4 200
Finance lease liabilities	10 500	13 800
Total current borrowings	21 000	18 000
Carrying amount		
Bank borrowings	26 250	12 600
Finance lease liabilities	58 977	100 001
Total carrying amount	85 227	112 601
Fair value		
Bank borrowings	26 250	12 600
Finance lease liabilities	58 977	100 001
Total fair value	85 227	112 601

The company had as of 31.12.2016 debt of NOK 85.2 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 31.12.2016 amounted to NOK 116.9 million. All debt to credit institutions are in NOK

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// 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 31 December 2016 NOK 14,5 million have been amortized, 33 million is classified as long term receivable in the balance sheet with the remaining NOK 28,5 million as a current receivable.

// NOTE 7 - SHAREHOLDERS

20 largest shareholders as per 15.02.2017

REACH SUBSEA ASA		
ACCELLO PARTNERS I AS	40 109 711	28,7 %
EIKA NORGE	10 285 650	7,4 %
JOSO INVEST AS	7 564 589	5,4 %
JT INVEST AS	5 529 539	4,0 %
NORMAND DRIFT AS	5 000 000	3,6 %
STAFF-GRUPPEN	4 605 309	3,3 %
HOLME HOLDING AS	3 039 111	2,2 %
SHIPS AS TUDOR	2 857 100	2,0 %
UBS AG London	2 424 600	1,7 %
CORUNA AS	2 097 877	1,5 %
SKEISVOLL & CO AS	2 000 000	1,4 %
TEOMAR AS	2 000 000	1,4 %
A-Å INVEST AS	1 874 975	1,3 %
GLUTEUS MEDIUS AS	1 698 517	1,2 %
SMS INVESTERING AS	1 652 366	1,2 %
MACAMA AS	1 578 446	1,1 %
TEM INVEST AS	1 250 000	0,9 %
BARBINVEST AS	1 248 517	0,9 %
CASTEL AS	1 248 517	0,9 %
LION INVEST AS	1 180 000	0,8 %
Total 20 largest	99 244 824	71,0 %
Others	40 606 141	29,0 %
Total	139 850 965	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.

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// 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 31.12.2016 NOK 8,2 million is capitalized.

// NOTE 10 - EVENTS AFTER QUARTER END

Reach Subsea ASA completed a private placement 13.01.2017, issuing 48,609,900 new shares, each with a par value at NOK 1 and a issue price of NOK 1.75.

// NOTE 11 - SEGMENT INFORMATION

The business is divided into two segments; «Oil and gas (includes survey and IMR projects for oil companies)» and «Renewables and other (includes survey and IMR projects within offshore wind, tidalenergy, subsea mining and seabed exploration)».

	2016	2015	2016
	01.10-31.12	01.10-31.12	01.01-31.12
Revenue			
Oil & Gas	20 583	86 428	202 461
Renewable / other	45 469	49 161	125 032
Total	66 052	135 589	327 493
Operating expense			
Oil & Gas	15 904	81 641	185 911
Renewable / other	39 627	43 160	116 518
Total	55 531	124 801	302 429
EBITDA before amortized termination fee			
Oil & Gas	4 679	4 787	16 550
Renewable / other	5 842	6 001	8 514
Total	10 521	10 788	25 064