Prosafe

THIRD QUARTER 2019

(Figures in brackets refer to the corresponding period of 2018)

Prosafe reported EBITDA[1] for the third quarter of USD 26.3 million (USD 31.3 million). Cashflow from operations was USD 39.1 million (USD 26.6 million).

Due to a prolonged downturn and weaker outlook in the North Sea in particular, an impairment of USD 341 million has been made to the book value of vessels, resulting in marginalized book equity. Prosafe has adequate liquidity of USD 216 million.

Recent highlights

- Fleet utilisation of 48.2 per cent (48.1 per cent).
- Firm order book of USD 170 million per Q3 2019 (USD 232 million).
- Reported EBITDA was USD 26.3 million (USD 31.3 million) in the quarter. Underlying EBITDA in the quarter adjusted for one-off effects was USD 27.8 million.
- Cash flow from operations at USD 39.1 million (USD 26.6 million).
- Total liquidity of USD 216 million per Q3 2019. The company has adequate liquidity.
- Given a prolonged downturn and weaker outlook in the North Sea in particular, an impairment of book value of vessels of USD 341 million has been made to the third quarter accounts.
- As a consequence of the impairment, the book equity amounts to USD 14 million at the end of the quarter.
- The company will initiate a dialogue with its lenders with a view to ensure sufficient flexibility for the longer term.
- On 28th October 2019 the Norwegian Competition Authorities rejected the proposed merger between Prosafe and Floatel International. Prosafe intends to appeal the decision and will continue its efforts to get clearance in both Norway and the UK.

Operations

The fleet utilisation rate in the third quarter of 2019 was 48.2 per cent (Q3 2018: 48.1 per cent).

Safe Caledonia completed a four-month contract for a major oil and gas operator in the UK sector on 18 August 2019 and is currently laid up in the UK. On 31 July 2019, Prosafe signed a contract with Total for the Safe Caledonia to provide accommodation support at the Elgin complex in the UK sector of the North Sea. The firm duration of the contract commencing mid-April 2020 is 162 days with one 30-day option.

Safe Boreas continued the contract with Equinor at the Mariner installation in the UK and was in full operation throughout the quarter. On 16 August 2019, Equinor exercised the fourth of six one-month options extending the contract's firm period through October 2019.

Safe Zephyrus has been operating at the Clair Ridge platform West of Shetland for BP since 14 May 2019 and was in full operation during this quarter. The contract was completed on 14 October 2019.

Safe Concordia is at a yard in Brazil to conduct the vessel's Special Periodic Survey and prepare for the next contract for Equinor commencing in mid-January 2020. The Safe Concordia will be supporting maintenance and safety services at the Peregrino FPSO in the Campos Basin offshore Brazil. The contract has a duration of 120 days with up to 60 days of options.

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

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.

On 4 July 2019, Prosafe took delivery of the Safe Eurus and the vessel has now arrived Brazil. During a three-year contract commencing in the fourth quarter of 2019, the Safe Eurus will be providing safety and maintenance support to Petrobras.

Safe Scandinavia and Safe Bristolia were idle in the quarter. After the Regalia completed a contract on 11 July, all three vessels including Safe Scandinavia and Safe Bristolia are currently laid-up in Norway. Safe Bristolia is being marketed for recycling.

The company has incurred non-recurring costs of approximately USD 1.5 million in the quarter, which were mostly related to the merger activity with Floatel and the re-sizing of the organisation.

Financials

Third quarter 2019

EBITDA for the third quarter amounted to USD 26.3 million (USD 31.3 million), which includes one-off costs relating to the merger and organisational down-manning of USD 1.5 million. Underlying EBITDA after adjusting one-off effects is USD 27.8 million. The slight decrease in EBITDA was mainly due to lower average day rates but partially offset by improved operating costs.

Depreciation was USD 24.2 million (USD 28.8 million) in the quarter.

Given a prolonged downturn and weaker outlook in the North Sea in particular, an impairment of book value of vessels of USD 341 million has been made to the third quarter accounts. (See note 5)

Operating loss for the third quarter amounted to USD 339.3 million (operating profit of USD 3 million). The loss in the quarter was mainly due to the impairment charge.

Net financial costs amounted to USD 19.5 million (USD 111.8 million). The high financial costs in 2018 was mainly due to non-cash and one-off effects totalling USD 98.4 million relating to fair value adjustment of loan amount and recognition of discontinued cashflow hedge reserve balance in profit and loss account.

Net loss equalled USD 360.5 million (net loss of USD 112 million).

Cash flow from operations was USD 39.1 million (USD 26.6 million). The key reasons for the increase in cashflow were lower operating costs and improvement in working capital (lower receivables outstanding).

Total assets at 30 September amounted to USD 1,524.2 million (USD 1,907 million). The decrease in total assets was mostly due to the impairment made. Net interest-bearing debt equalled USD 1,213.5 million (USD 1,123.9 million). The increase in net interest-bearing debt was mainly due to taking delivery of the Safe Eurus.

As a consequence of the impairment, the book equity is reduced to USD 14 million (USD 423 million).

YTD 2019

Fleet utilisation was 61 per cent (42 per cent). EBITDA YTD amounted to USD 103.5 million (USD 137.6 million). The decrease in EBITDA is mainly due to lower average day rates partially offset by higher fleet utilisation and lower operating expenses. In addition, the EBITDA is also positively impacted by a reversal of the accrued lay up costs relating to the Safe Eurus of USD 16.5 million.

Depreciation and impairment amounted to USD 421.2 million (USD 83.6 million). The increase in 2019 was due to the impairment made to vessels' book value in the third quarter.

Operating loss equalled USD 317.7 million (operating profit of USD 54.0 million).

Net financial costs YTD amounted to USD 64.9 million (USD 135.5 million). The higher costs in 2018 were mainly due to one off effects relating to fair value adjustment of loan amount and recognition of discounted cashflow hedge reserve balance partially offset by higher positive effect from fair value of all derivatives.

Net loss YTD equalled USD 386.6 million (USD 88.7 million).

Update on merger process

On 4th June 2019 Prosafe announced an intention to merge with Floatel International Ltd. on a merger among equals basis.

On 28th October 2019 the Norwegian Competition Authority rejected the proposed merger between Prosafe and Floatel International. Prosafe intends to appeal the decision and will continue its efforts to get clearance in both Norway and UK. Timing of a potential merger therefore remains uncertain, and is further subject to lender consents and approval by an EGM in Prosafe.

Strategy and Outlook

Activity in the offshore accommodation market has continued to decline during 2019. The outlook for 2020 is therefore lowered significantly with the largest impact in the North Sea. Based on firm commitments, the company maintains adequate liquidity beyond 2020. The company will initiate a dialogue with its lenders to ensure sufficient flexibility for the longer term.

Going forward, focus will be on further reducing the organisation in response to the reduced and volatile activity level to reduce costs and preserve cash. Further, Prosafe will seek entry into new geographical markets and new segments.

The company continues to rigorously pursue competition clearance in order to be in a position to merge with Floatel International and create a more robust and sustainable company. A potential merger with Floatel is further subject to approval by lenders and an EGM in Prosafe.

Long-term macro indicators remain positive based on a continued expectation of growth in demand for energy globally. Against this, the company maintains its efforts to develop and position the company while safeguarding values.

5 November 2019

The Board of Directors of Prosafe SE

………………………..	………………………..	…………………………
Glen O. Rødland	Kristian K. Johansen	Birgit Aagaard-Svendsen
Non-executive Chairman	Non-executive Director	Non-executive Director

………………………..	………………………..
Nina Udnes Tronstad	Svend A. Maier
Non-executive Director	Non-executive Director

CONDENSED CONSOLIDATED INCOME STATEMENT

(Unaudited figures in USD million)	Note	Q3 19	Q2 19	Q3 18	9M 19	9M 18	2018
Operating revenues		56.5	75.3	73.6	199.1	256.7	330.8
Operating expenses		(30.2)	(22.2)	(42.3)	(95.6)	(119.1)	(164.2)
Operating results before depreciation		**26.3**	**53.1**	**31.3**	**103.5**	**137.6**	**166.6**
Depreciation		(24.2)	(25.0)	(28.8)	(75.4)	(83.8)	(113.0)
Impairment	5	(341.4)	0.0	0.5	(345.8)	0.2	(0.6)
Operating profit/(loss)		**(339.3)**	**28.1**	**3.0**	**(317.7)**	**54.0**	**53.0**
Interest income		0.4	0.4	0.9	1.1	2.1	2.9
Interest expenses		(16.5)	(15.3)	(116.1)	(47.1)	(157.7)	(173.3)
Other financial items		(3.4)	(10.1)	3.4	(18.9)	20.1	8.8
Net financial items		**(19.5)**	**(25.0)**	**(111.8)**	**(64.9)**	**(135.5)**	**(161.6)**
Profit/(Loss) before taxes		**(358.8)**	**3.1**	**(108.8)**	**(382.6)**	**(81.5)**	**(108.6)**
Taxes		(1.7)	(1.0)	(3.2)	(4.0)	(7.2)	(5.9)
Net profit/(loss)		**(360.5)**	**2.1**	**(112.0)**	**(386.6)**	**(88.7)**	**(114.5)**
EPS		**(4.10)**	**0.02**	**(1.37)**	**(4.39)**	**(1.08)**	**(1.30)**
Diluted EPS		**(4.10)**	**0.02**	**(1.27)**	**(4.39)**	**(1.08)**	**(1.30)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited figures in USD million)	Q3 19	Q2 19	Q3 18	9M 19	9M 18	2018
Net profit/(loss) for the period	**(360.5)**	**2.1**	**(112.0)**	**(386.6)**	**(88.7)**	**(114.5)**
Foreign currency translation	0.3	(0.1)	(2.8)	0.6	(2.4)	(5.1)
Revaluation hedging instruments	0.0	0.0	41.6	0.0	48.3	48.3
Pension remeasurement	0.0	0.0	0.0	0.0	0.0	(0.8)
Other comprehensive income	**0.3**	**(0.1)**	**38.8**	**0.6**	**45.9**	**42.4**
Total comprehensive income	**(360.2)**	**2.0**	**(73.2)**	**(386.0)**	**(42.8)**	**(72.1)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited figures in USD million)	Note	30.09.19	30.06.19	31.12.18	30.09.18
Vessels	5	1,016.4	1,379.4	1,422.6	1,451.1
New builds	4	258.6	148.6	125.8	125.8
Other non-current assets		2.6	2.8	10.1	15.7
Total non-current assets		**1,277.6**	**1,530.8**	**1,558.5**	**1,592.6**
Cash and deposits		216.0	120.5	140.3	266.1
Other current assets		30.6	53.6	38.0	48.3
Total current assets		**246.6**	**174.1**	**178.3**	**314.4**
Total assets		**1,524.2**	**1,704.9**	**1,736.8**	**1,907.0**
Share capital		9.0	9.0	9.0	9.0
Other equity		5.2	365.4	391.2	414.1
Total equity		**14.2**	**374.4**	**400.2**	**423.1**
Interest-free long-term liabilities		31.2	30.0	18.5	34.2
Interest-bearing long-term debt	4	1,388.6	1,202.4	1,198.5	1,371.5
Total long-term liabilities		**1,419.8**	**1,232.4**	**1,217.0**	**1,405.7**
Other interest-free current liabilities		49.3	54.3	75.1	59.7
Current portion of long-term debt	4	40.9	43.8	44.5	18.5
Total current liabilities		**90.2**	**98.1**	**119.6**	**78.2**
Total equity and liabilities		**1,524.2**	**1,704.9**	**1,736.8**	**1,907.0**

Key figures in Balance Sheet

(Unaudited figures in USD million)	30.09.19	30.06.19	31.12.18	30.09.18
Total assets	1,524.2	1,704.9	1,736.8	1,907.0
Working capital	156.4	76.0	58.7	236.2
Liquidity reserve	216.0	240.5	277.3	266.1
Interest-bearing debt	1,429.5	1,246.2	1,243.0	1,390.0
Net Interest-bearing debt	1,213.5	1,125.7	1,102.7	1,123.9
Book equity	14.2	374.4	400.2	423.1
Book equity ratio	1%	22%	23%	22%

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited figures in USD million)	Q3 19	Q2 19	Q3 18	9M 19	9M 18	2018
Share of loss of equity of an associate	0.0	0.0	0.7	0.8	0.9	1.7
Gain on sale of non-current assets	0.2	0.0	0.0	0.2	0.0	(2.1)
Depreciation	24.2	25.0	28.8	75.4	83.8	113.0
Impairment	341.4	0.0	(0.5)	345.8	(0.2)	0.6
Financial income	(0.4)	(0.4)	(0.9)	(1.1)	(2.1)	(2.9)
Financial costs	16.5	15.3	116.2	47.1	157.7	173.3
Change in working capital	18.9	(28.9)	7.1	(17.0)	(11.0)	16.6
Other items (used in) from operating activities	(0.3)	5.4	(13.4)	8.8	(17.4)	(31.1)
Taxes paid	(2.6)	(1.4)	(2.6)	(5.5)	(8.8)	(13.4)
Net cash flow from operating activities	**39.1**	**18.1**	**26.6**	**71.9**	**121.5**	**147.1**
Acquisition of tangible assets	(39.0)	(25.8)	(4.8)	(69.8)	(7.7)	(8.7)
Proceeds from sale of tangible assets	0.2	0.0	0.0	0.2	0.0	2.6
Interests received	0.4	0.4	0.9	1.1	2.1	2.9
Net cash flow used in investing activities	**(38.4)**	**(25.4)**	**(3.9)**	**(68.5)**	**(5.6)**	**(3.2)**
Proceeds from new interest-bearing debt	120.0	35.0	0.0	155.0	0.0	0.0
Repayment of interest-bearing debt	(8.7)	(1.2)	(8.1)	(35.6)	(17.1)	(155.2)
Refinancing cost	0.0	0.0	(4.2)	0.0	(4.2)	(4.2)
Interests paid	(16.5)	(15.3)	(18.9)	(47.1)	(60.4)	(76.1)
Net cash flow used in financing activities	**94.8**	**18.5**	**(31.2)**	**72.3**	**(81.7)**	**(235.5)**
Net cash flow	**95.5**	**11.2**	**(8.5)**	**75.7**	**34.2**	**(91.6)**
Cash and deposits at beginning of period	120.5	109.3	274.6	140.3	231.9	231.9
Cash and deposits at end of period	**216.0**	**120.5**	**266.1**	**216.0**	**266.1**	**140.3**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD million)	Q3 19	Q2 19	Q3 18	9M 19	9M 18	2018
Equity at beginning of period	374.4	372.4	496.3	400.2	497.6	497.6
IFRS 15 adjustment to opening balance	0.0	0.0	0.0	0.0	(31.8)	(31.8)
Revised equity at beginning of period	**374.4**	**372.4**	**496.3**	**400.2**	**465.8**	**465.8**
Warrants issue	0.0	0.0	0.0	0.0	0.0	6.4
New share issue	0.0	0.0	0.0	0.0	0.1	0.1
Comprehensive income for the period	(360.2)	2.0	(73.2)	(386.0)	(42.8)	(72.1)
Equity at end of period	**14.2**	**374.4**	**423.1**	**14.2**	**423.1**	**400.2**

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 third quarter of 2019 were authorised for issue in accordance with a resolution of the board of directors on 5 November 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.

IFRS 16 Leases

The new accounting standard IFRS 16-Leases was effective from 1 January 2019. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and replaces the existing IAS 17-Leases 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 and interest expense shall be classified as cash flows used in financing activities in the statement of cash flows.

The Group adapted the standard from its mandatory adaption date of 1 January 2019. The following policies and practical approach are applied for adapting the standard and the adoption has no material effect to the Group's consolidated financial statements.

- For contracts already assessed under IAS 17, there are no reassessments of whether a contract is or contains a lease.
- The modified retrospective method is applied. However, there is no adjustment made for the opening balance of equity as at 1 January 2019 as it is immaterial.
- Prior year comparatives are not restated.
- Lease liabilities are measured at the present value of remaining lease payments, discounted using the incremental borrowing rate 1 January 2019.
- Right-of-use assets are measured at an amount equal to the lease liability.
- Leases for which the lease term ends during 2019 are expensed as short term leases.
- Major lease liabilities for the Group comprise of leases of chartered-in vessels, office buildings, warehouses, transportation, logistics assets and other IT infrastructure and office equipment. The Group separately expense variable expense services and other non-lease components embedded in lease contracts for office buildings and warehouses.

- For leases of other assets, the Group capitalised non-lease components subject to fixed payments as part of the lease. All the leases in the Group are expiring in 2019, except certain office buildings leases that will expire after 2019.

- The Group applied the short term exemption, which means that all leases with a lease term that ends in 2019 are expensed as before and not capitalised upon transition. Subsequently, the Group also applied the general short term exemption in IFRS 16 for leases of chartered-in vessels, office buildings, warehouses, transportation, logistics assets and other IT infrastructure and office equipment.

- The Group applied the general low value exemption in IFRS 16 for leases of office and other equipment. This means that no low value leases of such assets will be capitalised and that lease payments are expensed in profit or loss.

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 Group 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 Group disputed Westcon's claim and claimed a substantial repayment. The Court decided in favour of the Group that Westcon must repay the Group 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 Group has filed a counter appeal.

While awaiting the final outcome of the dispute, the Group 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: SAFE EURUS DELIVERY

On 4 July 2019, Prosafe has taken delivery of Safe Eurus and issued a promissory note with a principle amount of USD 99.4 million to COSCO Shipping (Qidong) Offshore Co. Ltd. As the partial payment for the vessel is deferred beyond normal credit terms, the cost of the vessel is the cash price equivalent at the recognition date. The difference between the cash price equivalent and the principal amount of the promissory note is determined to be USD 25.4 million. This amount will be amortized as interest over the credit duration. The repayment schedule and interest expense on the promissory note depends on the financial performance of the vessel. The final expected maturity date is December 2027.

The breakdown of the new builds in the balance sheet as at 30 September 2019:

USD (million)		
Safe Nova and Safe Vega		60.6
Safe Eurus	223.4	
Cash price equivalent adjustment Safe Eurus	(25.4)	
		198.0
Total New Builds		258.6

NOTE 5: IMPAIRMENT OF VESSELS

As the general recovery across the exploration & production value chain continues to be delayed, the demand for Prosafe vessels remains weak. 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, the following impairment charges were made in the third quarter of 2019:

(USD million)	Impairment	Recoverable amount
Safe Caledonia	24.2	69.1
Safe Bristolia	29.0	-
Safe Scandinavia	164.7	68.1
Regalia	52.2	10.5
Safe Concordia	15.4	68.9
Safe Boreas	16.8	305.5
Safe Zephyrus	39.1	280.6
Total	**341.4**	**802.7**

The recoverable amounts have been identified by calculating the valuation-in-use ("VIU"). Impairments had been made in the accounts for vessels with VIU lower than their net book value.

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 and capital expenditures.

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 ca. 30% in 2020 to ca. 80% in 2024 and thereafter.

Revenues
- From 2020-2023, the assumption is based on current contracts portfolio and contract renewals reflecting current global market conditions and remaining life of assets.
- From 2024, assumptions are applied based on the market returning to a normalised average earnings level where return on capital equals calculated cost of capital.

Expenses
- Operating expenses and overheads reflecting current market conditions 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 5 yearly SPS plans, if a vessel is laid up and with no backlog.

Discount rate of 9% (2018: 8%).

Long-term growth rate from 2024 of 1.7% (2018: 2.5%).

Sensitivity
- A 1% change in the pre-tax discount rate would have led to a change in the asset values of USD 81 million.
- A 10 per cent point decrease in forecasted non-firm utilisation would currently decrease asset values by about USD 120 million.