Oceanteam ASA
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OUR REFERENCE	YOUR REFERENCE		DATE
16/8907			13.06.2017

Review of financial reporting

1. Introduction

Finanstilsynet has reviewed certain aspects of the 2015 consolidated financial statements of Oceanteam ASA ("OTS"), in accordance with the Securities Trading Act section 15-1 subsection (3). The review focused primarily on the Company's presentation of the revaluation deficit in profit and loss with accompanying notes and the disclosure of revenues. Reference is made to previous correspondence in the matter, most recently OTS' response letter of 1 February 2017.

The Company's operations are divided into two business areas, Shipping and Solutions. The Shipping segment charters out a fleet of CSVs (Construction Service Vessels) and FSVs (Fast Support Vessels). At year-end 2015 the CSV fleet consisted of 3 vessels. Two vessels were owned 50%, whereby one was consolidated (Southern Ocean) and one was accounted for using the equity method (Bourbon Oceanteam 101). The third CSV vessel was a pipe lay vessel (North Ocean 105) owned 25% also accounted for using the equity method. In addition OTS owned 2 FSV's (Mantarraya and Tiburon). The Solutions segment delivers a wide range of offshore services, with particular expertise in demountable turntable systems.

Below is a summary of the main topics addressed by the review. The company has not issued its 2016 financial statements within the deadline set by the Securities Trading Act. Finanstilsynet will follow up that the topics covered by this letter have been sufficiently incorporated in the financial statements for 2016.

2. Auditors qualified opinion in the audit report for 2015

2.1 Impairment testing of goodwill

The Company's auditor had taken a qualified opinion in its audit report for 2015 regarding the valuation of goodwill, due to lack of sufficient and appropriate evidence to support the valuation. Finanstilsynet requested OTS to review the impairment tests and provide sufficient evidence to support the assumptions taken in the impairment testing for year-end 2015 in order for the company's auditor to be able to do a sufficient audit of the carrying value of goodwill. As a consequence of this review OTS decided to take an impairment of MUSD 3,7. The impairment loss was disclosed as a correction according to IAS 8 in the Company's Q4 2016 financial report. Finanstilsynet notes this for the record.

3. Use of revaluation model

3.1 Presentation of revaluation deficit in profit and loss

OTS uses the revaluation model in IAS 16 *Property, Plant and Equipment* for the Company's CSV vessels. The vessels are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and impairment losses. IAS 16.39 and 40 sets the conditions for when a change in the revalued amount of an asset should be recognized in other comprehensive income (OCI) or in profit and loss. An increase in the carrying amount of the revalued item shall be recognized in OCI, unless it is a reversion of a previous revaluation decrease taken over profit and loss. Correspondingly, should a reduction in carrying amount be recognized over profit and loss, unless it reduced any existing credit balance from a previous revaluation surplus, in which case the decrease should be recognized in OCI.

In 2015 OTS had a decrease in the revaluation values for vessels that required to be recognized over profit and loss. In the annual report for 2015 this revaluation deficit was presented on a separate line after "Net result" in the consolidated statement of profit and loss.

IAS 1 *Presentation of Financial Statements* paragraph 82 specifies the required line items in the profit and loss section, and according to IAS 1.85 shall additional line items, headings and sub-totals be presented when such information is relevant to an understanding of the entity's financial performance. Further, it is in IAS 1 Basis for conclusion no. 56 stated that it would be misleading if items of an operating nature were excluded from the results of operating activities. It is Finanstilsynet's view that revaluation of an asset that is being used in the company's operation with effect over profit and loss, is an operating item in nature, and should be treated consistently with how impairment charges and reversals are presented under the cost model. Hence, the revaluation deficit should have been presented as a line item included within operating profit.

OTS has agreed to change the presentation, and in its Q3 2016 report the revaluation item was included as a separate line under operating items.

3.2 Disclosure requirements according to IFRS 13Fair Value Measurement

According to IFRS 13.93 it is required to disclose additional information for recurring fair value measurements categorized within level 3 of the fair value hierarchy. In Finanstilsynet's view OTS did not disclose sufficient or detailed enough information as required by the following sub-paragraphs:

IFRS 13.93 d)

- The description of valuation technique was not company specific, and did not describe with sufficient level of detail how the fair value of the vessels actually was estimated, being a mix of broker estimate and estimated value based on actual contracts.

– OTS did not disclosed quantitative information about significant inputs to the model, apart from WACC and economical life time of the vessel. Finanstilsynet is of the opinion that day rates, opex and utilization for the vessel are significant inputs to the model. As illustrated in example 17 in IFRS 13 Illustrative examples the information can be given as intervals.

IFRS 13.93 e)

– OTS included reconciliation for recurring fair value measurement from the opening balance to the closing balance as required. However the reconciliation was presented in total for the consolidated vessel and the vessels owned by associates and Joint ventures. The reconciliation should be made for each class of asset, and so should be presented with separate lines. As two out of three vessels are accounted for using the equity method, a presentation of all vessels combined with a total for all vessels can make it difficult for users to relate and reconcile the items and amounts presented to other parts of the financial statement. In such circumstances it is Finanstilsynet's view that the reconciliation should be presented with separate lines for the consolidated vessel and the vessels owned by associates and Joint ventures.

IFRS 13.93 h) i

– A narrative description of the sensitivity of fair value measurements to changes in unobservable inputs was missing.

OTS has in its reply letter agreed to improve the disclosures in order to fully comply with the requirements in IFRS 13.93 in future financial reporting.

4. Revenue disclosures

OTS disclosed total revenues and revenue per segment (Shipping and Solutions) in the annual report for 2015. An entity's revenue disclosures are important in ensuring that users of the entity's financial reporting gain a correct understanding of its business. According to IFRS 8 *Operating Segments* paragraph 32, an entity shall report revenues for each product or service. According to the Company's description of revenue recognition principles OTS's revenues comprises of freight revenues from time charter- and bare boat charter contracts for two different types of vessels, lease from equipment rental, engineering services and from construction contracts.

OTS initially expressed concerns about disclosing more detailed information due to potentially competitive harm for the shipping segment, and for Solutions it was argued that the services and products were integrated and sold as projects, and so it would not be meaningful to separate revenues into different revenue streams.

Shipping segment:

OTS has defined CSVs and FSVs as different asset classes as they do not have similar nature and use. The Company has applied the revaluation model for the CSVs and the cost model for FSVs. Finanstilsynet was of the opinion that since the vessels are treated as different classes of assets

under IAS 16, revenues from these assets must also be disclosed separately to meet the requirements in IFRS 8.32.
According to IFRS 8.BC44, IASB has considered a competitive harm exemption to be inappropriate. It is also so that the information was indirectly available for the public through the financial reporting of Oceanteam Bourbon 4 AS (the special purpose vehicle owning the consolidated vessel), hence Finanstilsynet did not find it appropriate to put any emphasis on the competitive harm argument.

Solutions segment:
Finanstilsynet observed that OTS in its annual and quarterly reporting commented on detailed projects and deliveries that the company was undertaking. Although the deliveries were sold as projects with different integrated components, Finanstilsynet was of the opinion that the deliveries were different product/services that should be disclosed according to IFRS 8.32. This was further supported by the information given in the note - Summary of significant accounting policies in the 2015 annual report, where OTS referred to several components of revenue within Solutions. In the 19th Extracts from the EECS database for Enforcement decision no. 0116-07 a similar issue was examined. In the enforcement decision the issuer was ordered to disclose additional revenue components, with reference to IAS 18.35b and IFRS 8.32, so that the different components of revenue are reflected. Finanstilsynet also refers to IFRIC 4.12-15 by analogy, where integrated leases and services are required to be separated. Hence, the argument that all revenue generation is integrated in projects cannot be given weight.

OTS agreed to change its revenue disclosures to ensure that the reporting was in line with IFRS 8. In the Q4 2016 report the Company has split revenues from the Shipping segment into revenues from CSV and FSV respectively and revenues from the Solutions segment was divided in two, showing revenues from Engineering and Solutions equipment and Handling and rental separately.

5. Other issues

5.1 Liquidity risk
In the annual report for 2015 the maturity analysis for financial liabilities was disclosed showing annual maturities for the first 2 years, then a 2-5 year time band and finally a 5+ year time band.

The analysis should include an appropriate number of time bands ref. IFRS 7.B11. The time bands given in IFRS 7.B11 a)-d) are only examples of how this can be reported. Each entity must use judgment to determine the appropriate number of intervals. Given the liquidity challenges OTS was facing, Finanstilsynet was of the opinion that the information given was not sufficient for a user of the financial statement to gain an understanding of the liquidity risk in the company. OTS initially suggested splitting the first year into two intervals. Given that OTS had defaulted on its debt, Finanstilsynet was of the opinion that currently even shorter maturity bands than 6 months could be required. It is also required to disclose information on how the liquidity need within each time interval will be addressed. This would also include how the company will solve any restrictions on capital flow within the company structure going forward.

In the response letter to Finanstilsynet, OTS stated that the company would disclose maturities in shorter intervals and give information on how the liquidity need for each time interval will be addressed.

5.2 Receivables

An analysis of the age of financial assets as required by IFRS 7 *Financial Instruments: Disclosures* paragraph 37 was not included in the financial reporting for 2015. Analysis of this kind represents important information about probability for impairment of financial assets, and provides the users of the financial statement with information that enables assessment of level on expected loss. Finanstilsynet was also of the opinion that "Other current receivables" should be further specified in the notes, as this was a significant item in the balance sheet.

OTS has agreed to disclose such information in future reporting.

5.3 Presentation and structure

Finanstilsynet advised OTS to review the structure and presentation in the annual report to ensure that the information is disclosed in a manner that promotes the users understanding of the financial statement. Finanstilsynet was of the opinion that the annual report for 2015 was structured in a way that made it difficult for a user to understand the risks inherent in the OTS group structure. Assets and liabilities that were included through associates and joint ventures were presented and commented on with equal prominence as assets and liabilities owned through subsidiaries. Since subsidiaries are consolidated while associates and joint ventures are recognized using the equity method such presentation can be confusing and misleading.

Finanstilsynet recommended Oceanteam to more clearly separate information related to joint ventures and associates from operations and items related to subsidiaries. Information related to joint ventures and associates should be limited to the respective note, except for the revaluation note where it is practical to have all information available in one place.

In general the financial reporting for 2015 also included tables that did not reconcile with corresponding figures in the balance sheet, tables did not sum correctly etc. The general accuracy of the reporting needs improvement.

In the reply letter OTS agrees to improve the reporting going forward, and clearly separate items that are consolidated from assets/operations in joint ventures and associates.

6. Closing

Finanstilsynet has not considered whether the above matters are subject to the securities legislation's provisions regarding the requirement to disclose inside information in accordance with the securities Trading Act section 5-2 subsection (1) and section 3-2. Finanstilsynet expects the undertaking to consider its requirement to disclose inside information on a continuous basis.

Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor and to Oslo Børs.

On behalf of Finanstilsynet

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seksjonssjef

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This document is electronically approved, and does not need a signature.