

**BOARD OF DIRECTORS' REPORT  
TO THE SHAREHOLDERS OF DEEP SEA SUPPLY PLC**

**REGARDING**

**MERGER BETWEEN DEEP SEA SUPPLY PLC (AS TRANSFERRING ENTITY)  
AND  
SOLSHIP SUB AS (AS SURVIVING ENTITY)**

**1 INTRODUCTION**

The board of directors (the "**Board**") of Deep Sea Supply Plc, a public limited company registered under the laws of Cyprus ("**DESSC**") has, together with the board of directors of Solship Sub AS, a private limited company registered under the laws of Norway ("**Solship Sub**"), prepared a joint merger plan dated 24 March 2017 (the "**Merger Plan**") with a proposal for a merger (the "**Merger**") between DESSC (as the transferring entity) and Solship Sub (as the surviving entity).

The Merger entails that all assets, rights and liabilities of DESSC will be transferred to Solship Sub in exchange for the issue of shares in Solship Sub to DESSC's shareholders. Simultaneously with the Merger, the surviving entity Solship Sub will be merged with Solship Invest 3 AS, a wholly owned subsidiary of Solstad Offshore ASA ("**SOFF**"), in exchange for the issue of shares in SOFF to Solship Sub's shareholders (i.e. the former DESSC shareholders) (the "**Second Merger**"). Accordingly, the end result of the Merger and the Second Merger is that the shareholders of DESSC will become shareholders in SOFF. After completion of the Merger and the Second Merger, DESSC will be delisted and dissolved, whereas SOFF will continue its current listing on the Oslo Stock Exchange,

Pursuant to section 201(N) of the Cyprus Companies Law, Cap 113 (the "**Companies Law**"), the Board has prepared this report to the shareholders of DESSC, explaining and justifying the legal and economic aspects of the Merger and explaining the implications of the Merger for DESSC's shareholders, creditors and employees. The report will be made available to the shareholders and the employees not less than one month before the date of the general meeting where shareholders are invited to vote on the proposed Merger.

The Board believes that the Merger will be beneficial to DESSC's shareholders, and thus recommends that the shareholders approve the Merger.

**2 BACKGROUND AND RATIONALE FOR THE MERGER**

DESSC owns and operates a fleet of 37 vessels providing services in various parts of the offshore industry. The fleet consists of 25 platform supply vessels (PSV) and 12 anchor handling tug supply vessels (AHTS). DESSC is listed on Oslo Stock Exchange under the ticker 'DESSC'. The DESSC group currently has less than 500 employees both offshore and onshore.

Solship Sub is a recently incorporated wholly owned subsidiary of Solship Invest 3 AS ("**Solship Invest 3**"), which again is a recently incorporated wholly owned subsidiary of Solstad Offshore ASA ("**SOFF**"). SOFF operates within the same business area as DESSC

and owns and operates 26 CSVs (incl. 1 Derrick Lay Barge (DLB)), 16 AHTSs and 19 PSVs. SOFF is listed on Oslo Stock Exchange under the ticker 'SOFF'. The SOFF group currently has approx. 1500 employees both offshore and onshore.

During the last two years, the conditions in the market for offshore service vessels have deteriorated due to the fall in oil prices. The expectations of the level of activity in the industry for the near future are characterized by great uncertainty. The exploration and developing activity in the oil and gas industry specifically has been significantly reduced. In particular, the market for PSVs and AHTSs has experienced a surplus in capacity. DESSC's operations have been severely affected by the downturn and uncertainty in the market.

In September 2016, DESSC completed an amendment to its loan agreements, including amendments to its financial covenants and down payment schedules. Such amendments are currently valid until 31 March 2018. However, DESSC is currently working on refinancing most of its loan agreements which, among other things, involves an extension of maturity dates and reduced amortisation.

On 5 February 2017, Farstad Shipping ASA ("**FAR**"), Aker Capital AS ("**Aker**"), Hemen Holding Limited ("**Hemen**"), FAR's largest lenders (the "**Lenders**"), a major part of FAR's bondholders (the "**Bondholders**"), as well as F-Shiplease AS signed an extensive and fully financed restructuring agreement (the "**Restructuring Agreement**") for FAR and several of its subsidiary companies (the "**FAR Restructuring**"). The FAR Restructuring was completed 9 March 2017. In connection with the FAR Restructuring, Aker, Hemen, the Lenders and the Bondholders as well as the main shareholders of SOFF and FAR also agreed to work for a merger between SOFF, FAR and DESSC after the completion of FAR Restructuring (the "**Combination**").

The boards of directors of DESSC, SOFF and FAR are of the opinion that a consolidation in the industry is required. After concluding the Restructuring Agreement, the boards of directors of the mentioned companies have discussed the possibilities for a merger of the operations of the three companies and have concluded that such merger will be advantageous for all companies. The Combination will result in the establishment of a world leading OSV company, with a fleet of totally 154 vessels. The merged group will operate a fleet consisting of 33 CSV, 66 PSV and 55 AHTS vessels.

Formally, the Combination will be completed by three separate mergers that are mutually dependent upon one another:

1. The Merger between DESSC and Solship Sub,
2. the Second Merger of Solship Sub and Solship Invest 3 with settlement in shares in SOFF (together with the Merger, the "**Deep Sea Supply Merger**"), and
3. a merger of FAR and Solship Invest 2 AS with settlement in SOFF shares (the "**Farstad Merger**").

The Deep Sea Supply Merger is governed by the Merger Plan and a separate merger plan dated 24 March 2017 for the Second Merger, while the Farstad Merger is governed by a separate merger plan dated 24 March 2017 between the companies involved in the Farstad Merger. The above mentioned mergers will be mutually dependent upon each other, so that

the Deep Sea Supply Merger may only be completed if the Farstad Merger is completed in parallel.

This report is issued in relation to the Merger (item 1 above).

### **3 LEGAL ASPECTS OF THE MERGER**

#### **3.1 Company law**

The Merger will be carried out as a cross-border merger in accordance with the cross-border merger rules set out in section 201 (I-X) of the Companies Law and corresponding legislation under Norwegian law. The Merger constitutes a 'merger' pursuant to letter (a) of the definition of merger in the Companies Law section 201 (I).

Following execution of the Merger Plan, DESSC and Solship Sub shall as soon as possible call for general meetings to be held in their respective companies in order to approve the Merger. The general meetings of DESSC and Solship Sub are scheduled to be held on or about 25 April 2017.

No later than one month before DESSC's general meeting, the shareholders of DESSC shall be informed about the Merger by publication of the Merger Plan and related documentation (including this report) on the company's web page. The documents shall remain accessible on the web page for no less than one month after the general meeting has been held. Further, the Merger Plan and related documents shall be registered at the Cyprus Registrar of Companies prior to the general meeting.

The affirmative vote of at least 75% of the shares and votes represented in DESSC's general meeting is required to approve the Merger from DESSC's side. The corresponding requirement at Solship Sub's general meeting is 2/3 majority.

As soon as possible after the approval of the Merger by the general meetings of DESSC and Solship Sub, DESSC will apply for a pre-merger certificate to be issued by the District Court of Limassol confirming that all preparatory actions and formalities required to complete the Merger have been made. The Limassol Court will issue the pre-merger certificate once the Court finds that the procedures referred to in section 201(L) to 201(P) of the Companies Law have been complied with.

For Norwegian company law purposes, a creditor notice period of 6 weeks will commence at the date of the registration of the Merger in the Norwegian Register of Business Enterprises. After the expiry of the creditor notice period, and provided that (i) any creditor objections have been clarified and resolved, (ii) all conditions precedent for the Merger are either fulfilled or waived, (iii) a merger certificate has been issued by the Norwegian Register of Business Enterprises and (iv) the above-mentioned pre-merger certificate has been issued by the District Court of Limassol, Solship Sub will notify the Norwegian Register of Business Enterprises that the Merger shall be implemented. From a company law perspective, the Merger becomes effective when it is implemented by the Norwegian Register of Business Enterprises. It is currently anticipated that this will occur within June 2017. The Norwegian Register of Business Enterprises shall inform the relevant Cypriot authorities about the implementation of the Merger once it has been registered in Norway.

DESSC has issued 10,000,000 independent subscription rights (warrants) in accordance with an agreement dated 21 July 2016. The warrants give its holder the right to subscribe for a corresponding number of shares in DESSC at NOK 1.24 per share and may be exercised at any time within three years of the issuance date. Unless exercised prior to completion of the Merger, the warrants will in accordance with the warrant agreement be converted into warrants in Solship Sub upon completion of the Merger, and immediately thereafter be converted into warrants in SOFF upon completion of the Second Merger. The number of warrants and the subscription price shall be adjusted in accordance with the agreed exchange ratio between DESSC and SOFF, but otherwise remain unaltered.

Other than the warrants described above, there are no outstanding warrants, subscription right shares or convertible shares outstanding in DESSC, and no shareholders of DESSC enjoy any special rights. Further, no special rights or benefits will accrue to supervisory or regulatory bodies, the board of directors or the general manager of DESSC or the board of directors of Solship Sub in connection with the Merger. Independent experts will receive remuneration for the preparation of expert statement(s), but will not enjoy any special rights or benefits as a result of the Merger.

### **3.2 Tax and accounting law**

The Merger will be carried out as a tax-neutral merger. Tax positions related to assets, rights and obligations of DESSC located within Norwegian tax jurisdiction prior to the Merger will be continued following implementation of the Merger. Further, tax positions related to shares in DESSC will for Norwegian shareholders will be divided on the shares issued in Solship Sub as consideration in the Merger. Finally, the Merger falls within section 30 (a)(i) of the Cyprus Income Tax Law and will thus not have any tax implications in Cyprus.

For accounting purposes, the Merger shall be deemed to have been implemented as of the date when the Merger is registered as completed in the Norwegian Register of Business Enterprises. All transactions, costs and revenue related to the assets, rights and obligations which are transferred under the Merger, shall from this time be assigned to Solship Sub. The Merger is for accounting purposes completed as a transaction. Thus the transferred assets, rights and obligations are recorded in the opening balance of Solship Sub at its actual (true) value in accordance with the acquisition method.

## **3 ECONOMIC ASPECTS OF THE MERGER**

In the Merger, all the assets, rights and obligations of DESSC will be transferred in whole to Solship Sub. As consideration for the Merger the shareholders of DESSC will receive 1 share in Solship Sub for every share they hold in DESSC. The 1:1 exchange ratio in the Merger is based on the fact that Solship Sub prior to Merger will be an empty company without any assets or capital (due to the above-mentioned reduction in capital completed immediately prior to the Merger), meaning that the implied value of Solship Sub immediately following implementation of the Merger is identical to the implied value of DESSC prior to the Merger.

In the Second Merger, all the assets, rights and obligations of Solship Sub will be transferred in whole to Solship Invest 3. As consideration for the Second Merger, the shareholders of Solship Sub (who are former DESSC shareholders) will receive 0.1052631 shares in SOFF

for every share they hold in Solship Sub. These consideration shares will be made available through a share issue in SOFF, and Solship Invest 3 will issue a receivable directly to SOFF to compensate for the issue of these shares at the time of registration of the completion of the Second Merger. The nominal amount of the receivable issued by Solship Invest 3 to SOFF will correspond to the aggregate nominal amount of the merger consideration shares issued by SOFF.

The consideration shares issued in the Merger and the Second Merger is based on an agreed pre-merger share value NOK 1.31578947368421 per DESSC share and NOK 12.50 per SOFF share, so that the actual exchange ratio in the Deep Sea Supply Merger is 1.31578947368421:12.50. The share values and exchange ratio has been negotiated by independent parties and is therefore considered to represent fair market value for the respective shares. The Board has obtained a statement from Swedbank confirming that the exchange ratio is fair and reasonably justified.

Reference is made to the joint expert statement dated 24 March 2017 by FGH Revisjon AS for further details.

#### **4 IMPLICATIONS FOR EMPLOYEES**

DESSC has no employees.

#### **5 IMPLICATIONS FOR CREDITORS**

As a result of the Merger, the creditors of DESSC will become creditors of Solship Sub. Immediately thereafter, as a result of the Second Merger, the same creditors will become creditors of Solship Invest 3. Neither Solship Sub nor Solship Invest 3 will have any existing financial creditors prior to completion of the Merger and the Second Merger.

#### **6 IMPLICATIONS FOR SHAREHOLDERS**

At the implementation of the Merger, the assets, rights and obligations of DESSC will be transferred in whole to Solship Sub, following which DESSC will be dissolved. As settlement for the Merger, the shareholders of DESSC will receive 1 share in Solship Sub for every share they hold in DESSC. Immediately prior the Merger, a reduction of the share capital in Solship Sub from NOK 30,000 to NOK 0 will be carried out in order to ensure that only former shareholders of DESSC will be shareholders of Solship Sub as a result of the Merger. However, as noted above, the Second Merger between Solship Sub, Solship Invest 3 and SOFF will be completed in parallel with the Merger, and implies that the assets, rights and obligations of Solship Sub will be transferred to Solship Invest 3 in exchange for the issue of shares in SOFF to Solship Sub's shareholders (i.e. the former DESSC shareholders), while Solship Sub will be dissolved. Accordingly, the end result of the Merger and the Second Merger is that the shareholders of DESSC will become shareholders in SOFF, receiving 0.1052631 shares in SOFF for every share they held in DESSC before the Merger. SOFF is a public limited company incorporated in Norway and listed on the Oslo Stock Exchange.

**For the board of directors of Deep Sea Supply PLC**



Neofytos Neofytou  
Board member

As per authorisation from the Board of Directors