Prosafe

FIRST QUARTER 2020

(Figures in brackets refer to the corresponding period of 2019)

Reported EBITDA[1] for the first quarter was USD 1.1 million (USD 24.1 million), reflecting low activity and the ongoing process with lenders for a sustainable financial solution. Cash flow from operations was negative by USD 13 million (a positive of USD 17.1 million).

The effects of Covid-19 and the oil price collapse have had a dramatic impact on the global macro economy, oil demand and consequently capital markets and market outlook. In combination with the structural shifts on the Norwegian shelf in particular and the significant oversupply of vessels, this has led the company to materially reassess the outlook. Consequently, an impairment of USD 810.5 million was made to the book value of vessels in the quarter. This resulted in a negative book equity of USD 858.9 million by the end of the quarter.

Prosafe had adequate liquidity of USD 183.6 million at the end of Q1 2020. The company has presented a business plan and a restructuring proposal to lenders which – if approved as proposed – will result in a sustainable balance sheet. However, it is too early to conclude whether this proposal or a variation of it will eventually be agreed and as such estimate the effects thereof. The company has sent a request to lenders to extend the forbearance arrangement till end June 2020 in order to ensure stability and sufficient time to seek agreement with lenders. Pending conclusions, the company continues to operate on a going concern basis to protect and create value through challenging market conditions on the assumption that there is justified hope for a sustainable financial solution.

Recent highlights

- Prosafe implemented Covid-19 plans early to safeguard people and assets, and this has proven successful both onshore and offshore.
- Total liquidity of USD 183.6 million per Q1 2020. Based on a continuation of the forbearance arrangement and the deferral of making payment of scheduled instalments and interests on loans, the company is all else equal able to stay cash positive well beyond the next 12 months.
- The company has presented a restructuring proposal to lenders that if approved as proposed, will result in a sustainable balance sheet. The company has requested an extension to the forbearance arrangement till end June 2020 to ensure stability and sufficient time to seek agreement with lenders.
- On 13 February 2020, Prosafe and Floatel International mutually decided to discontinue the merger process due to financial uncertainty and process risk.
- In light of Covid-19 and the oil price crash, the company is in commercial discussions with several clients.
- Fleet utilisation of 32.7 per cent (62.5 per cent) in the quarter.
- Regalia will be marketed for recycling.
- Firm order book of USD 127 million per Q1 2020 (USD 159 million).
- Reported EBITDA was USD 1.1 million (USD 24.1 million positive) in the quarter. Underlying EBITDA in the quarter adjusted for one-off effects was USD 2.1 million.
- An impairment of USD 810.5 million made to the book value of vessels and the book equity was negative by USD 858.9 million as of March 2020.

[1] EBITDA = operating result before depreciation, amortisation, interests and taxes

Operations

The fleet utilisation rate in the first quarter of 2020 was 32.7 per cent (Q1 2019: 62.5 per cent). Prosafe refers to the press release from 9 April 2020 regarding discussions with clients about current and upcoming contracts in light of Covid-19 and the oil price collapse. These discussions are ongoing. Please see status and update per vessel below.

On 13 March 2020, Safe Zephyrus was awarded a 21-day contract by EnQuest. The vessel was ready to mobilize from Averøy in Norway to support EnQuest's Thistle project, but was instructed by EnQuest on 20 March 2020 not to mobilize. Prosafe has claimed the full contract value, ca. USD 2 million. After the EnQuest contract, Safe Zephyrus was scheduled to mobilise to Shell at Shearwater to commence a 110-day contract with a 30-day option in Q2 2020. Prosafe has been informed by Shell that this project will not be performed in 2020 and discussions with the client are ongoing.

Safe Caledonia was laid up in the UK. The vessel was initially prepared to commence a 162-day contract with a 30-day option for Total at the Elgin complex in the UK sector of the North Sea from mid-April 2020. As previously informed, Prosafe has now agreed with the client to defer this project by one year.

Safe Notos has been operating on a three-year and 222-day contract for Petrobras in Brazil since 7 December 2016. Safe Eurus has been providing safety and maintenance support to Petrobras during a three-year contract since November last year. On 21 March 2020, client personnel on both vessels were demobilised and the vessels were moved closer to shore. During this period, the vessels were on 95% stand-by day rate. From early April 2020, Prosafe has been requested to agree a suspension of the contract for a period of up to 120 days during which period all logistical services, fuel and catering support will continue to be provided by Petrobras, and any days of suspension will be added to the firm period of the contract. Commercial and payment terms related to the recommencement are subject to ongoing discussions.

Safe Concordia commenced the contract for Equinor at the Peregrino FPSO in the Campos Basin offshore Brazil in mid-January 2020. The contract has a duration of 120 days. The vessel was on full day rate during the whole operation in the quarter. No options were called by the client.

Safe Scandinavia, Regalia and Safe Boreas were idle in the quarter and were laid up in Norway. On 15 March 2020, the sale of Safe Bristolia for recycling was completed in accordance with all relevant conventions. Regalia will be marketed for recycling.

Prosafe implemented Covid-19 plans early to safeguard people and assets, and this has proven successful both onshore and offshore.

The company has incurred non-recurring costs of approximately USD 1 million in the quarter, which were largely related to ongoing process with lenders for a long-term financial solution.

In light of the ongoing commercial discussions with clients as outlined above, there is uncertainty related to the extent to which the order backlog will materialize in 2020 as scheduled as well as to the final outcome of those negotiations.

Financials

First quarter 2020

EBITDA for the first quarter was USD 1.1 million (USD 24.1 million), which includes one-off costs of USD 1 million mainly relating to ongoing process with lenders for a long-term financial solution. The decrease in EBITDA was mainly due to lower utilisation and lower average day rates, but partially offset by lower operating costs.

Depreciation was USD 18.2 million (USD 26.2 million) in the quarter. The decline is mainly due to the lower carrying value of the assets following the impairments carried out in Q3 2019.

The effects of Covid-19 and the oil price collapse have had a dramatic impact on the global macro economy, oil demand and consequently capital markets and market outlook. In combination with the structural shifts on the Norwegian shelf in particular and the significant oversupply of vessels, this has led the company to materially reassess the outlook. Consequently, an impairment of USD 810.5 million was made to the book value of vessels in the quarter. This resulted in a negative book equity of USD 858.9 million by the end of the quarter.

Operating loss for the first quarter amounted to USD 827.6 million (operating loss of USD 6.5 million). The loss in the quarter was mainly due to the impairment charge.

Net financial costs amounted to USD 26.6 million (USD 20.4 million).

Net loss equalled USD 855.1 million (net loss of USD 28.2 million), which includes an impairment change of USD 810.5 million.

Cash flow from operations was negative by USD 13 million (a positive of USD 17.1 million). The key reasons for the decline in cash flow were mainly lower utilisation, lower average day rate but partially offset by lower operating costs.

Total assets at 31 March amounted to USD 639.2 million (USD 1,684.4 million). The decrease in total assets was mostly due to the depreciation and the impairment carried out in Q1 2020 and Q3 2019 partially offset by the addition of the Safe Eurus. Net interest-bearing debt equalled USD 1,237.2 million (USD 1,105.6 million). The increase in net interest-bearing debt was mainly due to taking delivery of the Safe Eurus during Q3 2019, partially offset by a one-off positive adjustment of USD 28.7 million to amortised cost of interest bearing debts resulting from lenders re-electing PIK margin instead of warrants in Q4 2019.

At the end of the first quarter, the book equity ratio turned to a negative 134.4 per cent (a positive 22.1 per cent). As indicated in the previous press release updates relating to lender discussions, Prosafe has presented a restructuring proposal that – if approved as proposed - will result in a sustainable balance sheet. However, it is too early to conclude whether this proposal or a variation of it will eventually be agreed and as such estimate the effects thereof.

Pending a long-term financial solution agreed with lenders, the company currently continues to operate on a business as usual basis under the forbearance agreement to protect and create value through challenging market conditions.

The process with the lenders remains constructive and as such this interim report relies on an underlying going concern assumption based on the Board of Director's view that obtaining a long-term solution should be achievable.

Update on merger process

On 13 February 2020, Prosafe and Floatel International mutually decided to discontinue the merger process due to financial uncertainty and process risk. The regrettable conclusion was that any near term completion of a value enhancing merger was unlikely.

Update on refinancing process

Please refer to Note 5 - Refinancing and going concern for details.

Strategy and Outlook

The Covid-19 pandemic and the oil price collapse since March 2020 have resulted in a dramatic change in market conditions, economic outlook and ways of living and working. The entire oil and gas services industry is exposed to a “double Black Swan event”, and short-term planning as well as longer term forecasting is extremely challenging, whilst at the same time being critical.

Against the aforesaid, the company has completed a holistic strategic and financial analysis to arrive at a best effort business plan and long term forecast. While recognising the high level of uncertainty and therefore adding wider sensitivities as referred to in Note 4 herein, the revised business plan reflects a new reality.

The current industry activity and global fleet utilization with offshore accommodation remain at a very low level. At the same time the company is in discussion with clients related to upcoming and ongoing contracts on such subjects as temporary suspensions and/or deferral as well as commercial and payment terms. One contract has also been terminated by client and the company has claimed the full contract value. The near term situation is therefore very volatile and there is consequently uncertainty related to the extent to which the order backlog will materialize in 2020.

For the longer term, the company continues to believe that there will be a need for accommodation units in traditional key regions such as Brazil and most likely also Mexico, while there may be sporadic requirements also in other regions including the North Sea. In addition, the company is of the opinion that such a market outlook over time will lead to a gradual rebalancing of the market following scrapping of older and less competitive vessels. In this perspective, Prosafe’s ambition remains to pursue a leading position based on global presence, safe and low cost operations and fleet enhancement. The strategy to take an active role in future consolidation remains.

In sum, the company’s aim remains to arrive at a sustainable financial solution in order to protect values to the extent possible and establish a sound basis upon which to create value in the future from cost efficient and safe operations, commercial performance and strategic initiatives including consolidation.

26 May 2020

The Board of Directors of Prosafe SE

………………………..	………………………..
Glen O. Rødland	Birgit Aagaard-Svendsen
Non-executive Chairman	Non-executive Director
………………………..	………………………..
Nina Udnes Tronstad	Alf C. Thorkildsen
Non-executive Director	Non-executive Director

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited figures in USD million)	Note	Q1 2020	Q1 2019	Full Year 2019
Operating revenues		25.0	67.3	225.4
Operating expenses		(23.9)	(43.2)	(128.3)
Operating results before depreciation		**1.1**	**24.1**	**97.1**
Depreciation		(18.2)	(26.2)	(93.5)
Impairment	4	(810.5)	(4.4)	(346.2)
Operating profit/(loss)		**(827.6)**	**(6.5)**	**(342.6)**
Interest income		0.4	0.3	2.1
Interest expenses		(18.8)	(15.3)	(34.6)
Other financial items		(8.2)	(5.4)	(20.0)
Net financial items		**(26.6)**	**(20.4)**	**(52.5)**
Profit/(Loss) before taxes		**(854.2)**	**(26.9)**	**(395.1)**
Taxes		(0.9)	(1.3)	(4.8)
Net profit (loss)		**(855.1)**	**(28.2)**	**(399.9)**
EPS		**(9.72)**	**(0.32)**	**(4.54)**
Diluted EPS		**(9.72)**	**(0.32)**	**(4.54)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited figures in USD million)	Q1 2020	Q1 2019	Full Year 2019
Net profit/(loss) for the period	**(855.1)**	**(28.2)**	**(399.9)**
Foreign currency translation	(6.2)	0.4	2.2
Pension remeasurement	0.0	0.0	(0.1)
Other comprehensive income	**(6.2)**	**0.4**	**2.1**
Total comprehensive income	**(861.3)**	**(27.8)**	**(397.8)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	Note	31.03.20	31.03.19	31.12.19
Vessels	4	436.8	1,401.3	1,204.6
New builds	4	1.1	125.8	60.7
Other non-current assets		1.8	3.0	1.9
Total non-current assets		**439.7**	**1,530.1**	**1,267.2**
Cash and deposits		183.6	109.3	198.1
Other current assets		15.9	45.0	14.9
Total current assets		**199.5**	**154.3**	**213.0**
Total assets		**639.2**	**1,684.4**	**1,480.2**
Share capital		9.0	9.0	9.0
Other equity		(867.9)	363.4	(6.6)
Total equity		**(858.9)**	**372.4**	**2.4**
Interest-free long-term liabilities		40.9	22.1	29.9
Interest-bearing long-term debt		77.1	1,171.3	76.7
Total long-term liabilities		**118.0**	**1,193.4**	**106.6**
Other interest-free current liabilities		36.4	75.0	50.0
Current portion of long-term debt	5	1,343.7	43.6	1,321.2
Total current liabilities		**1,380.1**	**118.6**	**1,371.2**
Total equity and liabilities		**639.2**	**1,684.4**	**1,480.2**

KEY FIGURES IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	31.03.20	31.03.19	31.12.19
Total assets	639.2	1,684.4	1,480.2
Working capital	(1,180.6)	35.7	(1,158.2)
Liquidity reserve	183.6	264.3	198.1
Interest-bearing debt	1,420.8	1,214.9	1,397.9
Net Interest-bearing debt	1,237.2	1,105.6	1,199.8
Book equity	(858.9)	372.4	2.4
Book equity ratio	(134.4)%	22.1 %	0.2 %

Notes:

1. Currents Assets-Current Liabilities
2. Cash and deposits + available liquidity reserve balance under a committed revolving credit facility
3. Interest-bearing debt - Cash and deposits
4. (Book equity / Total asset) * 100

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited figures in USD million)	Note	Q1 2020	Q1 2019	Full Year 2019
Profit/(Loss) before taxes		(854.2)	(26.9)	(395.1)
Share of loss of equity of an associate		0.0	0.8	0.8
(Gain) Loss on sale of non-current assets		0.2	0.0	(0.2)
Depreciation		18.2	26.2	93.5
Impairment	4	810.5	4.4	346.2
Financial income		(0.4)	(0.3)	(2.1)
Financial costs		18.8	15.3	34.6
Change in working capital		(13.3)	(7.1)	(0.5)
Other items (used in) from operating activities		9.5	6.1	15.6
Taxes paid		(2.3)	(1.4)	(6.2)
Net cash flow from operating activities		**(13.0)**	**17.1**	**86.6**
Acquisition of tangible assets		(1.2)	(5.0)	(77.5)
Net (payments)/proceeds from sale of tangible assets		(0.2)	0.0	0.2
Interests received		0.4	0.3	2.1
Net cash flow used in investing activities		**(1.0)**	**(4.7)**	**(75.2)**
Proceeds from new interest-bearing debt		0.0	0.0	155.0
Repayment of interest-bearing debt		(0.5)	(25.7)	(37.9)
Interests paid		0.0	(17.7)	(70.7)
Net cash flow (used in) from financing activities		**(0.5)**	**(43.4)**	**46.4**
Net cash flow		**(14.5)**	**(31.0)**	**57.8**
Cash and deposits at beginning of period		198.1	140.3	140.3
Cash and deposits at end of period		**183.6**	**109.3**	**198.1**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD million)	Q1 2020.00	Q1 2019	Full Year 2019
Equity at beginning of period	2.4	400.2	400.2
Revised equity at beginning of period	**2.4**	**400.2**	**400.2**
Comprehensive income for the period	(861.3)	(27.8)	(397.8)
Equity at end of period	**(858.9)**	**372.4**	**2.4**

NOTE 1: GENERAL INFORMATION

Prosafe SE is a public limited company domiciled in Stavanger, Norway. Prosafe SE is listed on the Oslo Stock Exchange with ticker code PRS. The consolidated financial statements for the first quarter of 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 26 May 2020. 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.

NOTE 3: 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 the company 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 the company disputed Westcon's claim and claimed a substantial repayment. The Court decided in favour of the company that Westcon must repay the company NOK 344 million plus interest and NOK 10.6 million of legal costs. In April 2018, Westcon has filed an appeal against Stavanger City Court judgement and the company has filed a counter appeal.

While awaiting the final outcome of the dispute, the company considers the amount payable by Westcon to be a contingent asset under IAS 37-Provisions, Contingent Liabilities and Contingent Assets, and has therefore not recognised the amount in the consolidated financial statements.

NOTE 4: IMPAIRMENT OF VESSELS

As a result of the impact from the Covid-19 pandemic, oil price crash, structural shifts and oversupply in the market, the demand for Prosafe vessels has continued to worsen. Management has performed an impairment assessment of its vessels in accordance with IFRS. Each individual vessel is considered to be a cash generating unit. As a result, USD 810.5 million of impairment charges were made in the first quarter of 2020.

The recoverable amounts have been identified by calculating the valuation-in-use (“VIU”). Impairments have been made in the accounts for vessels with VIU lower than their net book value. The company has also considered the use of broker estimates as a basis for fair value calculation, but this was not applied due to the lack of transactions and liquidity in the market for the company's vessels.

The VIU calculations are based on an updated long-term forecast for 2020-2024 and up till the end of each vessel’s useful life. The main assumptions used in the computations are charter rates, utilisation, operating expenses and overheads, capital expenditures, discount rate and long-term growth rate. In consideration of the projected weak and oversupplied market till the end of 2024, management has also reviewed the VIU calculation model and revised the terminal value calculation in two stages to reflect the return to sustainable earnings. The key changes to the value in use calculation model as follows:

- In the first stage (until the end of 2039) a growth rate of 6.6% is applied to arrive at cash flows reflecting sustainable earnings / mid-point of the cycle. The growth rate is determined to accurately reflect the company assumptions of a gradual improved market as a result of an anticipated gradual reduction in supply-side capacity.

- In the second stage the growth rate applied is the long-term average growth rate appropriate to the assets of 2%.

As mentioned earlier, the double black swan incidents make short-term planning as well as long-term forecasting extremely challenging and the uncertainty is regarded even higher than it has been in the past, in particular as far as utilization and day rates are concerned. Therefore, a higher interval is also applied to the sensitivities shown.

The present value of the estimated cash flows from the cash-generating units is based on the following inputs:

Utilisation
- Average utilisation assumed to increase from 20% or less in 2020 to 50% in 2021, to approximately 65% in 2022 – 2025, and thereafter stabilise at approximately 55% (2019 forecast: 30% in 2020 to 80% in 2024 and thereafter).

Revenues
- For 2020-2024, the assumption is based on current contracts portfolio including assumptions related to the outcome of ongoing commercial discussions with clients combined with a best effort view on potential prospects.
- From 2025, assumptions are applied factoring in the changed industry dynamics, demand/supply balance, pricing and the company's anticipated market share in the global market. The main factors include estimated cash flow and EBIDTA per vessel, current market data on average day rates, contract lengths for the different regions and anticipated market share.

Expenses
- Operating expenses and overheads are reduced between 10% and 50% as compared to prior year so as to reflect the current market conditions, cost reduction measures and activity plan.

Capital expenditures
- Capex is based on SPS plans (5 year special periodic survey) and activity plan. Capex spend will be deferred whenever possible, including SPS plans, if a vessel is laid up and with no backlog.
- Capex is generally reduced to a minimum although sustainable level sufficient to upkeep the vessels.

Discount rate of 9% (2019: 9%)
- Discount rate is derived from weighted average cost of capital after tax of the Group.

Long-term growth rate
- There is a revised terminal value calculation in two stages to reflect the return to sustainable earnings as mentioned above. In the first stage, from 2025 until the end of 2039, the growth rate of 6.6% is applied to arrive at cash flows reflecting sustainable earnings / mid-point of the cycle. The growth rate is determined to accurately reflect the company assumptions of a gradually improved market as a result of a reduction in supply-side capacity. After 2039, the growth rate applied is the long-term average growth rate appropriate to the assets of 2 % (2019: 1.7% from 2024).

Sensitivity
- A 1% increase in the discount rate would have led to an increase of impairment of USD 36 million.
- A 10% increase / decrease in the utilisation rate would have led to a decrease / increase of impairment of USD 91 million / USD 112 million.
- A 10% increase / decrease in the day rate would have led to a decrease / increase of impairment of USD 84 million / USD 87 million.
- A 2% decrease in the long-term growth rate would have led to an increase of impairment of USD 59 million.

NOTE 5: REFINANCING AND GOING CONCERN

Prosafe refers to information on its financial status and process with lenders that was provided respectively in the Q4 2019 report published on 6 February 2020, as well as in press release updates and the detailed description provided in the 2019 Annual Report which was released on 16 April 2020. Prosafe has agreed an extension to the forbearance from the non-payments and defaults with a majority of its lenders across its USD 1,300 million and USD 144 million credit facilities[2] until 31 May 2020, while lenders reserve their rights. As part of this agreement, the company will continue to defer making payments of scheduled instalments and interests under both facilities. Similarly, payment of the final instalment owed and due under the seller credit to Cosco for the Safe Notos remains as reported on 14 April subject to ongoing discussions with Cosco and the lenders. Prosafe has recently requested an extension to the forbearance arrangement till end June 2020.

The forbearance agreement secures stability for the company while it continues to work with the lenders to agree on a long-term financial solution. As communicated in the 2019 Annual Report that was released on April 16 2020, the company has prepared a revised business plan which forms part of the basis for continued and ongoing discussions with the lenders to seek a sustainable financial solution after several years of low activity across the industry and currently unsustainable debt. However, due to ongoing discussions and the uncertainty related to the outcome of this process, it is too early to conclude whether this proposal or a variation of it will eventually be agreed and as such estimate the effects thereof. The company has sent a request to lenders to extend the forbearance arrangement till end June 2020 in order to ensure stability and sufficient time to seek agreement with lenders.

Prosafe aims to arrive at a sustainable financial solution in order to protect values to the extent possible and establishing a sound basis upon which to create value in the future. Meanwhile, the company continues to operate on a going concern basis to protect and create value through challenging market conditions on the assumption that there is justified hope for a sustainable financial. As such, the interim report is prepared on a going concern basis.

[2] USD 144 million credit facility (previously known as the 'USD 288 million credit facility')