



FLEX LNG Group

Consolidated and Company Annual Report and Financial Statements 2017





General Information, FLEX LNG Ltd.

Directors

David McManus (Chairman)

Marius Hermansen

Ola Lorentzon

Georgina Sousa

Nikolai Grigoriev

Company Secretary

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Chairman's Statement

2017 was a transformative year for the FLEX LNG Group, as we readied ourselves to take delivery of our first two owned vessels, participated in the spot and short term market through a number of chartered vessels and positioned ourselves for further growth in 2018. As part of making FLEX LNG more visible for investors and to facilitate easier trading liquidity we transferred our shares from Oslo Axess to the main Oslo Børs listing.

During the course of the year FLEX LNG strengthened its executive team. In addition to Mr. Jonathan Cook who joined as Chief Executive Officer in March 2017, Messrs Thomas Thorkildsen and Øystein Kalleklev joined the executive team as Senior Vice President of business development and Chief Financial Officer respectively. Messrs Thorkildsen and Kalleklev have comprehensive industry experience derived from their times in similar roles with Hoegh LNG and Knutsen NYK respectively. I strongly believe that this team is well suited to lead the Company over the coming years.

In order for the company to establish a presence in the LNGC market and to build an operational track record, during 2017, the company chartered-in a number of LNGC's in advance of taking delivery of its newbuildings. These chartering activities have, in addition to building an operational track record, put FLEX in an informed position to actively market its owned MEGI LNGCs ahead of their respective deliveries.

As part of the development and expansion of FLEX, the company had entered into agreements to acquire six M-type, Electronically Controlled, Gas Injection ("MEGI") LNGCs. I am glad to inform that we took delivery of the first two vessels in January 2018 and that the construction of the remaining four vessels is progressing according to schedule.

Last year we raised capital in order to finance the growth of the company. Three different types of financing were put in place. First we issued 239.9 million new shares raising USD 329m. Second we agreed a USD 270m revolving credit facility with Sterna Finance Ltd., and last we finalised and agreed a USD 315m secured term loan facility with six banks. I believe that the combination of these financing arrangements gives the company the financial flexibility and strength it needs to become a leading company in the LNGC business.

It is clear that the globalization of the LNG markets continues to develop with LNG increasingly being traded as a global commodity. Historically, intra-basin trade in the Atlantic and the Pacific has been a large component of the LNG shipping market. We observe that this has begun to change as U.S. and Australian export capacity continues to ramp up, coupled with import countries striving to ease trading restrictions and new markets for LNG opening up, assisted by the growth of Floating Storage Regasification Units ("FSRUs"). We believe that the strengthening market sentiment will continue and that our state of the art MEGI vessels will ultimately command a premium in the market given their larger cargo capacity and significantly lower fuel consumption.

As part of our Business Development activities we continue to look at opportunities to add further premium carriers into our portfolio and examine opportunities to participate in the FSRU market.

David McManus

Chairman



Letter from the CEO

In January 2018 we reached a milestone as a company. We successfully took delivery of the two first newbuilding's, the Flex Endeavour and Flex Enterprise. Flex Endeavour entered a 15 months time charter subsequent to delivery while the second vessel is operating in the growing spot market. Furthermore, we have two LNGCs currently under construction at Samsung Heavy Industries which are scheduled to be delivered in the second and third quarters of 2018 and also final two LNGCs under construction at Daewoo Shipbuilding & Marine Engineering with scheduled delivery in second and third quarters of 2019. We continue to execute our chartering strategy to secure balanced fleet employment as the market continues to improve due to expected tighter supply/demand dynamics in the LNG shipping market.

During 2017 the company entered into four separate LNGC time charters for 180 days with options to extend for a further 180 days. We actively sub-chartered these LNGCs in the spot and short term market to a wide range of LNG charterers establishing FLEX LNG's market presence. Two of the four vessels were redelivered in September 2017 while we elected to exercise the extension options on the other two chartered-in vessels. These vessels were then out-chartered at profitable rates through to the end of first quarter of 2018.

As of 31 December 2017, FLEX LNG controls a fleet of six M-type, Slow-Speed Diesel with Gas Injection ("MEGI") LNGCs, including newbuildings under construction. MEGI LNGCs are among the most technically advanced vessels in the world and offer superior fuel savings and earnings capacity as compared to previous generations of LNGCs. We believe that this defines FLEX LNG as an emerging leader in the Liquefied Natural Gas shipping and floating regasification markets.

FLEX LNG expects a gradually tightening of the LNG shipping market in the coming years due to high growth in LNG production, higher demand for natural gas, as utilities are switching from coal to cleaner natural gas, and the increased sailing distances. As such, FLEX LNG is well positioned with two LNG MEGI ships on the water, as of January 2018, and another four newbuilding's set for delivery over the next 18 months. FLEX LNG believes that the strengthening market sentiment will continue and that our state-of-the-art MEGI vessels will command a premium in the market. We are actively marketing the LNGCs in both the term and spot markets to secure an optimal position in the improving market.

For the future the Company will continue to take a proactive approach and explore further transactions. We constantly evaluate opportunities in the charter, newbuilding and second-hand markets. The company has significant financial flexibility to pursue transformational deals due to the continued support of its largest shareholder.

We in FLEX LNG also continue to actively pursuing opportunities to leverage our experience towards the implementation of FSRU projects. We will however emphasise that no such opportunities will be committed to on a speculative basis. Projects will only be pursued where there is a tangible long-term contract with bankable counterparties and project structures.

Jonathan Cook

Chief Executive Officer



BOARD OF DIRECTOR'S REPORT 2017

Business update

During 2017 FLEX LNG further expanded and now controls a fleet of six M-type, Slow-Speed Diesel with Gas Injection ("MEGI") LNGCs. Two of the LNGCs were delivered by Daewoo Shipbuilding and Marine Engineering Co. Ltd. ("DSME") in January 2018, two LNGCs are currently under construction at Samsung Heavy Industries (SHI) and are scheduled to be delivered to the Company in the second and third quarters of 2018, and two LNGCs are expected to be delivered to the Company by DSME in second and third quarters of 2019. MEGI LNGCs are among the most technically advanced vessels in the world and offer superior fuel savings and earnings capacity as compared to previous generations of LNGCs. This is inline with FLEX LNG strategy and vision to be a leading company in the LNGC market.

These transactions consolidated all of Geveran's LNG assets and activities into FLEX LNG, which now is well positioned to capitalise on the expected growth in demand for LNG shipping. The growth in shipping demand will be driven by the substantial increase in global LNG production together with the future growth of global energy demand.

In addition to the expansion of self-owned ships the Company entered into four separate LNGC time charters for 180 days with an option to extend for a further 180 days in. The Company actively sub-chartered these LNGCs in the spot and short term market to a wide range of LNG charterers. At the end of the third quarter the Company elected to redeliver two of the four vessels. The two remaining vessels secured profitable employment for the duration of the optional extension period through to the end of first quarter of 2018. These two extensions have had a positive contribution to the Company's earnings, which lead to a fourth quarter with operational net income. The Company will continue to evaluate opportunities to charter in third party LNGCs to the extent that they will provide a positive contribution to earnings, although the Company's primary commercial focus is to secure attractive employment for its newbuildings.

As of April 18 2018 FLEX entered into a time-charter agreement with Enel Trade S.p.A. ("Enel"), a company of the Enel Group, a multinational power company and one of the world's leading integrated electricity and gas operators. The time charter period of 12 months will commence during the second half of 2019. Enel also has the option to extend the contract by an additional 12 months subsequent to the firm period. FLEX LNG intends to employ the LNG carrier FLEX ENTERPRISE for this business, however the Company also has the option to nominate one of its sister vessels.

Financing update

In connection with expansion of the fleet, the company issued approximately 239.9 million new shares of which 78 million shares were issued as payment in kind to Geveran for ownership in two DSME LNGCs. The cash proceeds of approximately \$225m from sale of the remaining 161.9 million shares has been utilised to fund the newbuilding program. On 20 December 2017, the Company signed a \$315m secured term loan facility (the "TLF") to finance the first three of its newbuildings - DSME HN 2447 (FLEX ENDEAVOUR), DSME HN 2448 (FLEX ENTERPRISE) and SHI HN 2107 (FLEX RANGER) with a group of six banks. The closing conditions were fulfilled on 28 December and two loan tranches of each \$105m were utilized in connection with the two newbuilding deliveries in January 2018. The tenor of the TLF is five years from the date of the last newbuilding financed under the TLF, resulting in an average term of approximately 5.4 years given expected delivery of FLEX RANGER in May 2018. The remaining \$105m loan tranche is expected to be utilized in connection with the delivery of FLEX RANGER.

The TLF affords the Company significant balance sheet and operational flexibility. Under the terms of the TLF, the Company has the option to swap vessels as collateral for the facility without having to refinance the loan and incur associated costs. This enables the Company to have the flexibility to take a vessel out of the collateral base in the event it can be financed in other ways and redeploy the loan to finance a separate newbuilding. The TLF also has no requirement that the Company obtain firm term employment for any of the LNGCs financed under the facility. The financial covenants for the TLF are not linked to



earnings, but rather balance sheet values of book equity level exceeding 25 per cent and free cash being higher than \$15 million and 5 per cent of net interest bearing debt. The combination of no requirement of employment and non-earnings based covenants allows for an opportunistic employment approach designed to maximize the Company's exposure to periods of strength in the LNGC rate environment. Furthermore, under the terms of the TLF the Company can seek to increase the size of the loan tranches in the event that it secures longer term employment for a vessel financed under the facility.

In order to alleviate financing risk for the remaining three vessels, the \$270 million Sterna RCF has been amended and the full amount will now be available until 12 months following delivery of all the remaining for LNGC newbuildings. Thereafter \$30m will be available for working capital until the maturity of the TLF, unless otherwise agreed. The Sterna RCF relinquished security in the initial DSME LNGCs and has secured its loan by share pledge in the remaining three newbuildings. While the Company intends to finance its additional newbuildings with non-affiliated commercial financing, the continued availability of the Sterna RCF will ensure that the Company has minimal financing or liquidity risk.

LNG Market outlook and strategy

The LNG shipping market is expected to continue to tighten throughout H2 2018 and through 2019. Seasonality and its winter peak in 2017 brought a welcome boost in demand for LNG shipping. The arbitrage window between European and Asian LNG prices stayed open and increased demand for spot vessels loading out of European ports - so called "re-loads".

Headline rates increased from approximately \$30k in July 2017 to \$80k in December 2017, but have decreased to approximately \$53k in March 2018. The ballast bonus component improved from fuel only/partial hire to full Round-Trip economics. The lack of vessel availability in the Atlantic meant Charterers agreed to position vessels in from the Middle East, or even Far East, to cover their requirements. In addition, there was an increased activity in short-term fixtures with a total of 13 vessels put way on multi-month charters in Q4 2017.

Russia's new liquefaction plant, Yamal LNG, began producing cargoes in November. The project is based on the Yamal peninsula, above and the Arctic Circle and is a joint-venture of NOVATEK (50.1%), TOTAL (20%), CNPC (20%) and Silk Road Fund (9.9%). This is Russia's second LNG export project, after Sakhalin LNG. Yamal LNG will have a nameplate capacity of 16.5 mtpa of LNG which will be shipped to Asia-Pacific and European markets.

Yamal is the latest example that LNG export capacity continues to increase. Next to start up is Cove Point, which will be the second U.S. liquefaction project coming on-stream. Commissioning cargoes were exported out from its terminal in March 2018. Several vessels earmarked for the project which have been operating in the spot market while waiting for the project to start up.

Cameron LNG is delayed until Q1 2019 and Freeport LNG is experiencing delays and is expected to start producing in September 2019. Up to 28 vessels were ordered specifically for these projects and might come to market ahead of their intended project. Charterers are adopting various strategies to address the anticipated idle time. Many of the Japanese-built vessels have agreed with the shipyards to delay delivery. Up to five vessels have been fixed on multi-month charters basis to bridge the gap.

Global demand for seaborne LNG continued to grow in 2017. For the full year 2017, 291 million tones of LNG were exported, up 11% year-on-year, or 29 mt. The LNGC fleet now exceeds 450 vessels with 24 vessels delivered in 2017, and another 54 to be delivered in 2018. Demand growth has been driven primarily out of Asia, with Japan, South Korea, China, India and Taiwan all showing strong annualized growth. In particular, demand from China has increased by over 45% year on year. The Government of China is committed to diversifying its energy portfolio to focus on clean energy sources and improve air quality. This effort was intensified leading into the winter, as authorities began to aggressively cut coal use in an attempt to speed up the



switch to natural gas. Europe also saw an increase of 10% in LNG imports during the year, largely due to low LNG prices in the first half, and reload activities in the second half.

Significant LNG export capacity will come online over the next five years against this backdrop of growing demand for gas, which is expected to maintain LNG as a competitively priced energy commodity. This will be a positive driver for down stream product demand as well as the demand for shipping. It will also be a significant driver for the interest in floating terminals to remain high, together with their general flexibility and fast track implementation. The floating terminals will continue to open up new markets for LNG, which will also have a positive effect for shipping demand.

FLEX LNG expects the coming growth of LNG production and the expected growth in demand for natural gas in combination with the recent limited ordering activity of LNG Carriers to gradually tighten the shipping market over the course of the next 12 to 18 months. As such, the Company is well positioned with two LNG MEGI ships on the water, as of January 2018, and another four newbuildings set for deliveries over the next 18 months. We believe that the strengthening market sentiment will continue and that our state-of-the-art MEGI vessels will command a premium in the market. The Company is actively marketing the LNGCs in both the term and spot markets to secure an optimal position in the improving market.

The Company will continue to have a proactive approach to further accretive structural transactions. It is constantly evaluating opportunities in the charter, newbuild and second-hand market and actively pursuing opportunities to leverage our experience towards the implementation of FSRU projects. We will however emphasize that no such opportunities will be committed to on a speculative basis. Projects will only be pursued where there is a tangible long-term contract with bankable counterparties and project structures.

The Board

There have been three additions and one person who have left the board during the financial year. The additions are Georgina Sousa, Nikolai Grigoriev and Ola Lorentzon.

Mrs. Sousa has been a Director of the Company since June 2017. Mrs. Sousa has served as Secretary of Golden Ocean Group Limited since March 2007. Prior to joining Golden Ocean, Mrs. Sousa held the role as Vice President Corporate Services of Consolidated Services, a Bermuda management company having joined that firm in 1993. From 1982 to 1993 she served as Senior Company Secretary at the law firm Cox & Wilkin.

Mr. Grigoriev joined the Board in September 2017. From 2008 to 2016 Nikolai served as Managing Director of Shipping and Logistics at Gazprom Marketing & Trading. Prior to Gazprom, Mr. Grigoriev worked for BG Group in senior LNG shipping, commercial and corporate finance roles. Nikolai holds a B.Sc. in Navigation from Admiral Makarov State Maritime Academy in St. Petersburg, Russia and an MBA from INSEAD.

Mr. Lorentzon has been a Director of the Company since June 2017. Ola served as Principal Executive Officer of Golden Ocean Group from 2010 to 2015 and held the role as Chief Executive Officer of Frontline Management from April 2000 to 2003. From 1986 to 2000, Mr. Lorentzon was Chief Executive Officer of ICB Shipping. Mr. Lorentzon is also a Director and Chairman of Golden Ocean Group Limited, and a Director of Frontline Ltd. and Erik Thun AB.

Mr. Robin Bakken has retired from the board



Leadership update

To further strengthen the executive team to be in line with the expansion of the fleet, Mr. Øystein Kalleklev started as CFO in October 2017. Mr. Kalleklev has comprehensive financing and commercial experience from similar CFO roles in several similar companies. This appointment in addition to Mr. Jonathan Cook, as Chief Executive Officer and Mr. Thomas Thorkildsen, as senior vice president business development, should put FLEX LNG in a strong position going forward.

Funding and Going Concern

The Board believes that the going concern assumption currently remains appropriate for the Group. Given the \$270m revolving credit facility, the current high level of paid in equity, the support of its main shareholder and the debt finance, \$315m which was raised in December 2017; secure the Company working capital for the next twelve months.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed below, which could impact the carrying value of recognized assets.

Risks

The FLEX LNG Group is currently focused on becoming a leading owner and commercial operator of fuel efficient LNG carrier vessels and FSRU's. The Group is exposed to a variety of commercial, operational and financial risks, including market risks, credit risks, interest rate, capital risk and liquidity risks.

The uncertainties and risks include those detailed in the 2017 accounts and as summarized below. Risks associated with the ability to secure employment contracts on reasonable terms for the vessels under construction and the MEGIs in operation, risks associated with newbuilding projects such as managing the design and construction process properly and counterparty risks, risks associated with obtaining delivery finance on reasonable terms, risks associated with the general LNG and LNG shipping market conditions and trends and risks of increased competition from the Group's competitors and oversupply of vessels.

Another key risk is the risk of lack of attractive funding. The Company has historically funded its operation from a combination of equity and loans from affiliated companies of the Company's key shareholder, Geveran. Although the Company now has available funds under the \$270m Facility, and the \$315m secured term loan facility, no assurance can be given that the Group will obtain such financing in the future and further funding (which is necessary to complete its planned growth strategies and to cover the remaining delivery installments) is subject to market risks and other risks that may influence the availability, structure and terms of such financing.

In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all. Additional detail on working capital requirements and an analysis of the risks to the Company are provided in accounts notes 1.4, 17, 18, and 19 and Corporate Governance section 10.

Income Statement and Balance Sheet

The Group cash balances at 31 December 2017 were \$10.0m (2016: \$1.4m) with a \$8.5m inflow in the year (2016: \$2.3m net outflow). In the twelve months in 2017 the operating cash outflow was \$17.7m (2016: \$1.1m). The retained loss for the year 2017 was \$10.4m (2016: \$1.8m - loss), which has been transferred to reserves.

During the year the Company has continued to hold the investments in its subsidiaries and managed the strategic direction of the Group. The cash balances at 31 December 2017 were \$7.2m (2016: \$1.3m). In the twelve months in 2017 the operating cash outflow was \$10.1m (principally the operating loss less the non cash income statement entries, working capital movements and interest paid/received), investing activities outflow \$205.0m (loans to subsidiaries) and financing activities inflow of \$221.0m



resulting from the share issuance. The retained loss for the year was \$0.3m (2016: \$1.6m - loss), which has been transferred to reserves. The Directors do not recommend the payment of a dividend.

Environmental Reporting

The Company has an objective that all activities that are performed are to be carried out so as to minimize negative impacts to people and the environment. Given the pre-commercial nature of the operations there is currently minimal corporate impact on the environment.

Working Environment and Personnel

At the end of 2017, FLEX LNG and its subsidiaries had in total two employees, one man and one woman. All personnel are employed by FLEX LNG Management Limited. There have not been any serious injuries or accidents in the current or prior year and total absence due to sickness has been minimal during the accounting year. The FLEX LNG's Board of Directors currently consists of four men and one woman. The Company's policy prohibits unlawful discrimination against employees, on account of ethnic or national origin, age, sex or religion. Respect for the individual is the cornerstone of this policy and the Group also aims to treat its employees with dignity and respect.

Post Balance Sheet Events

On January 9 and 11, 2018 the Company successfully took delivery of its first LNGC newbuilding's the FLEX ENDEAVOUR and the FLEX ENTERPRISE, respectively. After crew mobilization and safety drills the FLEX ENDEAVOUR commenced its time charter to Uniper Global Commodities ("Uniper"), a leading international energy company headquartered in Germany. The time charter to Uniper is for a firm period of 15 months plus an option period of 3 months. Subsequent to crew mobilization and safety drills, the FLEX ENTERPRISE was put into spot trade and made her maiden voyage commencing in February with a discharge in Japan March 12 2018.

In connection with the delivery of the two vessels, \$210m of the Company's \$315m secured term loan facility was utilized. The remaining amount available under the secured term loan facility will be utilized in connection with the scheduled delivery of the FLEX RANGER in May 2018. Subsequent to the drawdown of the secured term loan facility, FLEX LNG repaid \$100m under the Sterna revolving credit facility. Following this repayment to Sterna, remaining outstanding amount under this \$270m facility is \$60m.

As of April 18 2018 FLEX entered into a time-charter agreement with Enel Trade S.p.A. ("Enel"), a company of the Enel Group, a multinational power company and one of the world's leading integrated electricity and gas operators. The time charter period of 12 months will commence during the second half of 2019, with an option to extend the contract by 12 months.

Corporate Governance

The Group is committed to good corporate governance; additional details may be found in the corporate governance report.

Board of Directors of FLEX LNG Ltd
24 April 2018


David McManus (Chairman)


Georgina E. Sousa


Nikolai Grigoriev


Marius Hermansen


Ola Lorentzon



Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2017 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

Board of Directors of FLEX LNG Ltd
24 April 2018

A handwritten signature in black ink, appearing to read "D. McManus".

David McManus (Chairman)

A handwritten signature in black ink, appearing to read "Georgina E. Sousa".

Georgina E. Sousa

A handwritten signature in black ink, appearing to read "Nikolai Grigoriev".

Nikolai Grigoriev

A handwritten signature in black ink, appearing to read "Marius Hermansen".

Marius Hermansen

A handwritten signature in black ink, appearing to read "Ola Lorentzon".

Ola Lorentzon



Corporate Governance Report

1) Implementation and reporting on corporate governance

As a company incorporated in Bermuda, the Company is subject to Bermuda laws and regulations. Additionally, as a consequence of being listed on Oslo stock exchange, the Company must comply with section 3-3b) of the Norwegian Accounting Act and certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance (the “Code of Practice”) on a “comply or explain” basis. Further, the Company has in place a Memorandum and Articles of Association, which set forth certain governance provisions. The Norwegian Accounting Act is found on www.lovdata.no and the Code of Practice is found on www.nues.no.

The Group is committed to ensuring that high standards of corporate governance are maintained and is committed to high ethical standards in dealings with all stakeholders, including shareholders, debtors, customers, vendors and employees. Strong corporate governance principles help to ensure that the Groups’ standards are applied to all its operations, and the Board has furthermore implemented a Code of Conduct and Ethics and the Company will also look to comply with the material aspects of the Code of Practice for Reporting IR Information. Additionally policies have been put in place to cover health and safety, quality and environment commitment. The Company believes that these policies broadly set out the Company’s corporate social responsibility. Further information in this respect is available on www.flexlng.com.

The Board of Directors has based its corporate governance practices on the principles set out in the Code of Practice. However, since the Company is governed by Bermuda laws and regulations, and given the current nature of the Group’s activities, certain practices are applied which deviate from some of the recommendations of the Code of Practice.

In the following sections, the Company’s corporate governance policies and procedures will be explained, with reference to the principles of corporate governance as set out in the sections identified in the Code of Practice. This summary does not purport to be complete and is qualified in its entirety by the Company’s Memorandum and Articles of Association, Bermuda and Norwegian law.

2) Business

FLEX LNG is currently focused on becoming a leading owner and commercial operator of fuel efficient LNG carrier vessels and FRSUs. The objectives are within the framework of the Company’s Memorandum and Articles of Associations, which may be reviewed at www.flexlng.com. The objectives stipulated in the Memorandum and Articles of Associations are as follows: ‘commercial activity relating to securing hydrocarbon feed stock for floating liquefaction projects, constructing, owning and operating floating liquefaction vessels and/or LNG vessels and sales and marketing of hydrocarbons and business in connection therewith, including investing in other companies.’

The Group operates principally through its subsidiaries. The Company is currently focused on the construction of the LNG carrier vessels on order, including obtaining commercial charter parties, and future FSRU projects. The business principles are as follows;

- protection of human lives and the environment and servicing our customers are the top priorities. By working with clients to jointly explore business opportunities FLEX LNG intends to develop long lasting relationships based on trust and a goal of creating economic value;
- FLEX LNG will strive to provide superior shareholder returns;
- FLEX LNG will aim to attract and retain highly qualified individuals through compensation packages that align employees and shareholders’ interest;
- creativity and innovation spearheads the commercial and technical work conducted by FLEX LNG. In an effort to stay ahead of competition FLEX LNG will relentlessly drive for continuous improvements that permeate the FLEX LNG culture; and
- FLEX LNG emphasizes integrity and honesty in the way it does business



3) Equity and dividends

Equity

The appropriate level of equity for the Group is evaluated by the Board on an ongoing basis, via reviews at the Board meetings. Total share capital at 31 December 2017 was USD 3,679,723.82, divided into 367,972,382 shares of USD 0.01 each. The directors believe this is currently satisfactory given the Group's business and objectives, but will be increased if the Company raises additional funds.

Debt

As at year end 2016, the Company had borrowed \$7.0m from Metrogas for the provision of working capital. The Metrogas Loan was repaid in full upon closing of the Transaction and the receipt by the Company of the proceeds from the Private Placement in the first quarter of 2017. In connection with the Transaction, the company was granted the \$270m Facility, from an affiliate of Geveran, which was fully drawn upon completion of the Transaction (to part finance the acquisition costs of the newbuildings at DSME). Approximately \$160m was available under the \$270m Facility as of 31 December 2017. In January 2018, the Company repaid a further \$100m. Once on charter the debt-to-equity leverage of the LNG carriers will be dependent upon the contract structure and the debt market at that point in time.

Dividend policy

As the Group has yet to produce stable cash flows and operating profits, dividends will not be considered in the near term.

Equity mandates

As a Bermuda company it has an unlimited maximum for the authorized number of shares per its Memorandum and Articles of Association. To issue new shares or amend the authorized number of shares, it requires an ordinary shareholder resolution and Board approval. Should the Company seek a mandate to increase the company's capital it will look to define the purpose for the mandate in line with the recommendations of the Code of Practice. Such mandates will ordinarily be given with effect only up until the next annual general meeting. The same applies with respect to mandates to repurchase the Company's own shares. The issued share capital for the Group is detailed in the annual and quarterly reports which may be viewed at www.flexlng.com.

In connection with the issuance of shares in the Company, the shareholders have (except to the extent they are waived) pre-emptive rights to the new share on a pro-rata basis. Currently, the Board has not resolved and does not intend for the Company to acquire its own shares.

4) Equal treatment of shareholders and transactions with close associates

The Company has only one share class, with identical voting rights. All shareholders are treated equally and the Articles of Association do not contain any restrictions on voting rights. Where there is a need to waive the pre-emption rights of existing shareholders this will be justified at the time of approval or where based on an existing mandate justified in the stock exchange announcement in relation to the increase. Where the Company carries out a transaction in its own shares the intention is for this to occur through the stock exchange or at prevailing stock exchange prices, to ensure equal treatment of all shareholders. In situations where there is limited liquidity in the shares, the Company will seek other procedures to ensure that the equal treatment of shareholders is maintained.

All transactions between the Group and its close associates as defined by the Group's Code of Conduct are at arm's length and market prices. The Memorandum and Articles of Associations and the Group's Code of Conduct require Board members and executive staff to disclose interests in transactions entered into with the Group. Where appropriate the Group ensures third party independent evaluation, where defined by the Code of Conduct, or determines that the transaction is on an arm's length basis and at market prices. Any transactions between the Group and close associates will be detailed as related party transactions in note 13 to the financial statements. The costs incurred are, in the Company's opinion, made at market terms.



5) Freely negotiable shares

With limited exception, all shares in the Company are freely negotiable, and the Articles of Association contain no form of restriction on the negotiability of the shares, or on voting rights.

Furthermore, the shareholders of the Company have on the Annual General Meeting in 2017 and 2016 resolved to issue up to 100% of the remuneration for the directors for the two years as new shares in the Company, that are to be subject to a lock-up. The two share issuances covering the board remuneration for the 2017 and 2016 year shall become unlocked either on the first or second anniversary after their respective grants.

6) General meetings

The Annual General Meeting (“AGM”) is the forum for the Company’s shareholders to participate in major decisions, and is held each year. The Company’s Articles of Associations require 14 days notice for Annual and other Shareholder Meetings, rather than 21 days, which is the recommendation of the Code of Practice. Currently, given the Company position, this shorter period is considered to be sufficient for shareholders to consider the matters being voted on. The notice for Annual and Extraordinary General Meetings shall include relevant material to enable the shareholders to make an informed decision and to vote separately on each matter being considered. The documentation will be sent to shareholders either electronically or on paper. Registration can be made in writing or by e-mail. All shareholders are entitled to speak and vote at the General Meetings. The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) as close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The procedure to vote by proxy will be described in the notice of the AGM. The Board of the Company shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting.

The AGM shall be organized in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors will ensure that a member of the Board and the auditor will be available to answer questions. The Board of Directors has not made arrangements for an independent Chairman for each AGM, or for the nomination committee to be present; it believes that the Board Chairman can act independently and in the interests of shareholders. The notice of the General Meeting as well as supporting documents will be made available on the website www.flexlng.com as well as www.newsweb.no where the decisions from the general meetings will also be made available.

FLEX LNG strives to maintain an open and fair dialogue with its shareholders through the publishing of information, presentations and responding to questions from shareholders. The Company has not, however, taken specific measures for obtaining shareholders’ proposals for matters to be proposed to the shareholders’ meeting. In the view of the Company, the current shareholder structure, the shareholder representation, the policy to communicate with shareholders is sufficient to ensure that shareholders may communicate their points of view to the executive management and the Board. In addition, given the Company’s current development and given the good communications with shareholders, it does not believe that it is necessary for all Directors and auditor to be physically present at the General Meetings, or for there to be an independent Chairman, and that 14 days notice is sufficient for the AGM. The Chairman, executive management, and auditor will participate in the meeting at a minimum.

7) Audit Committee, Nomination Committee and Compensation Committee

In lieu of an audit committee comprised of three independent directors, our audit committee has one member, which is consistent with Bermuda law. The Board has determined that Mr. Nikolai Grigoriev, who is an independent director, is our audit committee’s financial expert.

In lieu of a nomination committee comprised of independent directors, the Board is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. Shareholders are permitted to identify and recommend potential candidates to become board members, but



pursuant to the Amended and Restated Bye-Laws, directors are elected by the shareholders in duly convened annual or special general meetings.

In lieu of a compensation committee comprised of independent directors, the Board is responsible for establishing the executive officers' compensation and benefits. Under Bermuda law, compensation of the executive officers is not required to be determined by an independent committee.

8) Corporate assembly and Board of Directors: composition and independence

As a Bermuda registered company with 2 employees as at 31 December 2017, the Company does not have a corporate assembly. Given the size of the Company this is not believed to be necessary.

The Company's Board of Directors shall comprise between 3 to 9 directors pursuant to the decision of the General Meeting. The Company's Board of Directors currently comprises 5 directors, of whom all are considered independent of executive management, the composition aims to ensure that the interests of all shareholders are represented. No directors are associated with a shareholder with a holding exceeding 10%. The composition of the Board of Directors, including the controls to avoid conflicts of interest, is in accordance with Bermuda company law, the Memorandum and Articles of Association and good corporate governance practice.

The Company endeavors to ensure that it is constituted by directors with a varied background and the necessary expertise, diversity and capacity to ensure that it can function effectively. The directors are elected at the General Meeting, for service periods of two years or such shorter period as stated in the relevant resolution. Directors may be re-elected and there is no limit on the number of terms that any one director may serve. Re-election of the current directors is due at the AGM in 2018. They may be removed by a majority vote at any time. Currently the Board has elected the Chairman, rather than the shareholders, given the Company's current development status the Company believe that this is satisfactory and that the Chairman can ensure that the board is effective in its tasks of setting and implementing the Company's direction and strategy.

The Directors are encouraged to hold shares in the Company, which the Board believes promotes a common financial interest between the members of the Board and the shareholders of the Company. In accordance with the General Meeting's resolution, the Directors received between 0% and 80% of their remuneration in shares for 2017 and 2016.

All Directors participated in the 2017 Board meetings.

The current Board members are listed below:

Mr. David McManus, Chairman - Independent

Mr. McManus has served on the Board since August 2011, and was elected as chairperson in September 2011. An exceptionally experienced international business leader in the Energy Sector, with strong technical and commercial skills and has previously served as Executive Vice President and Head of International Operations for Pioneer Natural Resources. He is currently serving as non-executive director for a number of listed companies, namely; Hess Corporation, a large NYSE listed oil and gas company with upstream operations in North America, Europe, Africa and Asia; Rockhopper Exploration plc, a UK AIM listed exploration company with assets in the Falkland Islands; Costain plc, one of the UK's leading engineering solutions providers. Mr. McManus was previously Chairman of Cape plc an energy service company, which has been involved as a contractor in more than 50% of the world's LNG facilities, including Sakhalin, RasGas, Qatargas, Damietta, Idku, North West Shelf, Pluto and Arzew. He has 39 years of experience in Technical, Commercial, Business Development, General Management and Executive roles across all aspects of the international oil and gas business, including; BG Group, ARCO, Ultramar, Shell and Fluor Corporation. Mr. McManus is a graduate of Heriott Watt University, Edinburgh.



Mr. Marius Hermansen, Board member

Mr. Hermansen joined the Board in December 2015, he works for Frontline Management and is involved in S&P activities for Frontline and all related companies. Previously he worked for over 10 years at Fearnleys. He was educated at the Norwegian School of Economics (NHH) in Bergen and started as a trainee with AP Moller-Maersk.

Mr. Ola Lorentzon, Board member

Mr. Lorentzon has been a Director of the Company since June 2017. Ola served as Principal Executive Officer of Golden Ocean Group from 2010 to 2015 and held the role as Chief Executive Officer of Frontline Management from April 2000 to 2003. From 1986 to 2000, Mr. Lorentzon was Chief Executive Officer of ICB Shipping. Mr. Lorentzon is also a Director and Chairman of Golden Ocean Group Limited and a Director of Frontline Ltd. and Erik Thun AB.

Mrs. Georgina Sousa, Board member

Mrs. Sousa has been a Director of the Company since June 2017. Mrs. Sousa has served as Secretary of Golden Ocean Group Limited since March 2007. Prior to joining Golden Ocean, Mrs. Sousa held the role as Vice President Corporate Services of Consolidated Services, a Bermuda management company having joined that firm in 1993. From 1982 to 1993 she served as Senior Company Secretary at the law firm Cox & Wilkin.

Mr. Nikolai Grigoriev, Board member

Mr. Grigoriev joined the Board in September 2017. From 2008 to 2016 Nikolai served as Managing Director of Shipping and Logistics at Gazprom Marketing & Trading. Prior to Gazprom, Mr. Grigoriev worked for BG Group in senior LNG shipping, commercial and corporate finance roles. Nikolai holds a B.Sc. in Navigation from Admiral Makarov State Maritime Academy in St. Petersburg, Russia and an MBA from INSEAD.

The Executive Management is listed below:

Jonathan Cook, Chief Executive Officer

Mr. Cook's career spans more than 30 years in the maritime and energy sectors with the last 16 years in the LNG sector. After graduating from Texas A&M University at Galveston, where he later served on the Board of Visitors, he held key positions with Coastal, El Paso, and Excelerate Energy, in addition to his 11-years career at sea as a licensed deck officer where he achieved the rank of Master Mariner. As a founding partner at Excelerate Energy in 2003, Mr. Cook was part of the leadership team that pioneered new frontiers in LNG shipping and transportation, by developing and marketing floating storage and regasification technologies to address the logistical challenges of importing and exporting LNG worldwide. During his time at Cardiff LNG, Mr. Cook managed the commercial activities including spot trading and business development and played an instrumental role in bringing Cardiff LNG to the forefront of the LNG shipping sector.

Øystein Kalleklev, Chief Financial Officer

Mr. Kalleklev joined FLEX LNG in October 2017, after serving as CFO of Knutsen NYK Offshore Tankers since 2013 and Chairman of the General Partner of the MLP KNOT Offshore Partners from 2015-2017. Previous roles include CFO of industrial investment company Umoe Group, Managing Director of Umoe Invest, Partner of investment bank Clarksons Platou and Business Consultant at Accenture. Mr. Kalleklev holds a MSc in Business and Administration from Norwegian School of Economics and a Bachelor in Business and Finance from Heriot-Watt University.

Thomas Thorkildsen, SVP Business Development

Previously Mr. Thorkildsen was the former head of business development at Höegh LNG. Furthermore, he was responsible for various commercial roles such as commercial management, chartering etc. Mr. Thorkildsen has 20 years experience in the maritime industry with the last 14 years in LNG business development. Prior to joining Höegh LNG he was employed by the Norwegian Ro-Ro specialist Wilh. Wilhelmsen Group. Mr. Thorkildsen holds an MSc from Cass Business School, London.



9) The work of the Board of Directors

The Board is ultimately responsible for the management of the Company and for supervising its day to day management. The Board approves an annual budget plan for the business. In addition, policies have been approved that cover the responsibilities of the Board and those of the Management of FLEX LNG Management Limited.

The Board is scheduled to meet in person between one and two times a year, and additionally approximately two times by telephone conferences, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances. In the 12 months in 2017 the Board has convened two times, and has met on one occasion. The main responsibilities of the Board cover the following main areas; strategic planning and decision making for the executive management to implement; ensure Board instructions are complied with; remain well informed on the Company's and Group financial position; production of an annual work plan; ensure the adequacy of executive management and their roles are clearly defined; annually to review the most important areas of risk exposure, including risks and controls related to financial reporting; ensuring an appropriate system of direction, risk management and internal control is established and maintained; to adopt guidelines for the frequency and policy for external financial reporting; and to agree on the dividend policy. The Board are briefed on the Company's financial situation, the vessel construction and charter position, market conditions, the liquidity situation and cash flow forecast.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organized. The Board has the overall responsibility for the management of the Group and has delegated the daily management and operations to the executive management, who are appointed by and serves at the discretion of the Board, and also reports to the Board. Further, the executive management, of the management company, are responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are properly managed. The powers and responsibilities are defined in more detail by the Board of Directors.

The executive management have the collective duty to implement the Company's strategic, technical, financial and other objectives, as well as to protect and secure the Group's organization and reputation.

In the event that the Chairman of the Board cannot attend a meeting or is conflicted in leading the work of the board, an alternate chairman will lead the meeting.

10) Risk management and internal control

The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of FLEX LNG. Principal among these risks currently are; the ability to secure employment contracts on reasonable terms for the vessels under construction, the vessels which were delivered in January 2018, and for the vessels chartered in by the Group; risks associated with construction projects in general (including risks associated with the design of the vessels, counterparty risks and the financial strengths of the yards), risks associated with the capacity of the Group to obtain future finance on reasonable terms; risks associated with the ability of the Company to retain key staff, the general LNG and LNG shipping market conditions and trends, the charter market conditions for the LNGC vessels, and financial risks. In addition, the following risks inherent in the business of the Group are monitored: Risk associated with fluctuations in commodity prices, changes in the charter market, exchange rates, increased competition, the political, regulatory and tax environment of the Group, counterparty performance, risks associated with potential growth of the business and the proposed application of new technology including the potential for vessel obsolescence. The Board, working with the Audit Committee and through the annual audit process, ensures that FLEX LNG has reliable internal controls and systems for risk management.

The Board is presented an annual budget at the end of the preceding financial year. Thereafter, the Board is presented with regular updates and quarterly reporting. Explanations are obtained for material variances. The Audit Committee has the responsibility to evaluate risk exposure and internal control on an annual basis. The Board is also presented financial statements



on a quarterly basis, which are reviewed with the executive management. FLEX LNG's annual accounts provide information on internal control and risk management systems as they relate to its financial reporting.

11) Remuneration of the Board of Directors

The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the Group's operations, and is disclosed in note 3 to the financial statements. Through the Company's remuneration of directors, part of which has historically been in stock, the Company has encouraged directors to own shares in the Company. The remuneration is not linked to the Company's performance. No non-executive directors have been granted share options and no directors are part of the incentive programs available for the executive management and/or other employees, details in section 12 below.

As a general rule, no directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report, details per note 3. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included.

12) Remuneration of the executive personnel

The executive management's remuneration shall be determined by a convened meeting of the Board of Directors. The process aims to link the performance related element of the remuneration, (options and bonus) to value creation for shareholders. The current option program has been approved by shareholders with the allocation to staff determined by the Board. The scheme was designed to align employees with shareholder value creation and to retain persons within the Group. In 2015, staff exercised the remaining issued share options and at the end of 2016 no share options remain outstanding. The guidelines for the remuneration of the executive management were communicated at the 2016 AGM.

Further information on the remuneration of the executive management is contained in note 3 to the financial statements.

13) Information and communications

FLEX LNG will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with legal requirements and good corporate governance practices. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders; the information is provided in English. The Company also provides information to the market through financial reports. Events of importance are made available to the stock market through notification to the Oslo Stock Exchange in accordance with the Stock Exchange regulations. Before the start of the year the Company publishes a summary of the key reporting and meeting dates for the following year.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law. The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company's contact with shareholders other than through General Meetings. Stock Exchange announcements and press releases, including the financial calendar, are also made available on the Company's website.

14) Take-overs

The Board of Directors has established guiding principles for how it will act in the event of a take-over bid. During the course of a take-over process, the Board has an independent responsibility to help ensure that shareholders are treated equally, and that the Company's business activities are not disrupted unnecessarily. The board of the target company has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer. The Board of Directors and the executive management will not seek to hinder or obstruct take-over bids for the Company's shares or activities. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. If an offer is made for the Company's shares, the



Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. The Board will consider the appropriateness of arranging for a valuation by an independent expert. If the Board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it will explain the background for not making such a recommendation. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction that is a disposal of the Company's activities should be decided by the General Meeting. Any agreement with a bidder that acts to limit the Company's ability to arrange other bids for the Company's shares shall only be entered into where it is self-evident that such an agreement is in the common interest of the Company and its shareholders. Additionally any financial compensation should be limited to the costs the bidder has incurred in making the bid. Where agreements are entered into between the Company and the bidder that are material to the market's evaluation of the bid they will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. According to the Norwegian Securities Trading Act, a mandatory offer for the remaining shares will be triggered if a shareholder becomes the owner of more than 1/3 of the shares in the Company.

15) Auditors

The auditor is appointed by the General Meeting, which also determines the auditor's fee. The auditor submits the main features of the plan for the audit of the Company to the Audit Committee on an annual basis and is responsible for the audit of the consolidated financial statements. The auditor does not participate in meetings of the Board of Directors that deals with the annual accounts. Via the Audit Committee the auditor reviews any material changes in the Company's accounting principles, comments on any material accounting estimates and reports all material matters on which there has been disagreement between the auditor and the executive management of the Company. The Company believes the auditor does not need to be physically present at the Company's AGM given the commercial nature of the Group. Annually the auditor presents to the Audit Committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement. The Audit Committee holds a meeting with the auditor at least once a year at which no member of the executive management is present. At present, the Company believes this is sufficient given its size and enables the auditor to communicate with members of the Board. The Company's Management regularly holds discussions with the auditor, in which accounting principles and internal control routines are reviewed and discussed, including the presentation of interim reports.

The Board of Directors have established guidelines in respect of the use of the auditor by the Company's executive management for services other than the audit. The Board of Directors shall report the remuneration paid to the auditor at the AGM, including details of the fee paid for audit work and any fees paid for other specific assignments.



Income Statement - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Note	Group 2017	Group 2016	Company 2017	Company 2016
Vessel operating revenues		27,329	—	—	—
Vessel operating costs		(36,532)	—	—	—
Administrative expenses	3	(3,409)	(1,483)	(3,353)	(1,269)
Operating income (loss) before depreciation		(12,612)	(1,483)	(3,353)	(1,269)
Depreciation		(2)	(2)	—	—
Operating income (loss)		(12,614)	(1,485)	(3,353)	(1,269)
Finance income	4	123	9	115	9
Finance cost	4	(234)	(314)	(240)	(314)
Hedge gain		2,335	—	2,348	—
Income (Loss) before tax		(10,391)	(1,790)	(1,130)	(1,574)
Income tax (expense) credit	7	(17)	1	—	—
Net income (Loss)		(10,408)	(1,789)	(1,130)	(1,574)
Attributable to:					
Equity holders of the parent		(10,408)	(1,789)	(1,130)	(1,574)
Earnings per share (USD):					
		Group 2017	Group 2016	Company 2017	Company 2016
- Basic	5	(0.03)	(0.01)	(0.00)	(0.01)
- Diluted	5	(0.03)	(0.01)	(0.00)	(0.01)



Statement of Comprehensive Income - FLEX LNG Group & Company

Year ended 31 December
(USD, 000)

	Group 2017	Group 2016	Company 2017	Company 2016
(Loss) for the year	(10,408)	(1,789)	(1,130)	(1,574)
Total other comprehensive income (expense)	—	—	—	—
Total comprehensive (loss) for the period	(10,408)	(1,789)	(1,130)	(1,574)
Attributable to: Equity holders of the parent	(10,408)	(1,789)	(1,130)	(1,574)



Statement of Financial Position - FLEX LNG Group & Company

As at 31 December (USD, 000)	Note	Group 2017	Group 2016	Company 2017	Company 2016
ASSETS					
Non-current assets					
New building assets	8	594,937	212,472	—	—
Plant and equipment	9	3	2	—	—
Vessel purchase prepayment	8	72,000	—	—	—
Loans and investments	2	—	—	522,964	214,037
Total non-current assets		666,940	212,474	522,964	214,037
Current assets					
Inventory		1,041	—	—	—
Other current assets	10	6,568	220	3,156	176
Cash and cash equivalents	11	9,961	1,439	7,175	1,283
Total current assets		17,570	1,659	10,331	1,459
TOTAL ASSETS		684,510	214,133	533,295	215,496
EQUITY AND LIABILITIES					
Equity					
Share capital	12	3,680	1,279	3,680	1,279
Share premium	12	885,323	563,174	885,323	563,174
Other equity		(368,902)	(358,511)	(358,857)	(357,745)
Total equity		520,101	205,942	530,146	206,708
Non-current liabilities					
Other financial liabilities	14.3	160,000	7,000	—	7,000
Total non-current liabilities		160,000	7,000	—	7,000
Current liabilities					
Accounts payable		76	46	16	—
Accruals and other payables		4,333	1,145	3,133	1,788
Total current liabilities		4,409	1,191	3,149	1,788
Total liabilities		164,409	8,191	3,149	8,788
TOTAL EQUITY AND LIABILITIES		684,510	214,133	533,295	215,496

Board of Directors of FLEX LNG Ltd
24 April 2018

David McManus (Chairman)

Georgina E. Sousa

Nikolai Grigoriev

Marius Hermansen

Ola Lorentzon



Consolidated Statement of Changes in Equity - FLEX LNG Group

(figures in USD,000)

For the year ended 31 December 2017	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.17	1,279	563,174	(369,122)	10,611	205,942
Loss for the period	—	—	(10,408)	—	(10,408)
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	(10,408)	—	(10,408)
Shares issued	2,401	326,773	—	(99)	329,075
Share issuance costs	—	(4,624)	—	—	(4,624)
Share-based payment (shares)	—	—	—	116	116
At 31.12.17	3,680	885,323	(379,530)	10,628	520,101

For the year ended 31 December 2016	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.16	1,279	563,080	(367,333)	10,608	207,634
Loss for the period	—	—	(1,789)	—	(1,789)
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	(1,789)	—	(1,789)
Shares issued	—	94	—	(94)	—
Share-based payment (shares)	—	—	—	97	97
At 31.12.16	1,279	563,174	(369,122)	10,611	205,942

Statement of Changes in Equity - FLEX LNG Ltd.

(figures in USD,000)

For the year ended 31 December 2017	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.17	1,279	563,174	(368,356)	10,611	206,708
Loss for the period	—	—	(1,130)	—	(1,130)
Total comprehensive income	—	—	(1,130)	—	(1,130)
Shares issued	2,401	326,773	—	(99)	329,075
Share issuance costs	—	(4,624)	—	—	(4,624)
Share-based payment (shares)	—	—	—	116	116
At 31.12.17	3,680	885,323	(369,485)	10,628	530,146
For the year ended 31 December 2016	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.16	1,279	563,080	(366,782)	10,608	208,185
Loss for the period	—	—	(1,574)	—	(1,574)
Total comprehensive income	—	—	(1,574)	—	(1,574)
Shares issued	—	94	—	(94)	—
Share-based payment (shares)	—	—	—	97	97
At 31.12.16	1,279	563,174	(368,356)	10,611	206,708



Consolidated Statement of Cash Flows - FLEX LNG Group

Year ended 31 December
(USD, 000)

Group	Note	2017	2016
Cash flow from operating activities			
(Loss) before tax		(10,391)	(1,790)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(123)	(9)
Finance expense	4	234	314
Share based payment expense		115	97
Depreciation	9	2	2
(Loss) / profit on asset disposal	3	—	1
Foreign exchange		(2,462)	—
Working capital adjustments:			
Decrease / (increase) in prepayments		(5,908)	1
Decrease / (increase) in inventories		(1,041)	—
Decrease / (increase) in trade and other receivables		(639)	204
(Decrease) / increase in trade and other payables		272	579
(Decrease) / increase in accrued expenses		(492)	—
(Decrease) / increase in other current liabilities		2,653	—
		(17,780)	(601)
Income taxes paid		(5)	(1)
Interest received		123	9
Interest paid		(61)	(486)
Net cash flow from operating activities		(17,723)	(1,079)
Cash flows from investing activities			
Purchase of plant and equipment	9	(4)	(2)
Advance payment on new build assets		(72,000)	—
Payment on new building assets and capitalised expenditure	8	(5,710)	(1,202)
Net cash flow used in investing activities		(77,714)	(1,204)
Cash flows from financing activities			
Net proceeds from issue of share capital	12	220,988	—
Repayment of debt	14.3	(117,000)	—
Other		(29)	—
Net cash flow from financing activities		103,959	—
Net (decrease) in cash and cash equivalents		8,522	(2,283)
Cash and cash equivalents at beginning of period		1,439	3,722
Cash and cash equivalents at end of period	11	9,961	1,439



Statement of Cash Flows - FLEX LNG Ltd.

Year ended 31 December
(USD, 000)

Company	Note	2017	2016
Cash flow from operating activities			
(Loss) before tax		(1,130)	(1,574)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(115)	(9)
Finance expense	4	735	314
Impairment loss	2	—	1
Share based payment expense		115	97
Working capital adjustments:			
Decrease / (increase) in trade and other receivables		(2,980)	241
(Decrease) in trade and other payables		(5,639)	(151)
		(9,014)	(1,081)
Interest received		115	9
Interest paid		(735)	(486)
Net cash flow from operating activities		(9,634)	(1,558)
Cash flows from investing activities			
Loans and investments in subsidiaries	2	(205,480)	(805)
Net cash flow used in investing activities		(205,480)	(805)
Cash flows from financing activities			
Proceeds from issue of share capital	12	220,988	—
Other		18	—
Net cash flow from financing activities		221,006	—
Net (decrease) in cash and cash equivalents		5,892	(2,363)
Cash and cash equivalents at beginning of period		1,283	3,646
Cash and cash equivalents at end of period	11	7,175	1,283



Note 1: General information and significant accounting policies

1.1 Basis for preparation

FLEX LNG Ltd. is a limited liability company, incorporated in Bermuda, and listed on the Oslo Stock Exchange. The Group includes seven 100% owned subsidiaries, as at 31/12/17. The Group produces consolidated accounts incorporating these companies and its activities, which are focused on transportation of liquefied natural gas, FSRU's and related activities. Two of the LNGCs were delivered to the company by Daewoo Shipbuilding and Marine Engineering Co. Ltd. (DSME) in January 2018, two LNGCs are currently under construction at Samsung Heavy Industries and are scheduled to be delivered to the Company in the second and third quarters of 2018, and two LNGCs are currently under construction at DSME and are expected to be delivered to the Company in second and third quarters of 2019. The Company financial statements for FLEX LNG Ltd. relate to the parent company only and in the following notes it is specified when the detail relates to the consolidated Group or the parent company only. The Company financial statements are produced to comply with the Oslo listing requirements. Reported values are rounded to the nearest thousand (USD 000) except when otherwise indicated.

The financial statements for the period ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements were approved by the Board of Directors on 24.04.18 for issue on 24.04.18. The financial statements have been prepared on an historical cost basis, except for the valuation of options, which are accounted for at fair value. The financial statements have also been prepared on a going concern basis, additional information is included in notes 17 and 18, and includes comparative information in respect of the previous period.

The Group has implemented new and amended standards with effective date January 1, 2016. The adoption of the new standards/amendments has had no impact on the financial position or performance of the Group or Company.

At the end of 2017, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective. Standard issued but not yet in effect:

IFRS 9 will replace IAS 39 Financial Instruments - Recognition and Measurement. In July 2014 IASB published the final project of IFRS 9 and the standard is now completed. IFRS 9 involves changes relating to classification and measurement of financial instruments, hedge accounting and impairment. The unchanged part of IAS 39 has been retained in the new IFRS 9.. For entities outside the EU / EEA the new standard is effective from financial year starting 1 January 2018 or later. The standard will be implemented retrospectively, except for hedge accounting but it is not a requirement to prepare comparative figures. The rules for hedge accounting should mainly be implemented prospectively with some exceptions. The Group has no plans for early implementation of the standard.

This standard will not affect the financial statements significantly apart from increased disclosure requirements.

IFRS 15 Revenue from Contracts with Customers is the new common standard for revenue recognition issued by the IASB and FASB. The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognized to reflect the transfer of contracted goods or services to customers, and to an amount that reflects the consideration the company expects to be entitled in exchange for those goods or services.

The standard applies to all income-generating contracts with customers with few exceptions and provides a model for recognition and measurement of the sale of certain non-financial assets (excl. Sale of property, plant and equipment). IFRS 15 implementation will be either full retrospective application to all prior periods or retention of prior period figures as reported under the prior standard with recognition of the effect of the adoption of the new standard.



For entities outside the EU / EEA the new standard is effective from financial years starting 1 January 2018 or later. Through 2017, the Group has analyzed the impact of the new revenue recognition standard. A review of the Group's contracts has not revealed any change in revenue recognition, and consequently, it will not be an implementation effect 01/01/2018. The group's main revenue sources are T / C contracts. T / C contracts contain both a lease and a service agreement. Both of these items are recorded normally during the contract period, so the impact if service element separated and accounted for separately is limited. IFRS 15 will only regulate service agreement, as recognition of revenues from lease agreements is governed by IAS 17 Leases.

Revenues from Spot charters

A spot charter contracts conveys a transportation service to the customer, as such these contracts fall under the scope of IFRS 15. For vessels operating on spot charters, under the current revenue standards, voyage revenues are recognized ratably over the estimated length of each voyage, calculated on a discharge-to-discharge basis. Under IFRS 15, revenues will be recognized only upon the satisfaction of performance obligations i.e., when the underlying transportation service is provided to the customer. Under IFRS 15, revenues will be recognized on a load-to-discharge basis, since this reflects the period over which the charterer is obtaining benefit from the transportation service. Compared to current practice, revenue will be deferred and will be recognized over a shorter time period. The total revenues from spot charters will remain unchanged, but the change will impact key performance measures, such as the Time Charter Equivalent (TCE).

IFRS 15 also specifies the accounting treatment for costs an entity incurs to obtain and fulfil a contract to provide goods and services to customers. The Group incurs costs related to the transportation of the vessel to the load port from its previous destination. It has not yet been concluded whether these expenses, either in full or partially, meet the criteria of fulfilment costs eligible for capitalization under IFRS 15. The Company is assessing whether these costs should be expensed as incurred, or capitalized and amortized over the transportation period (load to discharge).

The implementation of IFRS 15 will have a transition effect on the opening balance of retained earnings as of January 1, 2018, however this is not expected to be significant.

IFRS 16 Leasing is the new standard on accounting of leasing published by the IAS on January 13, 2016. The standard will be effective from financial years starting 1 January 2019 or later for entities outside the EU / EEA The new in this standard is that almost all rental agreements will be capitalized. The exception is short-term and insignificant leases.

The Group has not made a quantitative assessment of the effects, but the assessment is that all leases, vessels, leases and other non-material leases are capitalized. The assessment will be completed through 2018.

1.2 Functional currency and presentation currency

The Group's presentation currency is USD. This is also the functional currency of all the companies in the Group. When a foreign subsidiary is partially or completely disposed of or sold, translation differences connected to the subsidiary are recognized in the income statement.

1.3 Basis of consolidation

The Group's consolidated financial statements comprise FLEX LNG and companies in which it has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Details on subsidiaries are provided in note 2. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, FLEX LNG Ltd, using consistent accounting principles.

Intragroup transactions and balances, including internal profits and unrealized gains and losses, have been eliminated in full. The consolidated financial statements have been prepared under the assumption of uniform accounting principles for equal transactions and other events under equal circumstances.



Identifiable acquired assets and assumed liabilities and contingent liabilities in a business combination are initially stated at fair value at the acquisition date regardless of the size of any non-controlling interests. In a business combination where the transferred compensation, any non-controlling interests and the fair value of the previously owned interest (in incremental acquisitions) exceed the fair value of the acquired assets and assumed liabilities which are recognized separately, the difference is recognized as goodwill. Where the difference is negative, in a 'bargain purchase,' the difference is recognized in profit/loss for the year.

1.4 Use of estimates and judgements when preparing the annual financial statements

The annual financial statements have been prepared in accordance with IFRS. This means that management has used estimates and assumptions that have affected the reported values for assets, liabilities, revenues, expenses, the accompanying disclosures and information on contingent liabilities. Future events and revisions to accounting estimates may lead to these estimates being changed. Changes to accounting estimates are included in the financial statements for the period in which the change occurs. The estimates and underlying assumptions are based on past experience and other factors perceived to be relevant and probable when the judgements were made.

The inputs to the fair value calculations are based on observable market data when available, but where this is not achievable; a degree of judgement is required in establishing fair values. Changes in these assumptions could impact the reported fair value, as detailed below.

New build assets

Costs are capitalized as per note 1.9 and as detailed in note 8. In determining the amounts that are capitalized, including the carrying amounts for historically capitalized amounts, management will make assumptions regarding future cash generation from these assets. This includes a review of broker vessel valuations, evaluations of future vessel charter rates and new build prices. The broker valuations have been reviewed and the value in use calculation has been based on market based assumptions. Given the uncertainty surrounding the future values for these amounts, any subsequent changes in these evaluations could impact the future carrying amounts for these capitalized costs. Costs, which are not directly allocated to a specific ship, are split between the different vessels based on management's view on benefits derived from the expenses incurred.

1.5 Currency transactions

Foreign currency transactions are translated into the functional currency using the average exchange rates prevailing at the dates of the transactions. Monetary items are retranslated at the period end exchange rate, non-monetary items that are measured at historical cost are translated at the rate in effect on the original transaction date, and non-monetary items that are measured at fair value are translated at the exchange rate in effect at the time when the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such cash transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. FLEX has transactions mainly in USD and some in GBP and NOK.

1.6 Segments

Our chief operating decision maker, or the CODM, measures performance based on our overall return to shareholders based on consolidated net income. The CODM does not review a measure of operating result at a lower level than the consolidated group and we only have one reportable segment.

Our vessels operate worldwide and therefore management does not evaluate performance by geographical region as this information is not meaningful.

1.7 Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantively enacted by the balance sheet date.



1.8 Accounting for revenue and related expenses

Revenue is recognized on the accrual basis to the extent that it is probable that economic benefits will flow to the entity and the fair value of the consideration received/receivable can be reliably measured.

Time charter revenue generated is treated as operating lease income - under IAS 17- and recognized on a straight line basis over the term of the relevant time charter, excluding periods when the vessel is offhire.

Repositioning fees in respect of time charters, are recognized at the end of the charter when the fee becomes fixed and can be reliably measured. However when a fixed amount not dependent on redelivery location is stipulated in the charter, the repositioning fee is recognized on a straight line basis over the term of the time charter.

Whether the entity is entitled to a ballast bonus agreed at the start of the charter, this is recognized on a straight line basis over the term of the charter.

Vessel operating costs are recognized as incurred with the exception of commissions which are recognized on a pro-rata basis, over the duration of the time charter, matching the recognition of the underlying time charter revenue.

1.9 Non-current assets

Non-current assets are carried at cost less accumulated depreciation and impairment adjustments, if any. When assets are sold or disposed of, the gross carrying amount and accumulated depreciation are derecognized, and any gain or loss on the sale or disposal is recognized in the income statement.

The depreciation period and method will be reviewed annually to ensure that the method and period used reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The gross carrying amount of non-current assets is the purchase price, including duties/taxes, borrowing costs and any costs directly attributable to the location and condition necessary for use in the intended manner. Such expenses include instalment payments, compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, borrowing costs incurred to finance construction, plus other costs that are directly attributable to the assets. Capitalization will cease once the asset is in the location and condition necessary for it to be able to operate in the manner consistent with its intended design.

On delivery the total acquisition costs of the vessel will be decomposed to groups of components that have different expected useful lives. The different groups of components will be depreciated over their expected useful lives. Subsequent costs, such as repair and maintenance costs, are normally recognized in the income statement as incurred.

Where increased economic benefits as a result of repair / maintenance work can be proven, such costs will be recognized in the balance sheet as an addition to non-current assets.

Depreciation on non-current assets is calculated using the straight-line method to depreciate assets over their useful life. The following periods have been used:

Vessels: 35 years

Drydocking: 2-5 years

IT Equipment: 2 years



1.10 Impairment of assets

Non-current assets

At each reporting date the Group completes an assessment of whether there is an indication that an asset may be impaired. An impairment loss occurs when the carrying amount exceeds the recoverable amount, which is the higher of value in use or fair value less cost of disposal. The value in use is calculated using the present value of estimated future cash flows. The calculation is performed at the individual vessel level.

1.11 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be converted into cash within three months and to a known amount, and which contain insignificant risk elements. The cash and cash equivalent amount in the cash flow statement includes overdraft facilities.

1.12 Provisions, contingent liabilities and assets

A provision is a liability of uncertain timing and amount. Provisions are recognized when, and only when, the Company has an existing liability (legal or assumed) as a result of past events, it is probable (more likely than not) that an outflow of resources is required to settle the liability and the obligation can be measured reliably. Provisions are reviewed at each balance sheet date. The amount recognized is the best estimate of the expenditure required to settle the obligation. When the time factor is insignificant, the provisions will be equal to the cost required to settle the obligation. When the time factor is significant the provisions will be equal to the net present value of future payments to cover the obligation. Increases in provisions due to the time factor will be presented as interest expenses.

Contingent liabilities are:

- i. Possible obligations resulting from past events whose existence depend on future events.
- ii. Present obligations that are not recognized because it is not probable that they will lead to an outflow of resources.
- iii. Present obligations that cannot be measured with sufficient reliability.

Contingent liabilities not recognized, but are disclosed, with the exception of contingent liabilities where the possibility of any outflow in settlement is remote.

Contingent asset are defined as;

- i. A possible asset that arises from past events, and
- ii. Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity

A contingent asset is not recognized in the annual financial statements unless realization is virtually certain, but is disclosed if an inflow of economic benefit is probable.

New information that provides evidence of conditions that existed at the balance sheet date are taken into account in the amounts recognized in the annual financial statements. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date, but which will affect the Group's position in the future are disclosed, if material.

1.13 Options and share based payments - equity settled transactions

At award the fair value of share options is calculated using an appropriate option pricing model.

The option cost is recognized over the period in which the performance is expected to be fulfilled, ending at the date on which the relevant employees become entitled to the award. This includes an assessment of the implicit future service requirement of the award. The expense at each reporting date is based on the Group's best estimate of the number of equity instruments that will vest. The income statement reflects the movement in the cumulative expense recognized as at the beginning and the end of the period.



Directors of the Company received part of their remuneration in the form of share-based payment transactions, where new shares are issued instead of cash remuneration being paid. The value of the services is recognized at the fair value of the shares issued.

1.14 Borrowing costs

Where borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, they are capitalized as part of the qualifying asset.

1.15 Investment in subsidiaries

Shares in the subsidiaries and loans provided to subsidiaries are evaluated at the lower of cost and fair value. When the value of estimated future cash flows is lower than the carrying value in the subsidiaries, the Company recognizes impairment charges on investments in subsidiaries and intercompany loan receivables. If and when estimated recoverable amounts increase, impairments charges are reversed. There is currently no repayment schedule on the intercompany loans and no interest charged on outstanding balances.

1.16 Lease

Group as a lessee - Operating leases

Leases where most of the risk and returns associated with the ownership of the asset have not been transferred to the Group, are classified as operating leases. Lease payments are classified as operating costs and recognized in the income statement in a straight-line during the contract period.

Group as a lessee - Finance leases

Finance leases are leases under which the Group assumes most of the risk and return associated with the ownership of the asset. At the inception of the lease, finance leases are recognized at the lower of their fair value and the present value of the minimum lease payments less accumulated depreciation and impairment losses. When calculating the present value of the lease, the implicit interest cost in the lease is used if it is possible to calculate this. If this cannot be calculated, the company's marginal borrowing rate is used. Direct costs linked to establishing the lease are included in the asset's acquisition cost.

The same depreciation period as for the company's other depreciable assets is used. If it is not reasonably certain that the company will assume ownership when the term of the lease expires, the asset is depreciated over the term of the lease or the asset's economic life, whichever is the shorter.



Note 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country of registration	Main operations	Ownership share	Voting share
FLEX LNGC 1 Limited	Isle of Man	Shipping	100%	100%
FLEX LNGC 2 Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Shipping Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Chartering Ltd	United Kingdom	Chartering services	100%	100%
FLEX LNG Management AS	Norway	Management services	100%	100%
FLEX LNG Fleet Ltd	Bermuda	Holding company	100%	100%
FLEX LNG Management Limited	Isle of Man	Management services	100%	100%
FLEX Petroleum Limited	British Virgin Islands	Holding company	100%	100%

FLEX LNG Ltd - Loans and investments in subsidiaries

Company (USD 000)	2017	2016
FLEX LNGC 1 Limited	108,940	107,134
FLEX LNGC 2 Limited	108,643	106,903
FLEX LNG Shipping Limited	20,517	—
FLEX LNG Fleet Ltd	284,864	—
	522,964	214,037

Loans to 100% subsidiaries are unsecured, interest free and repayable on 30 days notice. It is currently not the intention of FLEX LNG to call in these loans. The loans have been used to cover stage payments to shipyards, capitalized costs, running costs and an allocated share of the management recharge.



Note 3: Administrative expenses

As detailed in note 1.8 capitalized costs include expenses covering compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets.

3.1 Included in administration expenses USD,000	Group	Group	Company	Company
	2017	2016	2017	2016
P&L on disposal of assets	—	1	—	—

3.2 Auditors

Expensed fee to the auditors is divided into the following services (exclusive of VAT):

USD,000	Group	Group	Company	Company
	2017	2016	2017	2016
Audit	69	35	69	30
Tax and other assistance	11	10	—	—
Total Auditor's fees	80	45	69	30

3.3 Remuneration

During 2017 FLEX LNG had five Directors (2016: three), but no employees. All employees are engaged by the management company.

Staff costs USD,000	Group	Group	Company	Company
	2017	2016	2017	2016
Wages and salaries	1,040	743	—	—
Social security costs	150	105	5	12
Pension costs	58	24	—	—
Total employee benefit expenses	1,248	872	5	12

Employees are offered a fixed base salary. The management company contributes to a defined contribution pension scheme for members of staff, who are also offered additional health insurance. The number of man-labor years in 2017 was 5 (2016 - 3). The Company has incurred social security costs \$5k (2016: \$12k) in relation to the payment of Directors fees in the Isle of Man.

Directors fees FLEX LNG Ltd, USD,000	Company	Company
	2017	2016
<u>Current Directors</u>		
David McManus	100	100
Marius Hermansen	40	40
Ola Lorentzon	20	—
Georgina Sousa	5	—
Nikolai Grigoriev	11	—
<u>Ex. Directors</u>		
Robin Bakken	14	40
Total Directors' fees	210	180

Mr. McManus received 61% of his remuneration as shares, Mr. Hermansen 80%, Mr. Lorentzon 50%, Mr. Grigoriev 100% and Mrs. Sousa nil.



Note 4: Finance costs and revenue

	Group	Group	Company	Company
	2017	2016	2017	2016
Finance cost				
Loan interest	234	314	240	314
Total financial cost	234	314	240	314

	Group	Group	Company	Company
	2017	2016	2017	2016
Finance revenue				
Interest income	123	9	115	9
Total financial revenue	123	9	115	9

Note 5: Earnings per share

Basic earnings per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the loss and share data used in the earnings per share calculation.

Earnings per share:	2017	2016
(Loss) attributable to shareholders - Group \$'000	(10,408)	(1,789)
(Loss) attributable to shareholders - Company \$'000	(1,130)	(1,574)
Weighted average number of ordinary shares	307,639,115	127,922,003
Effect of dilution:		
Share options	—	—
Weighted average number of shares, adjusted for dilution	307,639,115	127,922,003

Note 6: Management fees, Company

There are no employees in FLEX LNG Ltd. A contract for management services has been entered into with FLEX LNG Management Limited. According to this agreement, FLEX LNG Management Limited will render services to the Group relating to general administration and contract management. FLEX LNG Management Limited is entitled to compensation covering all its expenses plus a mark-up. The total compensation for 2017 was \$2,482k (2016: \$1,095k). At the period end the Company owed FLEX LNG Management Limited \$2,061k (2016: \$1,608k).



Note 7: Income tax

The Group consists of one legal entity incorporated in the British Virgin Islands, one entity in the United Kingdom, one entity in Norway, one entity in Bermuda and four entities in the Isle of Man. The profits attributable to the Management Company are taxable in the United Kingdom (UK).

(USD,000)	Group 2017	Group 2016
Current income tax charge	17	8
Adjustments in respect of current income tax of previous years	—	(9)
Income tax expense reported in the income statement	17	(1)

(USD,000)	Company 2017	Company 2016
Current income tax charge	—	—
Adjustments in respect of current income tax of previous years	—	—
Income tax expense reported in the income statement	—	—

A reconciliation between the tax expense and the product of the accounting profit multiplied by the Bermuda (2016: BVI) domestic tax rate for the year ended 31 December 2017 and 2016 is as follows:

(USD,000)	Group 2017	Group 2016
Accounting (loss) before income tax	(10,408)	(1,790)
Income tax at 0% (2016:0%) - Bermuda and BVI respectively	—	—
Effect of higher overseas tax rates	17	(1)
Effective income tax rate of 0.2% (2016: 0.0%)	17	(1)

(USD,000)	Company 2017	Company 2016
Accounting (loss) before income tax	(305)	(1,574)
Income tax at 0% (2016:0%) - Bermuda and BVI respectively	—	—
Effective income tax rate of 0% (2016: 0%)	—	—



Note 8: New Building Assets and Capitalized Costs

(USD,000) - Group	2017	2016
At 1 January - instalment payments	210,000	210,000
Additions	376,000	—
At 31 December	586,000	210,000
At 1 January - capitalised costs	2,472	1,270
Additions	6,465	1,202
At 31 December	8,937	2,472
At 1 January - Total	212,472	211,270
Additions	382,465	1,202
At 31 December	594,937	212,472

In the first quarter of 2017, the Company acquired two LNGC newbuildings from an affiliated company. The transfer was funded via the issuance of new shares and debt under a revolving credit facility. The assets were valued at the fair value of the shares issued and the debt taken on which amounted to \$376.0m.

Interest expense, supervision and other costs of \$6.5m (2016: \$1.2m) have been capitalized, in relation to the four LNGCs being delivered in 2018. Capitalized interest is calculated as a percentage of the capitalized cost against the total costs funded by the working capital loan in the period. The Company is not responsible for the yard supervision of the remaining two LNGCs to be delivered in 2019, and these costs are included in the purchase price.

In relation to the two LNGCs that will be delivered in 2019, the Company has made advance payments of \$72.0m in the second quarter of 2017, with the balance due on delivery. Under the purchase agreement, the seller continues to hold the shipbuilding contract with the yard and is responsible for the supervision of the vessels' construction, with the title transferring to FLEX at the date of delivery.

The carrying values of newbuildings and vessel purchase prepayments may not represent their fair market value at any point in time since the market prices of second-hand vessels and the cost of newbuildings tend to fluctuate with changes in charter rates, operational expenses and weighted average cost of capital (WACC). Historically, both charter rates and vessel values tend to be cyclical. The carrying amounts of vessels that are held and used by us and newbuildings under construction are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel or newbuilding may not be fully recoverable.

At the end for 2017 the group has performed a value in use calculation, based on discounted cash flow. In developing estimates of future cash flows, we must make assumptions about future performance, with significant assumptions being related to charter rates, ship operating expenses, utilization, drydocking requirements, residual value, weighted average cost of capital and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations.

To support our assumptions and thereby the estimated value of non-current assets, the group has obtained two independent broker valuations. The valuations and our internal estimated value support the booked value of non current assets.

To indicate the sensitivity of the discounted cash flow valuation we estimate that an increase of operating expenses of 30% with out any increase in rates, an increase in WACC of 1% or reduction of future charter rates of 5% - 15% can lead to impairment.



Note 9: Plant and Equipment

(USD,000) - Group

Cost	2017	2016
1 January	5	7
Additions	4	2
Disposals	(1)	(4)
31 December	8	5

(USD,000) - Group

Depreciation	2017	2016
1 January	3	4
Depreciation charge for the year	2	2
Disposals	—	(3)
31 December	5	3
Net book value	2017	2016
At 31 December	3	2

Note 10: Other current assets

(USD 000)	Group 2017	Group 2016	Company 2017	Company 2016
Debtors	486	46	—	3
Prepayments	6,082	174	3,156	173
Total other current assets	6,568	220	3,156	176

Note 11: Cash and cash equivalents

(USD 000)	Group 2017	Group 2016	Company 2017	Company 2016
Cash at bank and in hand	9,961	1,439	7,175	1,283
Cash and cash equivalents in the balance sheet and cash flow statement	9,961	1,439	7,175	1,283

There is no restricted cash as of 31.12.2017



Note 12: Share capital, shareholder information and dividend

Group & Company	2017	2016
Ordinary shares (nominal amount USD: 0.01)	367,972,382	127,945,657
Total number of shares	367,972,382	127,945,657

Group & Company	Shares (‘000)	Share Capital (USD’000)	Share Premium (USD’000)
Ordinary shares - Issued and fully paid:			
At 1 January 2017	127,946	1,279	563,174
Shares issued	240,026	2,401	322,149
December 31, 2017	367,972	3,680	885,323

Group & Company	Shares (‘000)	Share Capital (USD’000)	Share Premium (USD’000)
Ordinary shares - Issued and fully paid:			
At 1 January 2016	127,870	1,279	563,080
Shares issued	76	—	94
December 31, 2016	127,946	1,279	563,174

Nominal value per share is USD 0.01. All issued shares have equal voting rights and are equally entitled to dividends. During the year shares were allotted to directors of FLEX LNG to cover between 0% and 80% of their remuneration for the year. The Directors’ shares for the remuneration, covering the period 01/07/17 to 31/12/17, had not been issued at 31/12/17 and are recorded in the option, warrant and share reserves, \$66k (2016: \$49k).

Main Group shareholders at 31.12.17 are:	Number of shares:	Ownership interest:
Shareholder:		
GEVERAN TRADING CO LTD	191 131 803	51,9 %
VERDIPAPIRFONDET DNB NORGE (IV)	18 793 455	5,1 %
SKAGEN VEKST	8 770 000	2,4 %
FIDELITY PURITAN TRUST: FIDELITY	8 558 600	2,3 %
UBS AG 1	6 000 000	1,6 %
CATELLA HEDGEFOND	5 907 300	1,6 %
GOLDMAN SACHS & CO. I.L.C. 1	4 178 950	1,1 %
THE BANK OF NEW YORK MELLON SA/NV 1	3 837 757	1,0 %
SOCIETE GENERALE	3 553 717	1,0 %
NORRON SICAV - TARGET	3 543 954	1,0 %
Other	113 696 846	30,9 %
Total	367 972 382	100,0 %

Note 1 - Nominee account.



Note 13: Related parties

13.1 Shares held by current members of the Board, as at 31/12/17

Board Member	2017	2016
David McManus	845,603	796,116
Marius Hermansen	38,931	14,568
Nicolai Grigoriev	---	—
Ola Lorentzon	950	---
Total	885,484	810,684

13.2 LNGC technical specifications and construction agreement

A newbuilding supervision agreement has been entered into with Frontline Management (Bermuda) for two vessels on order from Samsung and the two vessels from DSME being delivered in 2018. In the period to 31 December 2017, costs of \$4.4m have been capitalized of which \$0.8m were outstanding at the period end.

13.3 Transactions with affiliates of Geveran

At 31 December 2016, the Group had an outstanding loan payable balance with Metrogas, an affiliate of Geveran. Following the private placement in the first quarter of 2017, this loan was repaid in full.

During the first quarter of 2017, the Group entered into an agreement with Sterna Finance Ltd ("Sterna"), an affiliate of Geveran, for a revolving credit facility of \$270m. At 31 December 2017, the Group had a payable balance of \$160m in relation to this loan. Following the drawdown of bank loans in January 2018, \$100m was repaid to Sterna. The Group incurred interest of \$1.3m in relation to this loan in 2017.

13.4 Overhead costs

The FLEX Management company receives staff, office, commercial, legal and accounting support from companies affiliated to Geveran, at the period end costs of \$1.0m (2016: \$261k) had been incurred of which \$0.2m were outstanding at the period end.

Note 14: Commitments and contingencies

14.1 Capital Commitments

The remaining capital commitments are detailed in the table below.

USD (millions)	<u>Q1 2018</u>	<u>Q2 2018</u>	<u>Q3 2018</u>	<u>Q2 2019</u>	<u>Q3 2019</u>
SHI HN 2107, LNGC	64.54	42.38			
SHI HN 2108, LNGC		64.54	42.38		
DSME HN 2447, LNGC	10.18				
DSME HN 2448, LNGC	10.18				
DSME HN 2470, LNGC				144.00	
DSME HN 2471, LNGC					144.00
Total	84.90	106.92	42.38	144.00	144.00



Remaining Capex, excluding, supervision, future change requests, sundry buyers' supplies, fit out, studies and lub oils.

The delivery date for HN 2107 has been delayed by about three months. HN 2107 is expected to be delivered May 2018 while HN 2108 is scheduled for delivery July 2018.

14.2 LNGC Time Charters

During first quarter the Group has entered into four separate LNGC time charters for 180 days with the option to extend for a further 180 days. During the second quarter, options to extend have been exercised for two LNCGs, and the other two have been redelivered. The estimated remaining charter commitments as at 31 December total \$8.2m, based on expected return dates and including off-hire periods.

14.3 Other financial liabilities

In 2014 a loan agreement was entered into with Metrogas (an affiliate of Geveran) for the provision of a \$7.0m loan to the Company, the loan was repaid in the first quarter of 2017. As of 31 December 2017, the amount outstanding for the Metrogas loan was nil.

In the first quarter of 2017, the Company entered into a transaction to acquire of two high-end MEGI LNGC newbuilds from an affiliate of Geveran. The consideration payable for the newbuilds was comprised of 78 million newly-issued shares in the Company and \$ 270.0m seller credit which was financed through the \$ 270m Sterna RCF. Following two private placements completed in the first half of 2017, \$110.0m of this loan has been repaid, with \$160.0m outstanding.

On 20 December 2017 the Company signed a \$315m secured term loan facility (the "TLF") to finance the first three of its newbuildings - DSME HN 2447 (FLEX ENDEAVOUR), DSNE HN 2448 (FLEX ENTERPRISE) and SHI HN 2107 (FLEX RANGER) with a group of six banks. As of 31 December 2017, the amount outstanding under the \$315m secured term loan facility was nil.

Note 15: Subsequent events / after balance sheet date

On 9 January 2018 the Company successfully took delivery of its first LNG carrier newbuilding the FLEX ENDEAVOUR. In connection with the delivery \$105m of the TLF was paid out. A further \$105m was paid out in connection with the delivery of sister vessel FLEX ENTERPRISE which was delivered on 11 January 2018. Following these deliveries, \$100m under the Sterna RCF was repaid and the outstanding amount under the \$270m Sterna RCF is thus \$ 60m.

As of April 18 2018 FLEX entered into a time-charter agreement with Enel Trade S.p.A. ("Enel"), a company of the Enel Group, a multinational power company and one of the world's leading integrated electricity and gas operators. The time charter period of 12 months will commence during the second half of 2019. Enel also has the option to extend the contract by an additional 12 months subsequent to the firm period. FLEX LNG intends to employ the LNG carrier FLEX ENTERPRISE for this business, however the Company also has the option to nominate one of its sister vessels.

Note 16: Going Concern

The financial statements have been prepared based on the going concern assumption, which contemplates the realization of assets and liabilities as part of the normal business course.



The Board believes that the going concern assumption currently remains appropriate for the Group. At 31 December 2017, the Group had secured bank funding of up to \$315m for three vessels; in addition, \$110m of the Sterna RCF was available to be drawn. In January 2018, \$210m was drawn down from the bank facility on delivery of the FLEX ENDEAVOUR and the FLEX ENTERPRISE. The proceeds of this loan were used to repay a further \$100m of the Sterna RCF which remains available to the Group.

The Company requires additional funding to meet future newbuilding instalments and there can be no assurance that such funds may be raised on terms that are reasonable, if at all. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed in the report.

Note 17: Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program considers the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance, in a cost effective manner.

Currency risk

The risk that the value of monetary assets and liabilities denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Company has historically raised its equity funding in USD, with the share price denominated in NOK, but with the funding proceeds being fixed into USD.

Additionally, the Group incurs some overhead costs in GBP and NOK. Historically these exposures have not been hedged. The Company's shares are traded in NOK. The NOK trading price is impacted by the underlying activities of the Group, which are primarily denominated in USD. Currency fluctuations of an investor's currency of reference relative to the NOK may also adversely affect the value of an investor's investments.

Interest rate risk

The Group currently has interest bearing assets and liabilities. Amounts are placed on deposit for periods to secure higher returns, while balancing the need to access funds as required. The cost on the interest bearing liabilities has been raised at a fixed rate of interest.

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash modeling forecast. This model considers the maturity of payment profiles and projected cash flows required to fund the operations. Historically funds have been raised via equity issuance and loan finance. Market conditions can have a significant impact on the ability to raise equity and loan finance, while new equity financing may be dilutive to existing shareholders and loan finance which will contain covenant and other restrictions.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the raising of finance from investors.

Upon delivery of the respective vessels from the yards, the Company will look to have raised loan finance to cover the remaining delivery payments that are due.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Currently the main exposure to credit risk comes from the paid-in instalments made to Samsung and DSME. Samsung has provided refund guarantees for the \$210m instalment payments. The bank providing the refund guarantee must hold at least a



credit rating of A-. Seatankers Management Co. Ltd., an affiliate of Geveran, has provided refund guarantees for the \$72m instalments paid to DSME.

Cash funds are currently held with DnB, RBS and Barclays.

Price risk

The Group is also subject, indirectly, to price risk related to the spot/short term charter market for chartering LNG carriers. Charter rates may be uncertain and volatile and depend upon, among other things, the natural gas prices, the supply and demand for vessels, arbitrage opportunities, vessel obsolescence and the energy market, which the Group cannot predict with certainty. Currently, no financial instruments have been entered into to reduce this risk.

Operational risk

Currently the Group is managing the construction phase for the vessels and has yet to secure charters for the vessels. Operational risks therefore mainly relate to expenditure being higher than forecast, decisions on the design specifications, risks to the **environment** and risks to the safety of staff. At a commercial level it also includes the ability to secure employment contracts on reasonable terms for the vessels under construction; and obtaining finance and working capital on reasonable terms. In 2017 it will include the four LNGC vessels that have been chartered in.

Regulatory and compliance risk

These are risks associated with ethical behavior covering the handling of sensitive information and compliance with laws and regulations. These risks are managed via Group policies and guidance.

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting Flex LNG Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Flex LNG Ltd, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2017, the income statement, statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of Flex LNG Ltd present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment evaluation of vessels under construction

Vessels under construction booked in the accounts named "New building assets" and "Vessel purchase prepayment" is 666.9 million USD for the group. This consists of prepayments and installments for purchases of six LNG vessels and capitalized cost related to construction of these. Management made based on current market condition an impairment evaluation at yearend. The impairment evaluation is dependent on a range of assumptions such as expected utilization and day rates, which in turn are dependent on future market development and economic conditions. Vessels under construction represents 97.4% of total assets and is considered a key audit matter due to the relative size and the involvement of management's judgment in assessing the estimates and assumptions.

Our audit procedures included an evaluation of the cash flows projected by management. We evaluated the assumption of expected useful life, operating expenditures and dry dock cost to the market expectation within the sector through comparing the assumptions to available external data such as data from comparative companies, observable market rates, available contract information and external macroeconomic analysis. Furthermore, with the assistance from internal valuation experts, we evaluated the discount rate used in the value in use model comparing the different elements with external data such as market risk premium, risk free interest on government bonds and beta for comparable companies, and by evaluating that Flex LNG had applied adjustments for company specific factors. We also evaluated the level of consistency of the assumptions used in the valuation methodology from previous years and tested the mathematical accuracy of the valuation model.

Refer to note 8 regarding new building assets and capitalized costs.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Bergen, April 24 2018
ERNST & YOUNG AS



Jørn Knutsen
State Authorised Public Accountant (Norway)