



## Deep Sea Supply 1Q 2011 Financial report

### FINANCIALS 1Q 2011

#### Results

Deep Sea Supply (“DESS” or “Company”) reports consolidated revenues of MUSD 24.0 in 1Q 2011 compared to MUSD 26.1 in 1Q 2010. Total operating costs in 1Q 2011 were MUSD 21.9 compared to MUSD 17.4 in 1Q 2010. This resulted in EBITDA of MUSD 2.0 in 1Q 2011. Net financial items were negative MUSD 9.4, including unrealized currency losses of MUSD 2.9. Pre-tax result was negative MUSD 14.3 in 1Q 2011, compared to negative MUSD 5.8 in 1Q 2010.

#### Cash flow

Cash flow from operations was negative MUSD 6.6 in the quarter. Sale of vessels net of commissions generated MUSD 74.8. Net repayment of debt in the quarter was MUSD 38.1. In addition, Capex related to delivery of two new vessels and upgrading of vessels came in at MUSD 29.2. Interest paid was MUSD 5.6.

Cash and cash equivalents were MUSD 37.3 end of 1Q 2011 compared to MUSD 41.9 end of 4Q 2010. Net interest bearing debt was MUSD 417.6.

#### Balance sheet

Book value of the fleet was MUSD 557.2 end of this quarter compared to MUSD 603.2 end of 4Q 2010. The change is explained by the sale of the vessels Sea Wolf 1, Sea Cougar and Sea Weasel, partly offset by the delivery of two new AHTS vessels. Freight income not received was MUSD 24.5 mill, down from MUSD 26.0 last quarter. At the end of 1Q 2011, the Company had total assets of MUSD 699.6 mill.

Total shareholders equity was MUSD 147.5 or 21.1% of total assets, and total number of outstanding shares in the Company is 126.863.860.

### OPERATIONS

#### Fleet

As per end of 1Q 2011, Deep Sea Supply had 13 AHTS vessels and 8 PSVs in operation, in total 21 vessels. The vessels were operating in the following areas:

North Sea:	2 AHTS and 1 PSV
Brazil:	3 AHTS and 5 PSVs
West Africa:	1 PSV
Mediterranean:	1 AHTS
Asia:	7 AHTS and 1 PSV

#### Freight revenues

Freight revenues for the AHTS fleet were MUSD 12.0 mill with a utilization ratio of 60% in 1Q 2011. The figures are negatively impacted by both low rates and high commercial offhire in the quarter. In addition, special circumstances as termination of a time charter contract and technical offhire related to a special survey also contributed negatively.

Freight revenues for the PSV fleet were MUS\$ 11.9 with a utilization ratio of 88%. 7 out of 8 PSVs are on long term contracts.

In 2011, the Company has secured medium term charter contracts for 4 AHTS vessels operating in Asia and 1 AHTS vessel operating in Mediterranean; "Sea Cheetah", "Sea Jaguar", "Sea Ocelot" and "Sea Hawk" (time chartered in from external owner for the purpose) will commence on a 175 days time charter with 60 daily options to Gazflot for operations in Sakhalin, and "Sea Bear" has been chartered to Mellittah Gas for operations in Mediterranean until January 2012. Furthermore, the Company has achieved several short term contracts in Asia and the North Sea spot market.

### **Ship management and operating expenses**

During the last months, the Company has established organizations in Singapore and Brazil for the purpose of doing technical and crew management of the DESS fleet. DESS is now technical manager for 13 vessels and this will further increase throughout 2011. The Company will also gradually assume crew management of the vessels in 2011.

Vessels' operating expenses increased from MUS\$ 17.0 in 1Q 2010 to MUS\$ 19.8 in 1Q 2011. This is largely explained by a shift in geographic mix as the Company has increased the number of vessels operating in Brazil from 1 to 8 in this period. Brazil remains a priority for the Company, however local content requirements increase the vessels operating expenses and specially the crew wages. Brazilian seafarers are expensive, and after 3 months all vessels must have 1/3 Brazilian seafarers in all departments. This is further increased to 50% and 2/3 after 6 and 12 months, respectively.

The vessels Sea Otter and Sea Marten were sold in Q4 2010, but have been operated by Deep Sea Supply under the time charter contract with Petrobras until ultimo March. In this period, the Company has paid bareboat hire to new owners of MUS\$ 1.7 mill and full operating costs. The time charter contracts were transferred to new owners in March 2011.

Reduction of operating expenses is a priority for the Company, and DESS has taken many actions that will reduce these costs going forward. Such actions include;

- In-house technical and crew management of the fleet
- Reduction of number of intermediaries
- Local EBN status (Brazilian Shipping Company) that allows the Company to hold contracts directly with oil companies in Brazil.

As the Company assumes management of the vessels, more competence and experience is kept within the Company. However, until the newly established ship management organizations are fully utilized, the Company is experiencing increased operating expenses. This will reduce as more and more vessels are managed in-house.

### **Newbuilding program**

During 1Q 2011, the Company took delivery of two 6.800 BHP AHTS vessels "Sea Fox" and "Sea Jackal" from ABG Shipyard in India. Another 3 vessels of the same type are expected to be delivered in 2011.

The Company has one 4,700 DWT PSV under construction in Brazil with expected delivery in 1Q 2012.

## **OUTLOOK**

The market for offshore supply vessels was weak throughout 1Q 2011. However, we remain positive about the future outlook for the OSV sector. The long term fundamentals remain in place with a high oil price driving E&P and oil field service spending. The continued order build up for jackups, semis and drillships is positive for the market balance and will drive demand for offshore supply vessels.

In the short and medium term, DESS expects improved utilization and a modest increase in rates internationally. The North Sea spot market, while volatile, looks strong near term.

The Company is expected to benefit from strategic moves made in Brazil and Asia and more recent in West Africa, which should improve utilization and results in 2Q 2011.

Limassol, 10 May 2011

Deep Sea Supply Plc

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(Unaudited figures in USD 1,000)</i>	Note	1Q 2011	1Q 2010
Operating revenue	4	23,960	26,066
Vessel operating expenses	4	-19,833	-17,028
Operating lease		-1,684	0
Other gains		68	0
Gain on sale		2,733	1,457
Other operating expenses	4	-3,224	-1,811
<b>Total operating costs</b>		<b>-21,939</b>	<b>-17,381</b>
<b>EBITDA</b>		<b>2,021</b>	<b>8,685</b>
Depreciation	5	-6,926	-9,112
<b>EBIT</b>		<b>-4,905</b>	<b>-426</b>
Financial income		37	69
Financial expenses		-6,580	-6,346
Net currency items		-2,925	591
Change in value of financial derivatives		58	290
<b>Net financial items</b>		<b>-9,409</b>	<b>-5,396</b>
<b>Pre-tax result</b>		<b>-14,314</b>	<b>-5,822</b>
Taxes		-6	0
<b>Total comprehensive income</b>		<b>-14,320</b>	<b>-5,822</b>

Average number of shares		126,863,860	126,863,860
Earnings per share, in USD	7	-0.11	-0.05
Earnings per share diluted, in USD	7	-0.11	-0.05
Cash flow per share 1)		-0.04	0.02

1) Profit before taxes+depreciation-unrealized gain on currencies

**CONSOLIDATED BALANCE SHEET**
*(Unaudited figures in USD 1,000)*

	Note	31.03.11	31.12.10
<b>Non-current assets</b>			
Vessels cost	5	557,209	603,322
Construction contract	5	17,676	24,736
Equipment	5	625	659
<b>Total property, plant and equipment</b>		<b>575,510</b>	<b>628,717</b>
Deferred income tax		216	234
Other long term receivables		455	455
Investment in associates		581	0
CIRR deposit		45,936	43,693
<b>Total non-current assets</b>		<b>622,697</b>	<b>673,098</b>
<b>Current assets</b>			
Inventories		2,690	2,909
Other short term receivables		7,213	9,374
CIRR deposit		5,214	4,959
Freight income not received		24,475	26,017
Cash and cash equivalents		37,278	41,932
<b>Total current assets</b>		<b>76,870</b>	<b>85,191</b>
<b>Total assets</b>		<b>699,568</b>	<b>758,289</b>
<b>Liabilities</b>			
Borrowings	6	430,278	467,819
CIRR loan	6	45,888	43,647
Deferred gain		35,533	36,573
Long term tax liabilities		1,899	1,806
Other long term liabilities		12	11
<b>Total long term liabilities</b>		<b>513,610</b>	<b>549,856</b>
Borrowings	6	24,645	24,446
CIRR loan	6	5,214	4,959
Trade payables		2,922	11,519
Deferred gain		4,493	4,493
Tax payable		950	903
Other short term liabilities		470	529
<b>Total short term liabilities</b>		<b>38,693</b>	<b>46,849</b>
<b>Total liabilities</b>		<b>552,303</b>	<b>596,706</b>
<b>Net assets</b>		<b>147,265</b>	<b>161,584</b>
<b>Shareholders equity</b>			
Share capital, share premium and treasury shares		10,861	10,861
Retained earnings and currency translation		136,404	150,723
<b>Total shareholders equity</b>		<b>147,265</b>	<b>161,584</b>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD 1,000)	Reverse	Share				Currency		
	Share	acquisition	premium	Treasury	Other paid-	Retained	translation	Total
	Capital	reserves	reserves	shares	in-equity	earnings	differences	
Balance at 1 January 2010	2,599	-123,386	139,588	-9,787	1,720	160,739	-7,120	164,353
								0
Total comprehensive income for period						-5,822		-5,822
Balance at 31 March 2010	2,599	-123,386	139,588	-9,787	1,720	154,917	-7,120	158,532
Balance at 1 January 2011	2,537	-123,386	129,863	0	1,846	157,841	-7,120	161,583
Total comprehensive income for period						-14,320		-14,320
Balance at 31 March 2011	2,537	-123,386	129,863	0	1,846	143,521	-7,120	147,265

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Unaudited figures in USD 1,000)</i>	1Q 2011	1Q 2010
<b>Cash flows from operating activities</b>		
Cash generated from operations	-6,555	2,166
<b>Net cash generated from operating activities</b>	<b>-6,555</b>	<b>2,166</b>
<b>Cash flows from investing activities</b>		
Acquisitions of vessels and construction contracts	-29,171	-1,014
Disposals of vessels and construction contracts	74,780	0
<b>Net cash used in investing activities</b>	<b>45,609</b>	<b>-1,014</b>
<b>Cash flows from financing activities</b>		
Interest paid	-5,649	-6,013
Proceeds from borrowings	18,489	19,822
Repayments of borrowings	-56,548	-10,114
<b>Net cash used in financing activities</b>	<b>-43,708</b>	<b>3,695</b>
<b>Total changes in liquidity in the period/year</b>	<b>-4,654</b>	<b>4,847</b>
Cash and cash equivalents at beginning of period/year	41,932	31,616
<b>Cash and cash equivalents at end of the period/year</b>	<b>37,278</b>	<b>36,463</b>

### 1. General information

Deep Sea Supply PLC (“the Company”) and its subsidiaries’, here after collectively (“the Group”) principal activities are to engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore supply vessel business.

The Company was incorporated as a public limited liability company on 7 November 2006 in Cyprus in accordance with the provisions of the Companies Law, Cap. 113.

The Company was established for the purpose of acquiring all shares of Deep Sea Supply ASA.

The Company has its primary and only listing on the Oslo Stock Exchange.

These unaudited condensed consolidated financial statements have been approved for issue by the Board of Directors on 10th May 2011.

## **2. Basis of preparation**

These condensed unaudited consolidated interim financial information for the period ended 31 March 2011 have been prepared in accordance with IFRS as adopted by the E.U. applicable to interim financial reporting, IAS 34 'Interim Financial Reporting' and the regulations of Oslo stock exchange. The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS as adopted by the European Union.

## **3. Summary of significant accounting policies**

### **Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those financial statements.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

At the date of approval of these financial statements a number of accounting standards were issued by the International Accounting Standards Board but were not yet effective. The effect of those standards is not expected to be material for the Group.

There has been no further impact on the measurement of the Group's assets and liabilities

## **4. SEGMENT INFORMATION**

The chief operating decision maker for the Group is the top management together with the board of directors in matters that concern the day to day running of the business and in matters concerning acquisition and disposals of vessels.

Day to day running of the business includes decision on where the vessels should be located and duration of the contracts with the customers.



Secondary Segment - Type of Vessel

The segment results for the period ended 31 March 2011 is as follows:

	Un-allocated			
	AHTS	PSV	items	Total
Segment revenues	12,036	11,923	0	23,960
Vessel operating expenses	-13,444	-6,390	0	-19,833
Operating lease	-1,684	0	0	-1,684
Share of profit from associates	68	0	0	68
Gain on sale	2,529	204	0	2,733
Other operating expenses	-1,619	-1,604	0	-3,224
<b>EBITDA per segment</b>	<b>-2,114</b>	<b>4,133</b>	<b>0</b>	<b>2,021</b>
<b>EBITDA margin per segment</b>	<b>N/A</b>	<b>35%</b>		<b>8%</b>
Depreciation	-4,488	-2,392	-46	-6,926
<b>EBIT per segment</b>	<b>-6,602</b>	<b>1,741</b>	<b>-46</b>	<b>-4,905</b>
<b>EBIT margin per segment</b>	<b>N/A</b>	<b>15%</b>		<b>N/A</b>
Net Financial Items				-9,409
<b>Pre-tax result</b>				<b>-14,314</b>
Taxes				-6
<b>Net Result</b>				<b>-14,320</b>

The corresponding segment results for the period ended 31 March 2010 is as follows:

	Un-allocated			Total
	AHTS	PSV	items	
Segment revenues	14,558	11,508	0	26,066
Vessel operating expenses	-12,482	-4,545	0	-17,028
Gain on sale	1,111	346	0	1,457
Other operating expenses	-1,011	-799	0	-1,811
EBITDA per segment	2,176	6,510	0	8,685
EBITDA margin per segment	15%	57%		33%
Depreciation	-7,207	-1,888	-17	-9,112
EBIT per segment	-5,030	4,621	-17	-426
EBIT margin per segment	-35%	40%		-2%
Net Financial Items				-5,396
Pre-tax result				-5,822
Taxes				0
Net Result				-5,822

#### 5. PROPERTY, PLANT AND EQUIPMENT

	Vessels	Finance lease vessels	Vessels in progress	Vehicles & equipment	Total
Opening net book value as at 1 January 2010	414,340	236,197	26,327	65	676,930
Additions	464	168	107	0	739
Depreciation and amortisation	-5,746	-3,349	0	-17	-9,112
Closing net book value as at 31 March 2010	409,057	233,015	26,434	47	668,555
Opening net book value as at 1 January 2011	386,904	216,412	24,737	659	628,712
Additions	1,889	2,181	736	12	4,818
Disposals	-74,220	0	0	0	-74,220
Delivered new buildings	30,926	0	-7,797	0	23,129
Depreciation and amortisation	-4,367	-2,514	0	-46	-6,927
Closing net book value as at 31 March 2011	341,131	216,079	17,676	624	575,510

## 6. BORROWINGS AND LOANS

	31 March 2011	31 March 2010
<b>Borrowings</b>		
Non-current	237,963	269,984
Current	9,515	27,517
	<u>247,479</u>	<u>297,501</u>
<b>Sale and leaseback and bareboat</b>		
Non-current	192,314	207,114
Current	15,129	14,560
	<u>207,444</u>	<u>221,673</u>
<b>CIRR Loan</b>		
Non-Current	45,888	47,553
Current	5,214	4,852
	<u>51,102</u>	<u>52,406</u>
<b>Total Borrowings</b>	<u>506,024</u>	<u>571,580</u>

Movement in borrowings are analysed as follows:

Period ended 31 March 2010

	Borrowings	Sale and leaseback	CIRR Loan	Total
Opening balance as at 1 January 2010	285,905	225,199	54,412	580,359
Proceeds from new loans	20,000	0	0	20,000
Repayment of loans	-6,426	-3,526	0	-9,952
Borrowing costs	-81	0	0	-81
Currency translations	-1,897	0	-2,006	-3,903
Closing amount as at 31 March 2010	297,501	221,673	52,406	571,580

Period ended 31 March 2011

	Borrowings	Sale and leaseback	CIRR Loan	Total
Opening balance as at 1 January 2011	281,239	211,025	48,607	540,870
Proceeds from new loans	18,489	0	0	18,489
Repayment of loans	-52,967	-3,581	0	-56,548
Borrowing costs	0	0	0	0
Currency translations	718	0	2,495	3,213
Closing amount as at 31 March 2011	247,479	207,444	51,102	506,024

## 7. EARNINGS PER SHARE

Basic	Q1 2011	Q1 2010
Profit attributable to equity holders of the company	-14,320	-5,822
Weighted average number of ordinary shares (thousands)	126,863,860	126,863,860
Basic earnings per share (USD per share)	-0.11	-0.05

Diluted	Q1 2011	Q1 2010
Profit attributable to equity holders of the company	-14,320	-5,822
Weighted average number of ordinary shares diluted (thousands)	128,112,188	128,112,188
Diluted earnings per share (USD per share)	-0.11	-0.05

## 8. SALE AND LEASEBACK EFFECT

The impact from the sale and leaseback transactions on the profit and loss is as follows:

	1Q 2011	1Q 2010
Interest paid	-4,312	-4,233
Deferred gain recognised in profit and loss	1,122	1,457
Depreciation charge of leased vessels	-2,514	-3,349

## 9. EVENTS AFTER THE BALANCE SHEET DATE

No material events after the balance sheet date.