Prosafe

SECOND QUARTER AND FIRST HALF REPORT 2018

EBITDA for the second quarter amounted to USD 57.1 million (USD 26.4 million). Higher EBITDA is mainly due to better utilisation, higher average day rates, cost control and the revenue adjustment relating to IFRS 15 (USD 8.7 million). Cash flow from operations was USD 43.5 million (USD 19.1 million). A transforming agreement was reached with Cosco and lenders which will significantly enhance Prosafe's fleet and market position as well as financial flexibility in the years ahead.

Recent highlights

- Transforming agreement with Cosco and majority of lenders reached in early August
- Improved utilisation in Q2 of 45.8 per cent (38.5 per cent) with continued good operating performance in the quarter
- EBITDA of USD 57.1 (26.4) million reflecting higher utilization and cost control
- Improved cash flow from operations in Q2 at USD 43.5 million (USD 19.1 million)
- In early July, Aker BP awarded Prosafe a contract for Safe Scandinavia to provide accommodation support in Norway with a firm period of seven months plus eight one-month options
- Equinor exercised the first two of six one-month options, thereby extending Safe Boreas' operational period through to early November 2018
- Prosafe was awarded a contract by MODEC for the provision of the Safe Concordia to support their FPSO operations in Brazil with a firm period of 200 days
- BP extended the charter for Safe Caledonia at Clair Ridge by one month, with her firm operational period now through to end November
- Prosafe won further work for Safe Swift in the Mediterranean Sea from mid June till late July
- In April, Westcon appealed the court judgement which was made in favour of Prosafe. Prosafe has also appealed and will aim to maintain or improve on the result.

Operations

(Figures in brackets refer to the corresponding period of 2017)

Fleet utilisation[1] in the second quarter of 2018 was 45.8 per cent (38.5 per cent).

The Safe Scandinavia Tender Support Vessel (TSV) was in full operation for Equinor at Oseberg East in Norway until the firm contract period finished at the end of June 2018. Safe Scandinavia is currently undertaking preparatory work for a five year special period survey at Invergordon. On 6 July, Aker BP awarded Prosafe a contract to provide accommodation support using the Safe Scandinavia at the Ula platform in Norway with operations scheduled to commence from end-August 2018 for a firm period of seven months with eight one-month options.

Safe Caledonia commenced a five-month contract for BP at the Clair Ridge platform in the UK on 22 May and was in operation throughout the rest of the second quarter. BP recently extended the firm period of the contract to 6 months.

Safe Notos commenced a three-year and 222-day contract for Petrobras in Brazil on 7 December 2016 and was fully contracted in the quarter.

[1] Fleet utilisation = actual vessel days in operation in the period / possible vessel days in the period x 100

Safe Boreas continued the contract with Equinor at the Mariner installation in the UK and was in full operation throughout the quarter. Equinor exercised the first two of six one-month options, thereby extending Safe Boreas' operational period through to early November 2018.

Safe Zephyrus commenced a 12-month contract for Equinor at Johan Sverdrup in Norway in early May 2018 and was in operation throughout the remainder of the quarter.

Safe Concordia remained at yard in Curacao and is currently undertaking maintenance work before mobilising to Brazil. On 17 July 2018, Prosafe was awarded a contract by MODEC for the provision of the Safe Concordia to support FPSO maintenance in Brazil. The firm period of the contract is 200 days with on-site operations planned to commence in September 2018.

Being commercial managers, Prosafe won further work for Safe Swift to support activities in the Mediterranean Sea during mid June till late July. The vessel is currently in lay-up.

Regalia, Safe Bristolia and Safe Astoria were idle in the quarter. Regalia and Safe Bristolia are laid-up in Norway while Safe Astoria is laid-up in Indonesia.

Prosafe and COSCO reached an agreement for the three completed vessels – Safe Eurus, Safe Nova and Safe Vega that currently reside in COSCO's Qidong shipyard in China.

This will significantly transform Prosafe's fleet, market position and earnings potential. The agreement includes price reductions, flexible delivery over a period between 16 months and up to 5 years for the three vessels as well as attractive yard financing. Prosafe now controls the world's largest and most versatile fleet of modern semi-submersible offshore accommodation vessels, and the agreement allows Prosafe to take the new vessels to market in a controlled manner as opportunities materialize. As part of the agreement, Prosafe has waived its right to cancel the new-build contracts and thus the right to claim repayment of the instalments paid including interest of approx. USD 60 million in total.

At the same time Prosafe has reached agreement with its majority lenders for a set of improvements and concessions which will result in significantly improved financial runway and flexibility.

On 8 March 2018, the Stavanger City Court issued its judgement in favour of Prosafe in respect of the dispute between Westcon Yards AS (Westcon) and Prosafe Rigs Pte. Ltd. relating to the conversion of the Safe Scandinavia into a tender support vessel. The Court ordered Westcon to pay NOK 344 million plus interest and NOK 10.6 million legal costs. On 19 April 2008, Westcon appealed the court judgement. Prosafe filed a counter appeal on 28 May 2018 and has attached Westcon's assets to seek further security for its claim.

Financials

Second quarter 2018

EBITDA[2] for the second quarter amounted to USD 57.1 million (USD 26.4 million). The increase is mainly due to better utilisation, higher average day rates, cost control and the revenue adjustment relating to the adoption of IFRS 15 (USD 8.7 million).

Depreciation was USD 27.7 million (USD 35.8 million) in the quarter. The decline is due to the lower carrying value of the assets following the impairments carried out in Q3 2017.

Operating profit for the second quarter amounted to USD 29.2 million (operating loss of USD 9.4 million).

Net financial costs amounted to USD 20.9 million (USD 22.5 million). Fair value adjustment for interest rate swaps and currency forwards amounted to USD 4.8 million positive (USD 0.7 million positive).

Net profit equalled USD 7.4 million (net loss of USD 33 million).

Total assets at 30 June amounted to USD 1,946.8 million (USD 2,591.3 million). Net interest-bearing debt equalled USD 1070 million (USD 1,134.8 million), and the book equity ratio was 26 per cent (42 per cent).

[2] EBITDA = operating result before depreciation and amortisation

YTD 2018

Fleet utilisation was 40 per cent (39 per cent). EBITDA YTD amounted to USD 106.3 million (USD 59.2 million). The increase in EBITDA is mainly due to slightly better utilisation, higher average day rates, revenue adjustment relating to IFRS 15 and lower operating expenses from continuous cost reduction exercises.

Depreciation and impairment amounted to USD 55.3 million (USD 71.2 million). Lower depreciation is due to the lower carrying value of the assets following the impairments carried out in Q3 2017.

Operating profit equalled USD 51 million (operating loss of USD 12 million).

Net financial costs YTD amounted to USD 23.6 million (USD 37.4 million). The decline in 2018 is mainly due to higher positive effect from fair value adjustment of interest rate swaps and currency forwards amounted to USD 20.9 million positive (USD 7 million positive)

Net profit YTD equalled USD 23.3 million (net loss of USD 52.1 million).

Outlook

There have been several positive commercial developments this year and in the quarter.

Along with winning a five-month contract for Safe Caledonia early this year, Prosafe was subsequently awarded a contract by Aker BP for Safe Scandinavia to provide accommodation support in Norway while Safe Concordia was awarded a 200-day contract by MODEC to support FPSO maintenance in Brazil.

Equinor UK Limited exercised the first two of six one-month options extending Safe Boreas' operational period through to early November 2018 while BP has also extended the contract for Safe Caledonia at Clair Ridge by additional one month.

Tendering activity is picking up and the prospect list for the next three years continues to show a good potential. Whereas demand has been primarily related to hook-up in recent years, Prosafe is pleased to observe that the majority of the prospects in the years ahead in the North Sea are maintenance and modification work, which has historically represented the majority of demand for accommodation vessels. This could be seen as an early sign of normalisation and market recovery.

Along with the positive signs in the market, it is anticipated that utilisation of the fleet will continue to improve and this will likely lead to improving rates in the next phase.

Brazil and Mexico continue to be seen as important international markets in the years ahead.

With the recent agreements with Cosco and lenders, Prosafe has improved the fleet structure and the financial flexibility to manage the company operationally and financially in an optimal way in the years ahead.

Risk

Prosafe's key risks remain what were described in detail in the Directors' Report as set out in the Annual Report 2017, which include market, operational, financial and compliance related. The Company's board and senior officers manage these risk factors through continuous risk assessments, reporting and periodic reviews in management and board meetings, and as part of rolling strategy and planning processes.

DECLARATION BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(In accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

In accordance with sections (3c) and (7) of Article 9 of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (1) / 2007 (the "Law") we, the members of the Board of Directors and the Company officials responsible for the drafting of the condensed consolidated interim financial statements of Prosafe SE (the "Company") and its subsidiaries for the period ended 30 June 2018, confirm, to the best of our knowledge that:

a) the condensed consolidated interim financial statements for the period ended 30 June 2018 which are presented on pages 5 to 9 :

(i) have been prepared in accordance with the International Financial Reporting Standard "IAS34 - Interim Financial Statements" in conformity with subsection 4 of section 10 of the Law; and

(ii) give a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company and the undertakings included in the consolidation as a whole, and

b) the interim Management report provides a fair review of the information required under paragraph 4 of sections 5 and 6 of the Norwegian Securities Trading Act and under subsection 6 of section 10 of the Law.

Aberdeen, 22 August 2018

Glen Ole Rødland
Chair

Roger Cornish

Birgit Aagaard-Svendsen

Svend Anton Maier

Kristian Johansen

Jesper Kragh Andresen
CEO
Prosafe SE

Stig Harry Christiansen
Deputy CEO and CFO
Prosafe SE

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited figures in USD million)	Note	Q2 18	Q1 18	Q2 17	6M 18	6M 17	2017
Operating revenues		100.3	82.8	61.7	183.1	137.4	283.0
Operating expenses	3	(43.2)	(33.6)	(35.3)	(76.8)	(78.2)	(152.1)
EBITDA	3	**57.1**	**49.2**	**26.4**	**106.3**	**59.2**	**130.9**
Depreciation	3	(27.7)	(27.3)	(35.8)	(55.0)	(71.2)	(135.2)
Impairment		(0.2)	(0.1)	0.0	(0.3)	0.0	(573.9)
Operating profit/(loss)		**29.2**	**21.8**	**(9.4)**	**51.0**	**(12.0)**	**(578.2)**
Interest income		0.8	0.4	0.4	1.2	0.5	1.4
Interest expenses		(20.9)	(20.6)	(18.0)	(41.5)	(36.6)	(74.9)
Other financial items		(0.8)	17.5	(4.9)	16.7	(1.3)	12.4
Net financial items		**(20.9)**	**(2.7)**	**(22.5)**	**(23.6)**	**(37.4)**	**(61.1)**
Profit/(Loss) before taxes		**8.3**	**19.1**	**(31.9)**	**27.4**	**(49.4)**	**(639.3)**
Taxes		(0.9)	(3.2)	(1.1)	(4.1)	(2.7)	(7.8)
Net profit/(loss)		**7.4**	**15.9**	**(33.0)**	**23.3**	**(52.1)**	**(647.1)**
EPS		**0.09**	**0.20**	**(0.46)**	**0.29**	**(0.73)**	**(9.06)**
Diluted EPS		**0.08**	**0.18**	**(0.37)**	**0.26**	**(0.59)**	**(7.36)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited figures in USD million)	Q2 18	Q1 18	Q2 17	6M 18	6M 17	2017
Net profit/(loss) for the period	**7.4**	**15.9**	**(33.0)**	**23.3**	**(52.1)**	**(647.1)**
Foreign currency translation	(1.1)	1.5	0.8	0.4	1.3	2.0
Revaluation hedging instruments	3.4	3.3	3.3	6.7	6.6	13.2
Other comprehensive income	**2.3**	**4.8**	**4.1**	**7.1**	**7.9**	**15.2**
Comprehensive income	**9.7**	**20.7**	**(28.9)**	**30.4**	**(44.2)**	**(631.9)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	**30.06.18**	**31.03.18**	**31.12.17**	**30.06.17**
Goodwill	0.0	0.0	0.0	226.7
Vessels	1,475.2	1,501.1	1,527.2	1,967.0
New builds	125.2	125.2	125.2	124.9
Other non-current assets	10.0	10.2	10.5	12.3
Total non-current assets	**1,610.4**	**1,636.5**	**1,662.9**	**2,330.9**
Cash and deposits	274.6	254.0	231.9	218.8
Other current assets	61.8	49.9	52.2	41.6
Total current assets	**336.4**	**303.9**	**284.1**	**260.4**
Total assets	**1,946.8**	**1,940.4**	**1,947.0**	**2,591.3**
Share capital	9.0	8.9	8.9	7.9
Other equity	487.3	477.6	488.7	1,077.4
Total equity	**496.3**	**486.5**	**497.6**	**1,085.3**
Interest-free long-term liabilities	40.3	43.9	57.5	68.2
Interest-bearing long-term debt	1,326.1	1,324.7	1,329.1	1,335.7
Total long-term liabilities	**1,366.4**	**1,368.6**	**1,386.6**	**1,403.9**
Other interest-free current liabilities	65.6	66.7	44.2	84.2
Current portion of long-term debt	18.5	18.6	18.6	17.9
Total current liabilities	**84.1**	**85.3**	**62.8**	**102.1**
Total equity and liabilities	**1,946.8**	**1,940.4**	**1,947.0**	**2,591.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited figures in USD million)	Note	Q2 18	Q1 18	Q2 17	6M 18	6M 17	2017
Profit/(Loss) before taxes		8.3	19.1	(31.9)	27.4	(49.4)	(639.3)
Share of loss of equity of an associate		(0.1)	0.2	0.0	0.1	0.0	3.1
Gain on sale of non-current assets		0.0	0.0	(1.0)	0.0	(1.0)	(1.1)
Depreciation	**3**	27.7	27.3	35.8	55.0	71.2	135.2
Impairment		0.2	0.1	0.0	0.3	0.0	573.9
Financial income		(0.8)	(0.4)	(0.4)	(1.2)	(0.5)	(1.4)
Financial costs		20.9	20.6	18.0	41.5	36.6	74.9
Change in working capital		(13.3)	(4.7)	(10.2)	(18.0)	27.3	11.8
Other items (used in) from Op.activities	**3**	1.5	(5.6)	9.3	(4.1)	10.3	13.4
Taxes paid		(0.9)	(5.3)	(0.5)	(6.2)	(1.6)	(14.4)
Net Cash flow from operating activities		**43.5**	**51.3**	**19.1**	**94.8**	**92.9**	**156.1**
Acquisition of tangible assets		(1.6)	(1.2)	(3.0)	(2.8)	(6.0)	(10.1)
Proceeds from sale of tangible assets		0.0	0.0	1.0	0.0	1.0	1.1
Interests received		0.8	0.4	0.4	1.2	0.5	1.4
Net cash flow used in investing activities		**(0.8)**	**(0.8)**	**(1.6)**	**(1.6)**	**(4.5)**	**(7.6)**
Repayment of interest-bearing debt		(1.2)	(7.8)	(31.3)	(9.0)	(38.7)	(47.4)
Interests paid		(20.9)	(20.6)	(18.0)	(41.5)	(36.6)	(74.9)
Net cash flow used in financing activities		**(22.1)**	**(28.4)**	**(49.3)**	**(50.5)**	**(75.3)**	**(122.3)**
Cash and deposits at beginning of period		254.0	231.9	250.6	231.9	205.7	205.7
Cash and deposits at end of period		**274.6**	**254.0**	**218.8**	**274.6**	**218.8**	**231.9**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD million)	Q2 18	Q1 18	Q2 17	6M 18	6M 17	2017
Equity at beginning of period	486.5	497.6	1,114.2	497.6	1,129.5	1,129.5
IFRS 15 adjustment to opening balance	0.0	(31.8)	0.0	(31.8)	0.0	0.0
Revised equity at beginning of period	**486.5**	**465.8**	**1,114.2**	**465.8**	**1,129.5**	**1,129.5**
New share issue	0.1	0.0	0.0	0.1	0.0	0.0
Comprehensive income for the period	9.7	20.7	(28.9)	30.4	(44.2)	(631.9)
Equity at end of period	**496.3**	**486.5**	**1,085.3**	**496.3**	**1,085.3**	**497.6**

NOTE 1: GENERAL INFORMATION

Prosafe SE is a public limited company domiciled in Larnaca, Cyprus. Prosafe SE is listed on the Oslo Stock Exchange with ticker code PRS. The consolidated financial statements for the second quarter of 2018 were authorised for issue in accordance with a resolution of the board of directors on 22 August 2018. The accounting figures are unaudited.

NOTE 2: ACCOUNTING PRINCIPLES

This interim financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, including IAS 34 Interim Financial Reporting. The accounting principles adopted are consistent with those of the previous financial year with the exception of IFRS 15 being adopted effective 1 January 2018. The company has applied IFRS 15 using the cumulative effect method– i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018.

As described in note 2 of the 2017 consolidated financial statements, the 2018 equity opening balance has been reduced by USD 31.8 million with a corresponding increase in deferred income (other current liabilities). The adjustment is due to deferred recognition of mobilisation and re-scheduling fees as well as earlier recognition of demobilisation fees. All adjustments relate to the current contracts for Safe Scandinavia, Safe Notos and Safe Boreas. Comparatives for 2017 have not been changed.

The effect of the adjustments to the income statement will increase revenue and the operating result as below:

(Unaudited figures in USD million)	**Q1 2018**	**Q2 2018**	**Q3-Q4 2018**	**2019**	**2020**
Revenue	8.7	8.7	7.2	4.7	2.5
Operating result before depreciation	8.7	8.7	7.2	4.7	2.5

NOTE 3: RECLASSIFICATION

To align with the industry practice and purifying the operating expenses, the company has reclassified SPS costs from operating expenses to depreciation. There is no impact to the net operating profit (loss) or cash flow. The tables below show the effect to the income statement and cash flow statement.

CONDENSED CONSOLIDATED INCOME STATEMENT

Previously Reported

(Unaudited figures in USD million)	**Q2 17**	**6M 17**	**2017**
Operating expenses	(37.3)	(82.2)	(160.1)
EBITDA	**24.4**	**55.2**	**122.9**
Depreciation	(33.8)	(67.2)	(127.2)

NOTE 3: RECLASSIFICATION (Con't)

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	Q2 17	6M 17	2017
Operating expenses	(35.3)	(78.2)	(152.1)
EBITDA	**26.4**	**59.2**	**130.9**
Depreciation	(35.8)	(71.2)	(135.2)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Previously Reported

(Unaudited figures in USD million)	Q2 17	6M 17	2017
Depreciation	33.8	67.2	127.2
Other items from operating activities	10.8	12.7	21.4

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	Q2 17	6M 17	2017
Depreciation	35.8	71.2	135.2
Other items from operating activities	9.3	10.3	13.4

NOTE 4: CONTINGENT ASSET

Westcon dispute

On 8 March 2018, Stavanger City Court made a favourable decision in the court case regarding the dispute with Westcon Yards AS (Westcon). The dispute between Westcon and Prosafe was related to a substantial cost overrun of Westcon's price estimate for the conversion of the Safe Scandinavia to a tender support vessel. Westcon claimed an additional compensation of approx. NOK 306 million plus interest, whereas Prosafe disputed Westcon's claim and claimed a substantial repayment. The Court decided in favour of Prosafe that Westcon must repay Prosafe NOK 344 million plus interest and NOK 10.6 million of legal costs.

On 19 April 2018, Westcon has filed an appeal against the Stavanger City Court judgement. Prosafe filed a counter-appeal on 28 May 2018. While awaiting final appeal outcome of the dispute, Prosafe considers the amount payable by Westcon to be a contingent asset under IAS 37, and has therefore not recognised the amount as at 30 June 2018.

NOTE 5: EVENTS AFTER THE BALANCE SHEET DATE

COSCO Shipping (Qidong) Offshore Co. Ltd ('COSCO') – New Builds

In August 2018, Prosafe reached an agreement with COSCO for the three completed vessels – Safe Eurus, Safe Nova and Safe Vega, which currently reside in COSCO's Qidong shipyard in China. The estimated final instalments combined for the three Units is USD 531 million of which a total of USD 100 million will be paid upon delivery for the three Units combined and the remaining approx. USD 431 million to be financed through long-term financing provided by COSCO with a repayment period of between 5 and 10 years from delivery of each Unit.

Prosafe has accrued lay-up costs for Safe Eurus in accordance with the previous agreement with COSCO. In the latest addendum, COSCO agreed to waive its right to the lay-up payment for Safe Eurus totalling ca. USD 24 million by year end 2019 (ca. USD 8 million per year from end 2016) subject to delivery of the unit. Prosafe will reverse accrued lay up costs when the company gives notice to COSCO for taking delivery of the vessel no later than end 2019.

Amendments of the loan facilities

Prosafe has also been in recent discussions with its lenders in respect of its loan facilities to enable it to fully utilise the strategic optionality and flexibility provided by the new Agreement with Cosco, preserve values in the near term and potentially increase longer term cash flow for the benefit of all stakeholders.

At this stage in the process Prosafe has support to the amendments from approx. 94 per cent of the lenders, subject to final credit approvals and customary conditions precedents, and expect finalization within August.

For further details of the Agreement with Cosco and the lenders please refer to press release from 6th August 2018.

Financial impact of the agreement with lenders

On the assumption that the agreement with lenders becomes effective in the near term, the resulting change to the present value of the loans will be added to the debt in the balance sheet in the Q3 report. Further it will be reflected as financial cost in the Profit and Loss account and thereby in the equity in the balance sheet.