Prosafe

FOURTH QUARTER 2018

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

In the fourth quarter, the fleet utilisation[1] reached its highest since Q3 2015 at 63 per cent. A further two contracts were awarded in the quarter.

Recent highlights

- Reached the highest quarterly fleet utilisation since Q3 2015 at 63 per cent (36.1 per cent).
- Firm orderbook at USD 209 million per Q4 2018 (USD 304 million)
- EBITDA[2] of USD 29 million (USD 42.1 million) Cash flow from operations at USD 25.6 million (USD 44.2 million).
- Safe Concordia returned to Brazil and commenced work for MODEC in the quarter.
- Regalia was awarded a 60-day contract in the North Sea commencing June 2019, and Safe Caledonia was awarded an 80-day contract in the North Sea commencing June 2020.
- In January, Prosafe ranked first in Brazil auction. Prosafe will mobilize the Safe Eurus if awarded a contract.

Operations

The fleet utilisation rate in the fourth quarter of 2018 was 63 per cent (Q4 2017: 36.1 per cent), up from 48 per cent in the third quarter of 2018 and at its highest since Q3 2015. The fleet utilisation for the year was 47.3 per cent (2017: 38.4 per cent).

The improved utilisation for the quarter was driven by 6 of 8 active units (excluding three new-builds in China) in full or part operation related to both hook-up and maintenance and modification projects. The Safe Astoria was sold for scrap and removed from utilisation in November.

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

Safe Caledonia completed its operations for BP at the Clair Ridge platform in the UK on 22 November 2018 and is now laid-up at Scapa Flow in the UK. She is scheduled to commence work for a major oil and gas operator in the UK sector from mid-April 2019 with a firm duration of four months and up to two months of options.

On 24 December 2018, Safe Caledonia was awarded an 80-day contract in the UK sector of the North Sea commencing June 2020 with 30 days of options. She will be providing accommodation services in support of a platform turnaround and Prosafe has pre-agreed optionality with the client to substitute the Safe Caledonia with another vessel in its fleet if it so choses.

Safe Notos has been operating on a three-year and 222-day contract for Petrobras in Brazil since 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. The contract has a firm period through June 2019 with additional six one-month options.

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

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

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

October 2018, Safe Zephyrus was awarded a contract by BP to provide gangway connected operations 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 directly following the completion of the Johan Sverdrup contract.

Safe Concordia mobilised from Curacao to Brazil and was on standby from 5 October 2018, before officially starting a contract for MODEC on 24 October 2018. The firm period of the contract is 200 days.

Regalia was idle in the quarter and is currently laid up in Norway. On 24 December 2018, Regalia was chartered for a 60-day contract in the UK sector of the North Sea commencing June 2019 with 30 days of options. Regalia will be reactivated to perform gangway connected DP operations. The reactivation period will commence within Q1 2019 and include her five yearly special periodic survey in line with classification society requirements.

Safe Bristolia was idle in the quarter and is currently laid-up in Norway. Safe Astoria was sold for scrap on 9 November 2018.

Financials

Fourth quarter 2018

EBITDA for the fourth quarter amounted to USD 29 million (USD 42.1 million). The decrease is mainly due to lower average day rates and non-recurring costs of USD 2.7 million partially offset by improved utilisation and cost control.

Depreciation was USD 29.2 million (USD 27.2 million) in the quarter.

Operating loss for the fourth quarter amounted to USD 1 million (operating profit of USD 50 million including a reversal of impairment charge of USD 35.1 million resulting from the verdict by the Stavanger City court on 8 March 2018 relating to Westcon dispute).

Net financial costs amounted to USD 26.2 million (USD 7.4 million). Fair value adjustment of interest rate swaps and interest rate caps amounted to USD 10.4 million negative (USD 10.2 million positive).

Net loss equalled USD 25.8 million (net profit of USD 40 million).

Total assets at 31 December amounted to USD 1,736.8 million (USD 1947 million). Net interest-bearing debt equalled USD 1,102.7 million (USD 1,115.8 million), and the book equity ratio was 23 per cent (26 per cent).

Full year 2018

Fleet utilisation was 47.3 per cent (38.4 per cent). EBITDA for the full year amounted to USD 166.6 million (USD 130.9 million). The increase in EBITDA is mainly due to improved utilisation; revenue adjustment of USD 24.5 million relating to IFRS 15 and cost control partially offset by lower average day rates and non-recurring costs of USD 8.5 million.

Depreciation and impairment amounted to USD 113.6 million (USD 709.1 million including an impairment charge of USD 573.9 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 53 million (operating loss of USD 578.2 million including an impairment charge of USD 573.9 million).

Net financial costs for 2018 amounted to USD 161.6 million (USD 61.1 million). The increase in 2018 is mainly due to non-cash and one-off effects totalling USD 98.4 million relating to the re-financing in August. Please refer to note 4 and note 5 in this report for details.

Net loss for 2018 equalled USD 114.5 million (net loss of USD 647.1 million including an impairment charge of USD 573.9 million).

Outlook

Development in tender activity continued in the quarter, and Prosafe was awarded another two contracts in the North Sea. It is particularly positive that the latest contract is related to maintenance and modification projects which have traditionally been the key demand driver for accommodation rigs.

Brazil is an important market. In January, Prosafe came first in an online auction for the supply of safety and maintenance support vessels towards three-year contracts in Brazil. There now follows a compliance evaluation process before a contract will be formally awarded. Prosafe will mobilize the Safe Eurus if a contract is awarded. Total contract value is estimated to be above USD 80 million.

Another long-term contract for Safe Eurus in Brazil would be in line with Prosafe's strategy and guidance, and it would create synergies with the Safe Notos and Safe Concordia already on charter offshore Brazil.

The production ambitions of the new Mexican administration are high, and it is positive that tender activity is ongoing in other segments. Prosafe continues its efforts in Mexico to be well positioned when opportunities arise again in the accommodation segment.

While the current pricing and backlog do not support earnings growth in 2019, it is anticipated that utilisation will continue to improve in 2020 with an improvement in day rates to follow.

London, 4 February 2019

The Board of Directors of Prosafe SE

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited figures in USD million)	Note	Q4 18	Q3 18	Q4 17	2018	2017
Operating revenues		74.1	73.6	76.7	330.8	283.0
Operating expenses	3	(45.1)	(42.3)	(34.6)	(164.2)	(152.1)
Operating results before depreciation	3	**29.0**	**31.3**	**42.1**	**166.6**	**130.9**
Depreciation	3	(29.2)	(28.8)	(27.2)	(113.0)	(135.2)
Impairment		(0.8)	0.5	35.1	(0.6)	(573.9)
Operating profit/(loss)		**(1.0)**	**3.0**	**50.0**	**53.0**	**(578.2)**
Interest income		0.8	0.9	0.4	2.9	1.4
Interest expenses		(15.7)	(116.1)	(19.2)	(173.3)	(74.9)
Other financial items		(11.3)	3.4	11.4	8.8	12.4
Net financial items		**(26.2)**	**(111.8)**	**(7.4)**	**(161.6)**	**(61.1)**
Profit/(Loss) before taxes		**(27.2)**	**(108.8)**	**42.6**	**(108.6)**	**(639.3)**
Taxes		1.4	(3.2)	(2.6)	(5.9)	(7.8)
Net profit/(loss)		**(25.8)**	**(112.0)**	**40.0**	**(114.5)**	**(647.1)**
EPS		**(0.32)**	**(1.37)**	**0.56**	**(1.41)**	**(8.98)**
Diluted EPS		**(0.32)**	**(1.27)**	**0.45**	**(1.41)**	**(7.35)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited figures in USD million)	Q4 18	Q3 18	Q4 17	2018	2017
Net profit/(loss) for the period	**(25.8)**	**(112.0)**	**40.0**	**(114.5)**	**(647.1)**
Foreign currency translation	(2.7)	(2.8)	(1.3)	(5.1)	2.0
Revaluation hedging instruments	0.0	41.6	3.3	48.3	13.2
Pension remeasurement	(0.8)	0.0	0.0	(0.8)	0.0
Other comprehensive income	**(3.5)**	**38.8**	**2.0**	**42.4**	**15.2**
Comprehensive income	**(29.3)**	**(73.2)**	**42.0**	**(72.1)**	**(631.9)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	31.12.18	30.09.18	31.12.17
Vessels	1,422.6	1,451.1	1,527.2
New builds	125.8	125.8	125.2
Other non-current assets	10.1	15.7	10.5
Total non-current assets	**1,558.5**	**1,592.6**	**1,662.9**
Cash and deposits	140.3	266.1	231.9
Other current assets	38.0	48.3	52.2
Total current assets	**178.3**	**314.4**	**284.1**
Total assets	**1,736.8**	**1,907.0**	**1,947.0**
Share capital	9.0	9.0	8.9
Other equity	391.2	414.1	488.7
Total equity	**400.2**	**423.1**	**497.6**
Interest-free long-term liabilities	18.5	34.2	57.5
Interest-bearing long-term debt	1,198.5	1,371.5	1,329.1
Total long-term liabilities	**1,217.0**	**1,405.7**	**1,386.6**
Other interest-free current liabilities	75.1	59.7	44.2
Current portion of long-term debt	44.5	18.5	18.6
Total current liabilities	**119.6**	**78.2**	**62.8**
Total equity and liabilities	**1,736.8**	**1,907.0**	**1,947.0**

Key Figures in Balance Sheet

(Unaudited figures in USD million)	Q4 18	Q3 18	Q4 17
Total Assets	1,736.8	1,907.0	1,947.0
Working Capital	58.7	236.2	221.3
Liquidity reserve	277.3	266.1	231.9
Interest-bearing debt	1,243.0	1,390.0	1,347.7
Net interest-bearing debt	1,102.7	1,123.9	1,115.8
Book equity	400.2	423.1	497.6
Book equity ratio	23%	22%	26%

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited figures in USD million)	Note	Q4 18	Q3 18	Q4 17	2018	2017
Profit/(Loss) before taxes		(27.2)	(108.8)	42.6	(108.6)	(639.3)
Share of loss of equity of an associate		0.9	0.7	3.1	1.8	3.1
Gain on sale of non-current assets		(2.1)	0.0	(0.1)	(2.1)	(1.1)
Depreciation	3	29.2	28.8	27.2	113.0	135.2
Impairment		0.8	(0.5)	(35.1)	0.6	573.9
Financial income		(0.8)	(0.9)	(0.4)	(2.9)	(1.4)
Financial costs		15.7	116.2	19.2	173.4	74.9
Change in working capital		27.4	7.1	(0.7)	16.4	11.8
Other items (used in) from operating activitie	3	(13.7)	(13.4)	(5.2)	(31.1)	13.4
Taxes paid		(4.6)	(2.6)	(6.4)	(13.4)	(14.4)
Net cash flow from operating activities		**25.6**	**26.6**	**44.2**	**147.1**	**156.1**
Acquisition of tangible assets		(1.0)	(4.8)	(0.1)	(8.7)	(10.1)
Proceeds from sale of tangible assets		2.6	0.0	0.1	2.6	1.1
Interests received		0.8	0.9	0.4	2.9	1.4
Net cash flow used in investing activities		**2.4**	**(3.9)**	**0.4**	**(3.2)**	**(7.6)**
Repayment of interest-bearing debt		(138.1)	(8.1)	(1.3)	(155.2)	(47.4)
Refinancing cost		0.0	(4.2)	0.0	(4.2)	0.0
Interests paid		(15.7)	(18.9)	(19.2)	(76.1)	(74.9)
Net cash flow used in financing activities		**(153.8)**	**(31.2)**	**(20.5)**	**(235.5)**	**(122.3)**
Net cash flow		**(125.8)**	**(8.5)**	**24.1**	**(91.6)**	**26.2**
Cash and deposits at beginning of period		266.1	274.6	207.8	231.9	205.7
Cash and deposits at end of period		**140.3**	**266.1**	**231.9**	**140.3**	**231.9**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD million)	Note	Q4 18	Q3 18	Q4 17	2018	2017
Equity at beginning of period		423.1	496.3	455.6	497.6	1,129.5
IFRS 15 adjustment to opening balance		0.0	0.0	0.0	(31.8)	0.0
Revised equity at beginning of period		**423.1**	**496.3**	**455.6**	**465.8**	**1,129.5**
Warrants issue	5	6.4	0.0	0.0	6.4	0.0
New share issue		0.0	0.0	0.0	0.1	0.0
Comprehensive income for the period		(29.3)	(73.2)	42.0	(72.1)	(631.9)
Equity at end of period		**400.2**	**423.1**	**497.6**	**400.2**	**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 fourth quarter of 2018 were authorised for issue in accordance with a resolution of the board of directors on 5 February 2019. 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	8.8	5.2	1.8	4.8	2.5
Operating result before depreciation	8.7	8.8	5.2	1.8	4.8	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. All the leases in Prosafe will expire during 2019 except certain office buildings leases that will expire after 2019.
- Prosafe will apply the standard from its mandatory adoption date of 1 January 2019. Prosafe intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Prosafe will apply the short term exemption, which 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.

The effect on the adoption of the IFRS 16 is not expected to be material to the Group's financial statement.

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)	**Q4 17**	**2017**
Operating expenses	(36.6)	(160.1)
EBITDA	**40.1**	**122.9**
Depreciation	(25.2)	(127.2)

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	**Q4 17**	**2017**
Operating expenses	(34.6)	(152.1)
EBITDA	**42.1**	**130.9**
Depreciation	(27.2)	(135.2)

NOTE 3: RECLASSIFICATION (Con't)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Previously Reported

(Unaudited figures in USD million)	**Q4 17**	**2017**
Depreciation	25.2	127.2
Other items from operating activities	(3.2)	21.4

Adjusted effect with SPS reclassed from operating expense to depreciation

(Unaudited figures in USD million)	**Q4 17**	**2017**
Depreciation	27.2	135.2
Other items from operating activities	(5.2)	13.4

NOTE 4: 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 of USD 3 million per quarter going forward.

NOTE 5: REFINANCING- WARRANTS ISSUED

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 the Q3 2018. 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.

As part of revised agreement, on 28 November 2018, the company has issued the warrants to those lenders having elected to receive such instead of increased margins. In total, 9,779,993 warrants have been issued, each of which gives right to subscribe for one new share in the company at a subscription price of NOK 21.37. Of these, 5,141,021 warrants are conditional inter alia on Prosafe taking delivery of Safe Nova and/or Safe Vega, and the remaining 4,638,972 warrants on Prosafe taking delivery of both Safe Nova and Safe Vega. As a result, Prosafe has recognised USD 6.4 million in the equity.

The warrants will be exercisable any time from and subject inter alia to Prosafe taking delivery of Safe Nova and/or Safe Vega and the next 3 years from such respective delivery dates, however so that any duration exceeding 5 years from the date of the Extraordinary General Meeting will be subject to approval of such extension by a subsequent general meeting. The Warrants are expected to be subject to certain customary adjustment mechanisms, including upon a failure to timely provide extension approval in which case the subscription price will be set to nominal value.

NOTE 6: 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 31 December 2018.

NOTE 7: Relocation of tax residency to Norway

Following an assessment of the legal structure to ensure an optimal organisation of the company, the Group decided to relocate the tax residency of five legal entities from respectively Cyprus and Singapore (three legal entities which were tax residents in Cyprus, including parent company Prosafe SE, and two vessel-owning legal entities which were tax residents in Singapore) to Norway in Q2 2018.

The relocation was achieved by ensuring that the effective management and control of the relevant entities by the board and executive management is carried out in Norway.

As a result of the relocation, there are deferred tax assets arising from the temporary timing differences between the carrying value of the vessels for accounting purpose and the value of tax base in Norway. The value of the deferred tax assets are not recognized in the accounts as the probability of having sufficient future taxable profit to utilize the deferred tax assets as tax deductions cannot be established.

The company is in process of completing the relocation by also moving legal domicile for the parent company Prosafe SE from Cyprus to Norway, and this is anticipated to be completed during 2019.