Prosafe

THIRD QUARTER 2018

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

In the third quarter, Prosafe finalised the transforming agreements with COSCO and its lenders, secured several contracts and extensions and grew the firm order book. EBITDA[1] for the third quarter amounted to USD 31.3 million (USD 29.6 million). Cash flow from operations was USD 26.6 million (USD 19 million).

Recent highlights

- Transforming agreements with COSCO and lenders were approved and are effective from 31 August.
- Continued improvement of the fleet utilisation[2] at 48.1 per cent (38.9 per cent) and good operating performance in the quarter
- Grew firm order book.
- EBITDA of USD 31.3 million (USD 29.6 million) reflecting improved utilisation and cost control partially offset by lower average day rates and non-recurring costs (USD 1.8 million).
- Improved cash flow from operations in Q3 at USD 26.6 million (USD 19 million)
- In September, the Safe Caledonia was awarded a contract by a major operator in the UK with a firm period of four months plus two months of options in 2019.
- In September, Equinor and Prosafe agreed an addendum to the contract which extends Safe Boreas' firm operational period through June 2019 with additional six one-month options.
- In October, Safe Zephyrus was awarded a contract by BP to provide support at the Clair Ridge platform in the UK. The duration of the contract is five months with a one-month option, and is scheduled to commence mid-May 2019 following the completion of the Johan Sverdrup contract.

Operations

The fleet utilisation rate in the third quarter of 2018 was 48.1 per cent (38.9 per cent).

Safe Scandinavia commenced operations at Aker BP's Ula platform on the Norwegian Continental Shelf on 1 September 2018 and was in operation throughout the month. The contract has a duration of seven months with eight one-month options.

Safe Caledonia has been operating for BP at the Clair Ridge platform in the UK since 22 May 2018 and was in full operation throughout the quarter. On 6 August 2018, BP exercised a one-month option to extend the charter period for Safe Caledonia through end November 2018.

On 19 September 2018, the Safe Caledonia was awarded a contract by a major oil and gas operator in the UK sector of the North Sea. The contract is scheduled to commence from mid-April 2019 with a firm duration of four months and up to two months of options.

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.

Safe Boreas continued the contract with Equinor at the Mariner installation in the UK and was in full operation throughout the quarter. During July and August, Equinor exercised the first two of six one-month options, thereby extending Safe Boreas' operational period through early November 2018. On 24 September 2018, Equinor and Prosafe agreed an addendum to the contract which extends the firm period through June 2019 with additional six one-month options.

[1] EBITDA = operating result before depreciation, amortisation, interests and taxes
[2] Fleet utilisation = actual vessel days in operation in the period / possible vessel days in the period x 100

Safe Zephyrus commenced a 12-month contract for Equinor at Johan Sverdrup in Norway in early May 2018 and was in operation throughout the quarter. On 11 October 2018, Safe Zephyrus was awarded a contract by BP to provide accommodation support at the Clair Ridge platform West of Shetland in the UK sector of the North Sea. The duration of the contract is five months with a one-month option, and is scheduled to commence mid-May 2019 following the completion of the Johan Sverdrup contract.

Safe Concordia mobilised from Curacao to Brazil and has been on standby from 5 October 2018. She is anticipated to commence the contract for MODEC within end October 2018. The firm period of the contract is 200 days.

Regalia and Safe Bristolia were idle in the quarter and are currently laid-up in Norway.

Prosafe commenced the selling of the Safe Astoria for scrap in this quarter and will ensure the process will be completed in a responsible manner.

On 3 August 2018, Prosafe announced that it had reached a commercial solution with COSCO for the three completed vessels that currently reside in COSCO's Qidong shipyard in China, as well as agreement with its lenders for amendments to the loan agreements. Please refer to full details in the announcement from 3 August 2018.

Financials

Third quarter 2018

EBITDA for the third quarter amounted to USD 31.3 million (USD 29.6 million). The increase is mainly due to improved utilisation and cost control partially offset by lower average day rates and non-recurring costs (USD 1.8 million) mostly related to the agreement with COSCO and re-sizing of the organisation.
Depreciation was USD 28.8 million (USD 36.8 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 third quarter amounted to USD 3 million (operating loss of USD 616.2 million including an impairment charge of USD 609 million).

Net financial costs amounted to USD 111.8 million (USD 16.3 million) of which USD 98.4 million are non-cash and one-off items. The USD 98.4 million of non-cash and one-off items related to respectively a discontinued cashflow hedge of USD 41.6 million and a fair value adjustment of USD 56.8 million resulting from the modification of USD 1.3 billion loan facility effective in August. Please refer to notes 5 and 6 in this report for details.

Total assets at 30 September amounted to USD 1,907 million (USD 1,957.3 million). Net interest-bearing debt equalled USD 1,123.9 million (USD 1,139.8 million), and the book equity ratio was 22 per cent (23 per cent).

YTD 2018

Fleet utilisation was 42.4 per cent (39.1 per cent). EBITDA YTD amounted to USD 137.6 million (USD 88.8 million). The increase in EBITDA is mainly due to improved utilisation; revenue adjustment relating to IFRS 15 and cost control.

Depreciation and impairment amounted to USD 83.6 million (USD 717 million including an impairment charge of USD 609 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 54 million (operating loss of USD 628.2 million including an impairment charge of USD 609 million).

Net financial costs YTD amounted to USD 135.5 million (USD 53.7 million). The increase in 2018 is mainly due to non-cash and one-off effects relating to fair value adjustment of loan amount by USD 56.8 million and recognition of discontinued cashflow hedge reserve balance by USD 41.6 million in profit and loss account. This is partially offset by higher positive effect from fair value adjustment for all derivatives.

Net loss YTD equalled USD 88.7 million (net loss of USD 687.1 million including an impairment charge of USD 609 million).

Outlook

Tendering activity continues to pick up with opportunities arising within the North Sea and internationally. One main driver for the increase is maintenance and modification work being sanctioned as a result of higher oil prices.

Brazil continues to be seen as an important market with tender activity expected in the period ahead. In addition, Prosafe continues its efforts in Mexico to be well positioned when opportunities again arise.

While the current pricing and backlog do not support earnings growth in 2019, the company expects utlilisation to continue improving in 2019 with an anticipated increase in rates from 2020.

Stavanger, 5 November 2018

The Board of Directors of Prosafe SE

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited figures in USD million)	**Q3 18**	**Q2 18**	**Q3 17**	**9M 18**	**9M 17**	**2017**
Operating revenues	73.6	100.3	68.9	256.7	206.3	283.0
Operating expenses	(42.3)	(43.2)	(39.3)	(119.1)	(117.5)	(152.1)
Operating results before depreciation	**31.3**	**57.1**	**29.6**	**137.6**	**88.8**	**130.9**
Depreciation	(28.8)	(27.7)	(36.8)	(83.8)	(108.0)	(135.2)
Impairment	0.5	(0.2)	(609.0)	0.2	(609.0)	(573.9)
Operating profit/(loss)	**3.0**	**29.2**	**(616.2)**	**54.0**	**(628.2)**	**(578.2)**
Interest income	0.9	0.8	0.5	2.1	1.0	1.4
Interest expenses (Note 5, 6)	(116.1)	(20.9)	(19.1)	(157.7)	(55.7)	(74.9)
Other financial items	3.4	(0.8)	2.3	20.1	1.0	12.4
Net financial items	**(111.8)**	**(20.9)**	**(16.3)**	**(135.5)**	**(53.7)**	**(61.1)**
Profit/(Loss) before taxes	**(108.8)**	**8.3**	**(632.5)**	**(81.5)**	**(681.9)**	**(639.3)**
Taxes	(3.2)	(0.9)	(2.5)	(7.2)	(5.2)	(7.8)
Net profit/(loss)	**(112.0)**	**7.4**	**(635.0)**	**(88.7)**	**(687.1)**	**(647.1)**
EPS	**(1.37)**	**0.09**	**(8.89)**	**(1.08)**	**(9.62)**	**(9.06)**
Diluted EPS	**(1.24)**	**0.08**	**(7.22)**	**(1.01)**	**(7.81)**	**(7.36)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited figures in USD million)	**Q3 18**	**Q2 18**	**Q3 17**	**9M 18**	**9M 17**	**2017**
Net profit/(loss) for the period	**(112.0)**	**7.4**	**(635.0)**	**(88.7)**	**(687.1)**	**(647.1)**
Foreign currency translation	(2.8)	(1.1)	2.0	(2.4)	3.3	2.0
Revaluation hedging instruments (Note 5)	41.6	3.4	3.3	48.3	9.9	13.2
Other comprehensive income	**38.8**	**2.3**	**5.3**	**45.9**	**13.2**	**15.2**
Comprehensive income	**(73.2)**	**9.7**	**(629.7)**	**(42.8)**	**(673.9)**	**(631.9)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	**30.09.18**	**30.06.18**	**31.12.17**	**30.09.17**
Vessels	1,451.1	1,475.2	1,527.2	1,555.0
New builds	125.8	125.2	125.2	124.9
Other non-current assets	15.7	10.0	10.5	11.2
Total non-current assets	**1,592.6**	**1,610.4**	**1,662.9**	**1,691.1**
Cash and deposits	266.1	274.6	231.9	207.8
Other current assets	48.3	61.8	52.2	58.4
Total current assets	**314.4**	**336.4**	**284.1**	**266.2**
Total assets	**1,907.0**	**1,946.8**	**1,947.0**	**1,957.3**
Share capital	9.0	9.0	8.9	7.9
Other equity	414.1	487.3	488.7	447.7
Total equity	**423.1**	**496.3**	**497.6**	**455.6**
Interest-free long-term liabilities	34.2	40.3	57.5	67.9
Interest-bearing long-term debt	1,371.5	1,326.1	1,329.1	1,329.0
Total long-term liabilities	**1,405.7**	**1,366.4**	**1,386.6**	**1,396.9**
Other interest-free current liabilities	59.7	65.6	44.2	86.2
Current portion of long-term debt	18.5	18.5	18.6	18.6
Total current liabilities	**78.2**	**84.1**	**62.8**	**104.8**
Total equity and liabilities	**1,907.0**	**1,946.8**	**1,947.0**	**1,957.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited figures in USD million)	Q3 18	Q2 18	Q3 17	9M 18	9M 17	2017
Profit/(Loss) before taxes	(108.8)	8.3	(632.5)	(81.4)	(681.9)	(639.3)
Share of loss of equity of an associate	0.7	(0.1)	0.0	0.9	0.0	3.1
Gain on sale of non-current assets	0.0	0.0	0.0	0.0	(1.0)	(1.1)
Depreciation	28.8	27.7	36.8	83.8	108.0	135.2
Impairment	(0.5)	0.2	609.0	(0.2)	609.0	573.9
Financial income	(0.9)	(0.8)	(0.5)	(2.1)	(1.0)	(1.4)
Financial costs	116.2	20.9	19.1	157.7	55.7	74.9
Change in working capital	7.1	(13.3)	(14.8)	(11.0)	12.5	11.8
Other items (used in) from operating activities	(13.4)	1.5	8.3	(17.4)	18.6	13.4
Taxes paid	(2.6)	(0.9)	(6.4)	(8.8)	(8.0)	(14.4)
Net cash flow from operating activities	**26.6**	**43.5**	**19.0**	**121.5**	**111.9**	**156.1**
Acquisition of tangible assets	(4.8)	(1.6)	(4.0)	(7.7)	(10.0)	(10.1)
Proceeds from sale of tangible assets	0.0	0.0	0.0	0.0	1.0	1.1
Interests received	0.9	0.8	0.5	2.1	1.0	1.4
Net cash flow used in investing activities	**(3.9)**	**(0.8)**	**(3.5)**	**(5.6)**	**(8.0)**	**(7.6)**
Repayment of interest-bearing debt	(8.1)	(1.2)	(7.4)	(17.1)	(46.1)	(47.4)
Refinancing Cost	(4.2)	0.0	0.0	(4.2)	0.0	0.0
Interests paid	(18.9)	(20.9)	(19.1)	(60.4)	(55.7)	(74.9)
Net cash flow used in financing activities	**(31.2)**	**(22.1)**	**(26.5)**	**(81.7)**	**(101.8)**	**(122.3)**
Net cash flow	**(8.5)**	**20.6**	**(11.0)**	**34.2**	**2.1**	**26.2**
Cash and deposits at beginning of period	274.6	254.0	218.8	231.9	205.7	205.7
Cash and deposits at end of period	**266.1**	**274.6**	**207.8**	**266.1**	**207.8**	**231.9**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD million)	Q3 18	Q2 18	Q3 17	9M 18	9M 17	2017
Equity at beginning of period	496.3	486.5	1,085.3	497.6	1,129.5	1,129.5
IFRS 15 adjustment to opening balance	0.0	0.0	0.0	(31.8)	0.0	0.0
Revised equity at beginning of period	**496.3**	**486.5**	**1,085.3**	**465.8**	**1,129.5**	**1,129.5**
New share issue	0.0	0.1	0.0	0.1	0.0	0.0
Comprehensive income for the period	(73.2)	9.7	(629.7)	(42.8)	(673.9)	(631.9)
Equity at end of period	**423.1**	**496.3**	**455.6**	**423.1**	**455.6**	**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 third quarter of 2018 were authorised for issue in accordance with a resolution of the board of directors on 5 November 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.

IFRS 15 Revenue from contracts with customers

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 2018	Q4 2018	2019	2020
Revenue	8.7	8.7	5.2	1.6	5.1	2.5
Operating result before depreciation	8.7	8.7	5.2	1.6	5.1	2.5

IFRS 16 Leases

The new accounting standard IFRS 16 Leases is effective from 1 January 2019. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and replaces the existing IAS 17 and other guidance on lease accounting within IFRS. The new standard represents a significant change in lessees' accounting for leases but keeps the accounting model for lessors mainly unchanged.

IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For each contract that meets this definition, IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability in the balance sheet with certain exemptions for short term and low value leases. Lease payments are to be reflected as interest expense and a reduction of lease liabilities, while the right-of-use assets are to be depreciated over the shorter of the lease term and the assets' useful life. The portion of lease payments representing payments of lease liabilities shall be classified as cash flows used in financing activities in the statement of cash flows.

Prosafe will apply the following policies and practical expedients available upon transition (if any):

- For contracts already assessed under IAS 17, there will be no reassessment of whether a contract is or contains a lease.
- The opening balance of equity 1 January 2019 will be adjusted with the cumulative implementation effect ("the modified retrospective method").
- Prior year comparatives will not be restated.
- Lease liabilities will be measured at the present value of remaining lease payments, discounted using the incremental borrowing rate 1 January 2019.
- Right-of-use assets will be measured at an amount equal to the lease liability.
- Leases for which the lease term ends during 2019 will be expensed as short term leases.
- Major lease liabilities for Prosafe comprise of leases of chartered-in vessels, office spaces, warehouses, transportation, logistics assets and other IT infrastructure and office equipment.
- Prosafe will separately expense variable expense services and other non-lease components embedded in lease contracts for office spaces, warehouses. For leases of other assets, Prosafe will capitalise non-lease components subject to fixed payments as part of the lease.
- Prosafe will apply the short term exemption available on transition 1 January 2019. This means that all leases with a lease term that ends in 2019 will be expensed as before and not capitalized upon transition. Subsequently, Prosafe will also apply the general short term exemption in IFRS 16 for leases of chartered-in vessels, office spaces, warehouses, transportation, logistics assets and other IT infrastructure and office equipment.
- Prosafe will apply the general low value exemption in IFRS 16 for leases of office equipment and other equipment. This means that no low value leases of such assets will be capitalized and that lease payments will be expensed to profit or loss.

As mentioned in the annual report 2017, the effect on the adoption of the IFRS 16 on the consolidated financial statements is not expected to be material.

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)	Q3 17	9M 17	2017
Operating expenses	(41.3)	(123.5)	(160.1)
EBITDA	**27.6**	**82.8**	**122.9**
Depreciation	(34.8)	(102.0)	(127.2)

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	Q3 17	9M 17	2017
Operating expenses	(39.3)	(117.5)	(152.1)
EBITDA	**29.6**	**88.8**	**130.9**
Depreciation	(36.8)	(108.0)	(135.2)

NOTE 3: RECLASSIFICATION (Con't)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Previously Reported

(Unaudited figures in USD million)	**Q3 17**	**9M 17**	**2017**
Depreciation	34.8	102.0	127.2
Other items from operating activities	10.3	24.6	21.4

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	**Q3 17**	**9M 17**	**2017**
Depreciation	36.8	108.0	135.2
Other items from operating activities	8.3	18.6	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 September 2018.

NOTE 5: CASHFLOW HEDGE

Under *IFRS 9 Financial Instrument*, when an entity discontinues hedge accounting for a cashflow hedge and the amount accumulated in the cashflow hedge reserve is a loss, this amount should be immediately reclassified from the reserve into Profit and Loss Account if the entity does not expect the loss will be recovered in one or more future periods. In this quarter, Prosafe has assessed the discontinued cashflow hedge reserve balance of USD 41.6 million (as at 30 June 2018) and concluded that the amount is not expected to be recovered in the future periods due to the interest rate development and forward curve. As a consequence of this assessment, the reserve balance of USD 41.6 million is taken into part of financial costs in the third quarter, but it will have positive effect on financial costs by USD 3 million per quarter going forward.

NOTE 6: REFINANCING

Prosafe has been in 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. On 29 August 2018, Prosafe received confirmation of support from all lenders for implementation of the amendments to the Company's bank facilities and the revised agreements were effective from 31 August 2018.

Under *IFRS 9*, when a debt instrument is restructured or refinanced and the terms have been modified, it is necessary to assess whether the new terms are considered to have been substantially modified, and thereby conclude on the accounting treatment relating to the loan recognition.

Prosafe has assessed that the refinancing is a non-substantial loan modification that does not require de-recognition based on qualitative and quantitative assessments under IFRS 9. Under a non-substantial loan modification that does not require de-recognition of the financial liability, the carrying values of the financial liability under the new terms need to be measured at fair value. To reflect the new net present value of the loan, a fair value adjustment of USD 56.8 million is added in the carrying value of the loan and the same amount of financial costs is being recognised in the profit or loss in this quarter. The fair value adjustment carried in the loan amount is mainly the effect from the reduction of the USD 1.3 billion facility amortization and the increased margin under the new financing term, and will be amortized over the remaining loan periods.