



**Flex LNG Ltd.**

**Consolidated and Company Annual  
Report and Financial Statements 2018**



# General Information, Flex LNG Ltd.

## Directors

David McManus (Chairman)

Marius Hermansen

Ola Lorentzon

Nikolai Grigoriev

## Company Secretary

James Ayers

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## Auditors

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## Letter from the CEO

While 2018 was a very eventful year for Flex LNG, it was not eventful when it comes to our most critical success factor, the safe and reliable operation of our vessels. We are very pleased that during 2018 we, together with our technical manager Bernhard Schulte Ship Management (BSM), operated our vessels at the highest standard without a single incident causing Loss Time Injury (LTI) or Total Recordable Case Frequency (TRCF). Achieving LTI and TRCF results of zero in the start-up year is a remarkable achievement and our seafarers and shore-based personal have every reason to be proud of their performance. In addition to delivering first class safety results, we also operated the vessels without any technical off-hire through the year giving our customers uninterrupted service. During 2019 we will aim to further strengthen our operations by tighter co-operation with BSM and we have also recruited additional experienced on-shore personal to ensure we have the right people at the right place ahead of our remaining vessel deliveries. Hence, our aim is not only to maintain our service level, but further improve it together with our partner BSM. When recruiting, we do this on basis of merit, diversity and equality. Equality is something we also find key when it comes to corporate governance as one share is one vote and all shareholders are treated the same. 2018 was for all practical purposes the start-up year for Flex LNG as we finally took delivery of our first newbuildings with the deliveries of Flex Endeavour and Flex Enterprise in January 2018, followed by the deliveries of Flex Ranger and Flex Rainbow in June and July 2018, respectively. During 2018, two vessels were employed on shorter term time-charters, while the remaining two vessels traded in the spot market. Having two vessels in the spot market during the second half of 2018 was very valuable as the market for LNG shipping became increasingly tight due to high demand particularly in North East Asia. I am pleased that we managed to capitalize on the tight market and evidenced the earnings potential of the new state-of-the art fifth generation LNG carriers. This was particularly so in the fourth quarter, which resulted in us being able to deliver black numbers for the full year in our start-up year.

Ahead of delivery of the newbuildings we put in place what I consider attractive and flexible long-term financing for all four vessels. The financings put in place during 2018 enabled Flex LNG to add another two newbuilding LNG carriers to the fleet in May 2018 on the basis of the existing paid-in capital. We also executed the largest private placement on the Oslo Stock Exchange (OSE) during 2018, when we in October successfully raised \$300 million of new shares in connection with the acquisition of five newbuilding LNG carriers. Hence, during 2018 we grew our fleet by seven newbuilding LNG carriers. This means the Group has been transformed from being a rather small Group with two newbuilding contracts at the start of 2017 to a leading LNGC Group by the end of 2018, with four vessels on the water and a further nine newbuildings. Achieving this growth in such a short matter of time had not been able to achieve without dedicated support from our customers, employees, financiers and shareholders.

The outlook for the LNG market is very compelling with high level of visible growth ahead as countries like the U.S., Russia, Mozambique, Qatar are adding further liquefaction capacity which will drive demand for seaborne



transportation. LNG shipping is according to Bloomberg expected to overtake pipeline gas in global gas trade by 2025, marking a remarkable shift from 2000 when pipeline gas volumes were three times larger than LNG shipping in global trade. The main reasons for the high growth factor for natural gas and LNG in particular are its environmental credentials compared to other hydrocarbons as well as its relatively low price. LNG also adds the additional benefit of flexible transporting options over larger distances. The climate challenge today consists primarily of two issues, local climate and global warming. Switching from coal to cleaner natural gas can mitigate both. The carbon emissions driving global warming can be reduced by about half by doing this switch. However, the benefits to the local climate which is affecting people's health and everyday life are significantly greater. By utilizing natural gas instead of coal, sulphur emissions (SOx) and particulate matter (PMx) can be reduced to negligible levels, nitrogen oxides (NOx) by 80-90%, carbon monoxide by about 90% and mercury emissions can be eliminated entirely. This is good news, as nine out of ten people worldwide breathe air containing high levels of pollutants, which is causing 7 million pre-mature deaths every year according to WHO. Due to the factors described, it is not surprising that natural gas and LNG is set to grow and become the most important fuel by 2040 according to BP. As far as we can see, natural gas as feedstock has one challenge and this is related to methane leak/slip. This is a challenge that the whole industry is facing. Flex shares the high ambitions that some of the leading energy companies have in reducing release of methane to a minimum, as this is a potent greenhouse gas. Our fleet of vessels, which consists of nine MEGIs and four X-DFs, are very well suited to tackle the methane slip challenge. These vessels are the most fuel efficient on the water, and they also provide a much better methane footprint than the fourth generation DFDE/TFDE vessels, which struggle with less efficient combustion creating methane slip. The clean high pressure combustion of our MEGI vessels almost eliminate methane slip entirely while the low pressure X-DF vessels reduce methane slip significantly compared to the older fourth generation vessels.

To conclude, Flex LNG expects a further tightening of the LNG shipping market in the coming years, especially in 2019 and 2020, due to high growth in LNG production and higher demand for natural gas as utilities are switching from coal to cleaner natural gas. This is combined with increased sailing distances due to the increased supply from the U.S. and Russia in particular. Flex LNG is well positioned with four modern fuel efficient LNG carriers on the water, and another nine newbuildings set for delivery with very favourable slots in 2019-2021. Flex LNG believes our fleet of state-of-the-art LNG carriers will still command a premium in the market due to its more fuel efficient and environmental friendly propulsion system as well as its larger parcel size than average.

Oystein M. Kalleklev

Chief Executive Officer, Flex LNG Management AS



## BOARD OF DIRECTOR'S REPORT 2018

### Business update

During 2018, Flex LNG Ltd. (the "Company"; together with its subsidiaries, the "Group" or "Flex LNG") further expanded its fleet and now controls a fleet of 13, high-end 5th generation LNG carriers. This expansion was done through two transactions during 2018. The first transaction was entered into in May, and confirmed in July following the closing of the sale and leaseback of the Flex Rainbow. The funds received from the sale and leaseback transaction were used to acquire the two newbuilding LNG carriers, Flex Aurora and Flex Amber. The vessels are fitted with low pressure two stroke engines ("X-DF") and are under construction at Hyundai Samho Heavy Industries Co., Ltd. ("HSHI"). The second transaction was concluded in connection with the \$300 million private placement in October. The funds from the private placement were used to enter into a transaction for the acquisition of five newbuilding LNG carriers, comprising three M-type, Electronically Controlled, Gas Injection ("MEGI") LNG carriers currently under construction at Daewoo Shipbuilding, and Marine Engineering Co. Ltd. ("DSME"), Flex Reliance, Flex Resolute and Flex Freedom, with scheduled delivery in 2020 and two X-DF LNG carriers currently under construction at HSHI, Flex Volunteer and Flex Vigilant, with scheduled delivery in 2021. This is in line with Flex LNG's strategy to be and stay a leading company in the LNG carrier market.

The growth in shipping demand is expected to be driven by the substantial increase in global LNG production together with the future growth of global energy demand.

In April 2018, the Group entered into a time-charter with Enel Trade S.p.A. ("Enel"). The firm period is 12 months, with an option to extend the charter period with an additional 12 months. The charter party will commence from the second half of 2019. Flex LNG intends to employ Flex Enterprise for this business, however the Group has the option to nominate one of its sister vessels.

### Financing update

In December 2017, we entered into a \$315 million secured term loan facility (the "\$315 Million Term Loan Facility"), for the financing of the first three vessels in our fleet, the Flex Endeavour, the Flex Enterprise and the Flex Ranger. In January 2018, we drew down the first two loan tranches of \$105 million each in connection with the delivery of the Flex Endeavour and the Flex Enterprise. The third \$105 million tranche was utilized in connection with the delivery of the Flex Ranger in June 2018.

In July 2018, we successfully completed the sale and leaseback of Flex Rainbow (the "Flex Rainbow Sale and Leaseback"), whereby the Flex Rainbow was sold to a Hong Kong based lessor and leased back for a period of 10 years. The gross sales price under the lease was \$210 million, of which \$52.5 million represented advance hire for



the ten-year lease period. This transaction made it possible for Flex LNG to acquire the two newbuilding LNG carriers Flex Aurora and Flex Amber from related parties of Geveran Trading Co. Ltd. ("Geveran"), our largest shareholder. The vessels are under construction at HSHI and will be delivered in the second and third quarters of 2020, respectively.

In October 2018, the Company successfully completed a private placement, raising gross proceeds of Norwegian Kroner ("NOK") 2,464 million, equivalent to approximately \$300 million. The private placement was the largest in size on the Oslo Stock Exchange during 2018. The proceeds from the private placement were used for the acquisition of five newbuilding LNG carriers from related parties of Geveran, comprising three high-end MEG1 LNG carriers currently under construction at DSME with scheduled delivery in 2020 and two high-end X-DF LNG carriers currently under construction at HSHI with scheduled delivery in 2021.

In the first quarter of 2019, we agreed financing for the two newbuildings Flex Constellation and Flex Courageous. The \$250 million secured term loan facility (the "\$250 Million Term Loan Facility") will be divided into two tranches of \$125 million each. The tenor of the facility will be five years from the date of delivery of the last newbuilding financed under the facility. The financing remains subject to the execution of the loan facility agreement and customary closing conditions, and is expected to be drawn upon delivery of the vessels from the shipyard, currently scheduled for June and August 2019, respectively. The financing will partly cover the remaining \$144 million payable upon delivery of each of the vessels. The remaining balance is expected to be funded from the Group's available liquidity.

The full amount under the \$270 million revolving credit facility (the "\$270 million Revolving Credit Facility") provided by Sterna Finance Ltd., a related party, is free and available until 12 months after delivery of the newbuilding Flex Courageous (scheduled August 2019) after which it will be reduced to \$30 million. The remaining \$30 million will however be available until July 1, 2023, unless otherwise agreed.

### **LNG Market outlook and strategy**

The global LNG market is evolving rapidly. More LNG is being produced than ever before and more LNG is being sold on shorter-term contracts. The global appetite for LNG is rising as new demand hot spots for the clean-burning fuel are developing. Strong demand ahead of the winter season 2018 resulted in a significant increase in the freight rates. The arbitrage window between European and Asian LNG prices stayed open until October/November of 2018, which increased demand for spot vessels loading out of European ports - so called "re-loads". Due to a warm winter resulting in fewer heating days both in Pacific and Europe, lower LNG prices affecting willingness to pay for transportation and a closed arbitrage window, the charter rates and utilization levels softened during first quarter of 2019. Given an expected increased LNG production in 2019 of about 30-35 million tonnes, on average longer



sailing distances and fewer vessel deliveries, the market is expected to become gradually tighter throughout the year. The increase in production during 2019 is mainly derived from Russia, Australia and the U.S.

Australia have now finalized its eight major LNG project and ramped-up the last project during 2018, which is expected to increase production in 2019 by approximately 10 million tonnes compared to 2018, making Australia the biggest LNG exporter in the world ahead of Qatar.

When it comes to Russia, new volumes are related to the ramp up of production at Yamal LNG. The project is based on the Yamal peninsula, above 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 approximately 16.5 million tonnes per annum ("Mtpa") and estimated natural gas reserves of 926 million tonnes. The LNG from Yamal is primarily shipped to Asia-Pacific and European markets.

In the U.S., there are several new liquefaction trains being mobilized and ramped up. The start-up of Cove Point in April 2018 was just another piece to the U.S. LNG export boom that will continue apace. A handful of export terminals are under construction and more than a dozen are being proposed.

When Cameron LNG Train No. 1 is operational in 2019, it will be able to liquefy domestically-produced natural gas for export as well as import LNG. With the 3-Train project, the authorized annual export capacity is estimated to be approximately 15 million tonnes. Cameron has initiated an expansion project which is capable of increasing LNG production capacity by an additional 10 Mtpa. If constructed, Cameron LNG's export capacity will be approximately 25 Mtpa.

Cheniere's Corpus Christi LNG export terminal began production of Train No. 1 at end of 2018 and is expected to start-up production of Train No. 2 in the middle of 2019 while Train No. 3 is scheduled for start-up 2021. Each of these trains has a capacity of 4.5 Mtpa.

Freeport LNG is experiencing delays in construction of Trains No. 1 - 3 and is expected to start producing in September 2019. The estimated export capacity is 2.5 million tonnes in 2019. Nameplate capacity is approximately 5 Mtpa for each of the three trains. Freeport LNG is developing a fourth LNG train in addition to the three trains already under construction. This expansion will allow for the export of an additional 5 Mtpa of LNG, increasing the project's total export capability to approximately 20 Mtpa.

Additionally, Elba Island is expected to start-up in 2019 adding nameplate capacity of about 2.5 Mtpa.



During 2019, it is also widely expected that Qatar will give the greenlight for an additional four liquefaction trains in Qatar bringing production volumes up from 77 Mtpa to 110 Mtpa. These trains are scheduled to be fully operational by 2024.

Global demand for seaborne LNG continued to grow in 2018. For the full year 2018, approximately 330 million tonnes of LNG were exported, an increase of approximately 13% year-on-year. The world's total LNG carrier fleet, with a size above 125,000 cbm, now exceeds 470 vessels and approximately 38 vessels are expected to be delivered in 2019.

Flex LNG sees itself well positioned with four MEGI LNG carriers on the water, and another nine newbuildings set for delivery in 2019-2021. Three of the newbuildings are fitted with full re-liquefaction systems which make these vessels ideal for long term charter parties. Flex LNG is therefore confident that the strengthening in the market sentiment will continue and that our state-of-the-art vessels will command a premium in the market. We continue to execute our chartering strategy to secure balanced fleet employment through actively marketing our LNG carriers in both the term and spot markets.

### **The Board**

Mr. Robin Bakken resigned from the board in September 2017, while Ms. Georgina E. Sousa resigned from the board in December 2018.

### **Leadership update**

To further strengthen the executive team in connection with the expansion of the fleet, Mr. Øystein M. Kalleklev took the position as Chief Executive Officer of Flex LNG Management AS from August 1, 2018 while still serving as Chief Financial Officer. To strengthen our operational department Mr. Marius Foss joined Flex LNG Management AS from August 1, 2018 as Head of Commercial. On January 1, 2019, Mr. Harald Gurvin joined Flex LNG Management AS as Chief Financial Officer.

### **Funding and Going Concern**

The Board believes that the going concern assumption currently remains appropriate for the Group. The basis for the Board's assumption is, among several things, the Flex Rainbow Sale and Leaseback, which financed the 20% down payment on Flex Aurora and Flex Amber. In addition, the Company successfully completed a private placement in October 2018 raising the equivalent of \$300 million, which financed the 30% on the last five newbuildings. In the first quarter 2019, the Group agreed the \$250 Million Term Loan Facility to part finance the final instalments on the two newbuildings Flex Constellation and Flex Courageous. To secure any finance gap, the \$270





Million Revolving Credit Facility will be available in full until 12 months after delivery of the Flex Courageous, which is scheduled to be delivered in August 2019.

## **Risks**

The Group is currently focused on becoming a leading owner and commercial operator of fuel efficient LNG carriers. 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 2018 accounts and as summarized below. Risks associated with the ability to secure employment contracts on reasonable terms for the vessels under construction and the vessels 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 attractive funding. Historically funds have been raised via equity issuance, lease finance and loan finance. Market conditions can have a significant impact on the ability to raise equity, lease finance and loan finance. While new equity financing may be dilutive to existing shareholders, lease and loan finance may contain covenants and other restrictions. Although the Group has agreed the \$250 Million Term Loan Facility for part financing of the two newbuildings delivering in 2019 and has \$270 million in available funds under the \$270 Million Revolving Credit 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 instalments) is subject to market risks and other risks that may influence the availability, structure and terms of such financing.

In all cases where the Group 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 Group are provided in Notes 10, 11, 18 to the financial statements.

## **Income Statement, Balance Sheet and Cash Flows**

For the year ended December 31, 2018, the Group had vessel operating revenues of \$77.2 million (2017: \$27.3 million). Vessel operating costs, including voyage related costs, charter hire expense, claim expense, broker commissions and technical operating expenses (such as crewing, insurance, lubes and repairs & maintenance) for 2018 amounted to \$26.2 million (2017: \$36.5 million).



For the year ended December 31, 2018, the Group reported administrative expenses of \$4.6 million (2017: \$3.4 million) and finance costs of \$17.8 million (2017: \$0.2 million). Depreciation expenses increased to \$17.4 million for the year ended December 31, 2018 compared to \$0.0 million for 2017.

The Group's net income/(loss) of the year ended December 31, 2018 was \$11.8 million (2017: \$(10.4) million), equating to a basic and diluted earnings/(loss) per share of \$0.29 (2017: \$(0.34)).

At December 31, 2018, the Group reported total assets of \$1,294.4 million (2017: \$684.5 million) and total equity of \$827.3 million (2017: \$520.1 million).

The Group's cash, restricted cash and cash equivalents at December 31, 2018 was \$55.1 million (2017: \$10.0 million) with a \$45.1 million net cash inflow for the year (2017: \$8.5 million). For the year ended December 31, 2018, the cash flow provided by/(used in) operating activities was \$35.7 million (2017: \$(17.8) million), net cash flow used in investing activities was \$584.4 million (2017: \$77.7 million) and net cash flow provided by financing activities was \$593.9 million (2017: \$104.0 million).

For the year ended December 31, 2018, the Company has continued to hold the investments in its subsidiaries and managed the strategic direction of the Group. The Company's cash and cash equivalents at December 31, 2018 was \$8.5 million (2017: \$7.2 million). For the year ended December 31, 2018, the cash flow provided by/(used in) operating activities was \$6.5 million (2017: \$(9.6) million), net cash flow used in investing activities was \$300.5 million (2017: \$205.5 million) and net cash flow provided by financing activities was \$295.3 million (2017: \$221.0 million) resulting from the share issuance in October 2018.

### **Environmental Reporting**

The Group has an objective that all activities that are performed to be carried out so as to minimize negative impacts to people and the environment.

### **Working Environment and Personnel**

At the end of 2018, The Company and its subsidiaries had in total six employees. The personnel are employed by our 100% owned subsidiaries Flex LNG Management AS and 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 Company's Board of Directors currently consists of four men. The Group'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

In the first quarter of 2019, the Group agreed the \$250 Million Term Loan Facility for the financing of the newbuildings Flex Courageous and Flex Constellation. The tenor of the facility will be five years from the date of delivery of the last newbuilding financed under the facility. The financial covenants are not directly linked to earnings, but rather balance sheet values of booked equity level exceeding 25%, free cash being the higher of \$25 million and 5% of net interest bearing debt and positive working capital on a consolidated level. The financing remains subject to the execution of the loan facility agreement and customary closing conditions, and is expected to be drawn upon delivery of the vessels from the shipyard, currently scheduled for June and August 2019, respectively.

### 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.

April 3, 2019



David McManus (Chairman)



Marius Hermansen



Nikolai Grigoriev



Ola Lorentzon

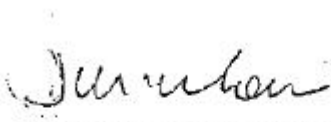


## Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period January 1 to December 31, 2018 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.

April 3, 2019



David McManus (Chairman)



Marius Hermansen



Nikolai Grigoriev



Oia 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 the 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 of Continuance and Bye-Laws, which set forth certain governance provisions. The Norwegian Accounting Act is found on [www.lovdata.no](http://www.lovdata.no) and the Code of Practice is found on [www.nues.no](http://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](http://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 of Continuance and Bye-Laws, Bermuda and Norwegian law.

### 2) Business

The Company’s objectives as set out in the Memorandum of Continuance are unrestricted. Flex LNG is currently focused on becoming a leading owner and commercial operator of fuel efficient LNG carriers. The Company operates principally through its subsidiaries, and are actively marketing our LNG carriers in both the term and spot markets in order to secure balanced employment of the vessels.



### **3) Equity, debt and dividends**

#### *Equity*

The appropriate level of equity for the Group is evaluated by the Board of Directors on an ongoing basis, via reviews at the Board meetings. Total share capital of the Company at December 31, 2018 was \$5.41 million, divided into shares of par value USD 0.10 each, following the ten-to-one reverse stock split which was effective March 7, 2019. The Board of Directors believe this is currently satisfactory given the Group's business and objectives, but will be increased if the Company raises additional funds.

#### *Debt*

In December 2017, we entered into a \$315 million secured term loan facility for the financing of the first three vessels in our fleet, the Flex Endeavour, the Flex Enterprise and the Flex Ranger. In January 2018, we drew down the first two loan tranches of \$105 million each in connection with the delivery of the Flex Endeavour and the Flex Enterprise. The third \$105 million tranche was utilized in connection with the delivery of the Flex Ranger in June 2018. The total outstanding principal amount under the facility as of December 31, 2018 was \$304.5 million.

In July 2018, we concluded the sale and leaseback of Flex Rainbow. The gross sales price under the lease was \$210 million, of which \$52.5 million represented advance hire for the ten-year lease period. The sale and leaseback has been considered a financing arrangement whereby the initial net amount received has been recognized as a loan against the vessel due to Flex LNG's repurchase options during the ten year leasing period.

In the first quarter of 2019, we agreed a \$250 million financing for Flex Constellation and Flex Courageous, which are scheduled for delivery in June and August 2019, respectively. The financing is subject to the execution of the loan facility agreement and customary closing conditions.

#### *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*

Pursuant to Bermuda law and common practice for Bermuda incorporated companies, the Board of Directors has wide powers to issue any authorised, but unissued shares, on such terms and conditions as it may decide, subject to any resolution of the Company's shareholders to the contrary.



Pursuant to the Bye-Laws, the Board of Directors has wide powers to issue any authorised, but unissued shares on such terms and conditions as it may decide, subject to any resolution of the shareholders to the contrary. Further, pursuant to the Bye-Laws, the Board of Directors may exercise the power of the Company to purchase its own shares for cancellation or acquire them as treasury shares in accordance with Bermuda law on such terms as the Board of Directors thinks fit.

The issued share capital for the Company is detailed in the annual and quarterly reports which may be viewed at [www.flexlng.com](http://www.flexlng.com).

#### **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 Bye-Laws do not contain any restrictions on voting rights. 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.

The Company conducts appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the Company's Board of Directors. As permitted under Bermuda law and our Bye-Laws, our directors are not prohibited from being a party to, or otherwise interested in, any transaction or arrangement with us or in which we are otherwise interested, provided that the director makes proper disclosure of same as required by our Bye-Laws and Bermuda law.

#### **5) Freely negotiable shares**

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

#### **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 Bye-Laws require a five day notice for Annual and other Shareholder Meetings, rather than 21 days, which is the recommendation of the Code of Practice. Currently, given the Company's 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 Directors 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 Board of Directors 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 to be present; it believes that the Chairman of the Board 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](http://www.flexlng.com) as well as [www.newsweb.no](http://www.newsweb.no) where the decisions from the general meetings will also be made available.

The Company 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 of Directors. 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 the auditor to be physically present at the General Meetings, or for there to be an independent Chairman, and that a five day notice is sufficient for the AGM.

#### **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 of Directors 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 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 of Directors 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 no employees as at December 31, 2018, 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 not less than two directors pursuant to the Bye-Laws. The Company's Board of Directors currently comprises four directors. The composition of the Board of Directors, including the controls to avoid conflicts of interest, is in accordance with Bermuda company law, the Memorandum of Continuance, Bye-Laws and good corporate governance practice.

The Company endeavours 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 AGM, and shall serve until re-elected or their successors are appointed at the next AGM. 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 2019. Currently, the Board of Directors has elected the Chairman, rather than the shareholders. Given the Company's current development status, the Company believes that this is satisfactory and that the Chairman can ensure that the Board of Directors 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 of Directors believes promotes a common financial interest between the members of the Board of Directors and the shareholders of the Company. In accordance with the General Meeting's resolution, the Directors received between 0% and 100% of their remuneration in shares for 2018 and 2017.

The members of the Board of Directors which were active in 2018 are listed below:

#### **Mr. David McManus, Director and Chairman**

Mr. McManus has served as a Director of the Company since August 2011. Mr. McManus is currently non-executive director for a number of listed companies, including Hess Corporation, Rockhopper Exploration, and Costain Group PLC. Mr. McManus has 40 years of technical, commercial, and general management experience across all aspects of the international oil and gas business, having held various executive roles at Pioneer Natural Resources, BG Group, ARCO, Ultramar, and Shell. As Chairman of Cape plc, Mr. McManus worked on several global LNG projects such as Sakhalin, Qatargas, and North West Shelf.



Mr. Marius Hermansen, Director

Mr. Hermansen has served as a Director since December 2015. He serves as Head of Sale & Purchase/Newbuilding for Seatankers Management Norway AS, a related party of Geveran. Mr. Hermansen started out his career as a trainee with AP Moller-Maersk and went on to work over 10 years at Fearnleys Shipbrokers. Mr. Hermansen is also Director and Chairman of Avance Gas Holding Ltd. He was educated at the Norwegian School of Economics (NHH) in Bergen.

Mr. Ola Lorentzon, Director

Mr. Lorentzon has served as a Director of the Company since June 2017. He served as Principal Executive Officer of Golden Ocean Group Limited from 2010 to 2015 and held the role as Chief Executive Officer of Frontline Management AS from 2000 to 2003. From 1986 to 2000, Mr. Lorentzon served as 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., both related parties of Geveran, and Erik Thun AB.

Mr. Nikolai Grigoriev, Director

Mr. Grigoriev has served as a Director of the Company since September 2017. From 2008 to 2016, Mr. Grigoriev served as Managing Director, Shipping at Gazprom Marketing & Trading (GMT) in London and Singapore. Prior to GMT, Mr. Grigoriev worked for BG Group and Merrill Lynch in Houston and London 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 in Fontainebleau, France.

Ms. Georgina E. Sousa, Director

Ms. Sousa joined the Board of Directors in June 2017. She has also served on the boards of Frontline Ltd., Seadrill Limited, North Atlantic Drilling Limited, Golden Ocean Group Limited and Ship Finance International Limited. Ms. Sousa resigned from the Board of Directors on December 12, 2018.

The Executive Management is listed below:

Øystein Kalleklev, Chief Executive Officer of Flex LNG Management AS

Mr. Kalleklev joined the Group in October 2017, after serving as Chief Financial Officer of Knutsen NYK Offshore Tankers since 2013 and Chairman of the General Partner of the MLP KNOT Offshore Partners from 2015 to 2017. Previous roles include Chief Financial Officer 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 the Norwegian School of Economics and a Bachelor in Business and Finance from Heriot-Watt University. Mr. Kalleklev was appointed Chief Executive Officer of Flex LNG Management AS in August 2018.

Mr. Harald Gurvin, Chief Financial Officer of Flex LNG Management AS

Mr. Gurvin joined Flex LNG Management AS as Chief Financial Officer in January 2019, after serving as Chief Financial Officer of Ship Finance International Limited (“Ship Finance”) since March 2012. From 2008 until 2012, Mr. Gurvin served as Senior Vice President at Ship Finance. Prior to joining Ship Finance in 2006, he spent seven years with the global shipping group of Fortis Bank in Oslo, focusing on shipping and offshore finance. Mr. Gurvin holds a Master of Science degree in Shipping, Trade and Finance from CASS Business School and a Master of Science degree in Marine Engineering and Naval Architecture from the Norwegian University of Science and Technology.

H. Marius Foss, Head of Commercial

Mr. Foss joined Flex LNG Management AS in August 2018. He has previously served as Senior Vice President Head of Shipping at Golar Management Ltd (“Golar”) and Cool Pool Ltd. Prior to Golar, Mr. Foss was Chartering Manager of Frontline Management AS. Mr. Foss brings over 25 years of shipping experience to Flex LNG, having acted for various brokers and owners in the oil and gas business.

**9) The work of the Board of Directors**

The Board of Directors is ultimately responsible for the management of the Company and for supervising its day to day management. The Board of Directors is scheduled to meet in person between one and two times a year, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances. The main responsibilities of the Board of Directors cover the following main areas; strategic planning and decision making for the executive management to implement; ensure instructions from the Board of Directors are complied with; remain well informed on the Company’s and Group’s 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 of Directors is 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 of Directors is well organized. The Board of Directors



has the overall responsibility for the management of the Group and has delegated the daily management and operations to management companies wholly owned by the Company ("Flex LNG Management"), who are appointed by and serve at the discretion of the Board of Directors, and also report to the Board of Directors. Further, Flex LNG Management is 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 and executed management agreements.

In the event that the Chairman of the Board of Directors 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 of Directors, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group. Principal among these risks currently are; the ability to secure employment contracts on reasonable terms for the vessels under construction and the vessels which were delivered in 2018; 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 LNG carriers, 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 of Directors, working with the Audit Committee and through the annual audit process, ensures that the Group has reliable internal controls and systems for risk management.

The Board of Directors is presented an annual budget at the end of the preceding financial year. Thereafter, the Board of Directors 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 of Directors is also presented financial statements on a quarterly basis, which are reviewed with the executive management.

### **11) Remuneration of the Board of Directors**

The remuneration of the members of the Board of Directors is determined by the AGM, on the basis of the Board of Director'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 historically



has been a split between shares and cash, the Company has encouraged directors to own shares in the Company. The remuneration is not linked to the Company's performance.

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 of Directors and the remuneration shall be approved by the Board of Directors. 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 of Directors, 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 bonuses) to value creation for shareholders. The current option program has been approved by the Board of Directors with the allocation to staff determined by the Board of Directors. The scheme is designed to align employees with shareholder value creation and to retain persons within the Group. In 2018 the Board of Directors granted executive personnel 141,000 options (adjusted for the ten-to-one reverse stock split), which will vest during a three year period, and can be exercised within a five year period.

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 of Directors will consider the appropriateness of arranging for a valuation by an independent expert. If the Board of Directors 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 approves the auditor's fee. The auditor submits the main features of the plan for the audit of the Group 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 Group'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 Group's Management regularly holds discussions with the auditor, in which accounting principles and internal control routines are reviewed and discussed.

The Board of Directors have established guidelines in respect of the use of the auditor by the Group'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 December 31

(in thousands of \$, except per share data)

	Note	Group 2018	Group 2017	Company 2018	Company 2017
Vessel operating revenues		77,209	27,329	—	—
Vessel operating costs		(26,161)	(36,532)	—	—
Administrative expenses	3, 6, 13	(4,639)	(3,409)	(4,529)	(3,353)
Depreciation	9	(17,412)	(2)	—	—
<b>Operating income/(loss)</b>		<b>28,997</b>	<b>(12,614)</b>	<b>(4,529)</b>	<b>(3,353)</b>
Finance income	4	607	123	174	115
Finance cost	4	(17,781)	(234)	(413)	(240)
Other financial items	4	(54)	2,334	(20)	2,348
<b>Net income/(loss) before tax</b>		<b>11,769</b>	<b>(10,391)</b>	<b>(4,788)</b>	<b>(1,130)</b>
Income tax expense/(credit)	7	(10)	17	—	—
<b>Net income/(loss)</b>		<b>11,779</b>	<b>(10,408)</b>	<b>(4,788)</b>	<b>(1,130)</b>
		<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
<b>Earnings/(loss) per share:</b>		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Basic and Diluted	5	0.29	(0.34)	(0.12)	(0.04)

## Statement of Comprehensive Income - Flex LNG Group & Company

Year ended December 31

(in thousands of \$)

	Group 2018	Group 2017	Company 2018	Company 2017
<b>Net income/(loss)</b>	<b>11,779</b>	<b>(10,408)</b>	<b>(4,788)</b>	<b>(1,130)</b>
Total other comprehensive income/(loss)	—	—	—	—
<b>Total comprehensive income/(loss) attributable to Flex LNG</b>	<b>11,779</b>	<b>(10,408)</b>	<b>(4,788)</b>	<b>(1,130)</b>

The accompanying notes are an integral part of these consolidated financial statements.





## Consolidated Balance Sheet - Flex LNG Group & Company

As at December 31

(in thousands of \$, except per share data)

	Note	Group 2018	Group 2017	Company 2018	Company 2017
<b>ASSETS</b>					
<b>Current assets</b>					
Cash, restricted cash and cash equivalents	11	55,097	9,961	8,497	7,175
Inventory		915	1,041	—	—
Other current assets	10	2,693	6,568	20	3,156
Receivables due from wholly owned subsidiaries	2	—	—	823,418	522,964
Receivables due from related parties	16	1,720	—	340	—
<b>Total current assets</b>		<b>60,425</b>	<b>17,570</b>	<b>832,275</b>	<b>533,295</b>
<b>Non-current assets</b>					
Newbuildings	8	—	594,937	—	—
Vessel purchase prepayments	8	421,472	72,000	—	—
Vessels and equipment, net	9	812,478	—	—	—
Other fixed assets	9	11	3	—	—
<b>Total non-current assets</b>		<b>1,233,961</b>	<b>666,940</b>	<b>—</b>	<b>—</b>
<b>Total Assets</b>		<b>1,294,386</b>	<b>684,510</b>	<b>832,275</b>	<b>533,295</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Current portion of long-term debt	14, 15	23,365	—	—	—
Payables due to wholly owned subsidiaries	2	—	—	11,158	—
Payables due to related parties	16	206	810	—	810
Accounts payable		592	76	192	16
Other current liabilities	10	11,297	3,523	123	2,323
<b>Total current liabilities</b>		<b>35,460</b>	<b>4,409</b>	<b>11,473</b>	<b>3,149</b>
<b>Non-current liabilities</b>					
Long-term debt	14, 15	431,602	160,000	—	—
<b>Total non-current liabilities</b>		<b>431,602</b>	<b>160,000</b>	<b>—</b>	<b>—</b>
<b>Total liabilities</b>		<b>467,062</b>	<b>164,409</b>	<b>11,473</b>	<b>3,149</b>
<b>Equity</b>					
Share capital (2018: 54,099,929 (2017: 36,797,238) shares issued and outstanding, par value \$0.10 per share)	12, 18	5,410	3,680	5,410	3,680
Additional paid in capital	12	1,189,665	895,951	1,189,665	895,952
Accumulated deficit		(367,751)	(379,530)	(374,273)	(369,486)
<b>Total equity</b>		<b>827,324</b>	<b>520,101</b>	<b>820,802</b>	<b>530,146</b>
<b>Total Equity and Liabilities</b>		<b>1,294,386</b>	<b>684,510</b>	<b>832,275</b>	<b>533,295</b>

The accompanying notes are an integral part of these consolidated financial statements.



Board of Directors of Flex LNG Ltd.

April 3, 2019

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

David McManus (Chairman)

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

Marius Hermansen

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

Nikolai Grigoriev

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

Ola Lorentzon



## Consolidated Statement of Changes in Equity - Flex LNG Group

2018

2017

(in thousands of \$, except share amounts)

### Number of shares outstanding

Balance at beginning of year	36,797,238	12,794,565
Shares issued	17,302,691	24,002,673
Balance at end of year	54,099,929	36,797,238

### Share capital

Balance at beginning of year	3,680	1,280
Shares issued	1,730	2,400
Balance at end of year	5,410	3,680

### Additional paid in capital

Balance at beginning of year	895,951	573,785
Shares issued	293,645	322,166
Stock option expense	69	-
Balance at end of year	1,189,665	895,951

### Retained deficit

Balance at beginning of year	(379,530)	(369,122)
Net income/(loss)	11,779	(10,408)
Balance at end of year	(367,751)	(379,530)

### Total equity

**827,324**      **520,101**

The accompanying notes are an integral part of these consolidated financial statements.



## Statement of Changes in Equity - Company

(in thousands of \$)

	Share capital	Additional paid in capital	Accumulated deficit	Total to the equity owners of the parent
<b>At January 1, 2018</b>	<b>3,680</b>	<b>895,952</b>	<b>(369,486)</b>	<b>530,146</b>
Net loss for the period	—	—	(4,788)	(4,788)
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	(4,788)	(4,788)
Shares issued	1,729	298,271	—	300,000
Share issuance costs	—	(4,690)	—	(4,690)
Share-based payments	1	132	—	133
<b>At December 31, 2018</b>	<b>5,410</b>	<b>1,189,665</b>	<b>(374,273)</b>	<b>820,802</b>

	Share capital	Additional paid in capital	Accumulated deficit	Total to the equity owners of the parent
<b>At January 1, 2017</b>	<b>1,279</b>	<b>573,785</b>	<b>(368,356)</b>	<b>206,708</b>
Net loss for the period	—	—	(1,130)	(1,130)
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	(1,130)	(1,130)
Shares issued	2,401	326,675	—	329,076
Share issuance costs	—	(4,624)	—	(4,624)
Share-based payments	—	116	—	116
<b>At December 31, 2017</b>	<b>3,680</b>	<b>895,952</b>	<b>(369,486)</b>	<b>530,146</b>

The accompanying notes are an integral part of these consolidated financial statements.



## Consolidated Statement of Cash Flows - Flex LNG Group

Year ended December 31 (in thousands of \$)	Note	Group 2018	Group 2017
<b>Operating activities</b>			
<b>Net income (loss)</b>		<b>11,779</b>	<b>(10,408)</b>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	9	17,412	2
Share-based payments	3,13	202	115
Unrealised foreign exchange loss (gains)	4	22	(2,334)
Other		(518)	(157)
<b>Changes in operating assets and liabilities, net:</b>			
Inventory		126	(1,041)
Other current assets		725	(6,547)
Receivables due from related parties		(1,720)	-
Payables due to related parties		(604)	-
Accounts payable		516	272
Other current liabilities		7,774	2,346
<b>Net cash provided (used in) by operating activities</b>		<b>35,714</b>	<b>(17,752)</b>
<b>Investing activities</b>			
Purchase of other fixed assets	9	(14)	(4)
Vessel purchase prepayments	8	(349,000)	(72,000)
Additions and installments on newbuildings	8	(232,455)	(3,788)
Capitalized Interest	8	(2,964)	(1,922)
<b>Net cash flow (used in) investing activities</b>		<b>(584,433)</b>	<b>(77,714)</b>
<b>Financing activities</b>			
Net proceeds from issuance of share capital	12	295,311	220,988
Repayment of long term debt	14,15	(286,069)	(117,000)
Proceeds from long term debt	14,15	584,613	-
<b>Net cash flow provided by financing activities</b>		<b>593,855</b>	<b>103,988</b>
<b>Net increase in cash and cash equivalents</b>		<b>45,136</b>	<b>8,522</b>
Cash, cash equivalents and restricted cash at the beginning of the period		9,961	1,439
<b>Cash, cash equivalents and restricted cash at the end of the period</b>		<b>55,097</b>	<b>9,961</b>
<b>Supplemental Information</b>			
Interest paid, net of amounts capitalized		(12,958)	(61)
Income tax paid		-	(5)

The accompanying notes are an integral part of these consolidated financial statements.



## Statement of Cash Flows - Company

Year ended December 31 (in thousands of \$)	2018	2017
<b>Operating activities</b>		
<b>Net (loss)</b>	<b>(4,788)</b>	<b>(1,130)</b>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Share-based payments	202	115
Other	(69)	18
<b>Changes in operating assets and liabilities, net:</b>		
Other current assets	3,136	(2,980)
Receivables due from related parties	(340)	-
Payables due to wholly owned subsidiaries	11,158	-
Payables due to related parties	(810)	-
Accounts payable	176	16
Other current liabilities	(2,200)	(5,655)
<b>Net cash provided (used in) by operating activities</b>	<b>6,465</b>	<b>(9,616)</b>
<b>Investing activities</b>		
Loans to and investments in subsidiaries	(300,454)	(205,480)
<b>Net cash flow (used in) investing activities</b>	<b>(300,454)</b>	<b>(205,480)</b>
<b>Financing activities</b>		
Net proceeds from issuance of share capital	295,311	220,988
<b>Net cash flow provided by financing activities</b>	<b>295,311</b>	<b>220,988</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,322</b>	<b>5,892</b>
Cash, cash equivalents and restricted cash at the beginning of the period	7,175	1,283
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>8,497</b>	<b>7,175</b>
<b>Supplemental Information</b>		
Interest paid, net of amounts capitalized	(323)	(735)
Income tax paid	-	-

The accompanying notes are an integral part of these consolidated financial statements.



## **Note 1: General information and significant accounting policies**

### **1.1 General information**

Flex LNG Ltd. (the “Company”; together with its subsidiaries, the “Group” or “Flex LNG”) is a limited liability company, originally incorporated in the British Virgin Islands and registered in Bermuda as of June 2017. Flex LNG is currently listed on the Oslo Stock Exchange under the ticker “FLNG”. The Group’s activities are focused on seaborne liquefied natural gas (“LNG”) transportation through the ownership and operation of fuel efficient, fifth generation LNG carriers. As of December 31, 2018, the Company had four LNG carriers in operation, of which two were delivered by Daewoo Shipbuilding and Marine Engineering Co. Ltd. (“DSME”) in January 2018, and two by Samsung Heavy Industries (“SHI”) in June and July 2018, respectively. In addition, Flex LNG has nine LNG carriers under construction, four at Hyundai Samho Heavy Industries Co. Ltd. (“HSHI”) and five at DSME. The nine newbuildings are expected to be delivered between 2019 and 2021.

The Group consists of eight 100% directly owned subsidiaries and fourteen 100% indirectly owned subsidiaries. Details on subsidiaries are provided in Note 2. The Group produces consolidated accounts incorporating these companies and their activities, which are focused on transportation of LNG. The consolidated financial statements, and accompanying notes, include accounts for the Company and its wholly owned subsidiaries. The Company’s 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.

### **1.2 Basis for preparation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. The Company transitioned from International Financial Reporting Standards (IFRS) as adopted by the EU to U.S. GAAP on 1 January 2018. The balance sheet and comparative profit and loss for 2017 are presented according to U.S. GAAP.

### **1.3 Reporting currency and presentation currency**

The Group’s presentation and reporting currency is USD. The Group’s primary economic environment is the international shipping market, in which revenues are primarily settled in USD. The Group’s most significant assets and liabilities are also paid for and settled in USD. The Group companies thereby have USD as its functional currency. Our expenses, however, are in the currency invoiced by each supplier.



Foreign currency transactions are translated into the functional currency at the exchange rate in effect at the date of the transaction. Monetary items are translated 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.

#### **1.4 Basis of consolidation**

The Group's consolidated financial statements comprise Flex LNG Ltd. and its directly and indirectly wholly owned subsidiaries. The Group includes eight 100% directly owned subsidiaries and fourteen 100% indirectly owned subsidiaries as at December 31, 2018. 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 upon consolidation.

#### **1.5 Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions impact, the following: vessels, the amount to be paid for certain liabilities, the amount of costs to be capitalized in connection with the construction of our newbuildings, initial dry-dock cost component and the expected useful lives of our vessels. Actual results could differ from those estimates.

#### **1.6 Fair value measurements**

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 in Note 15 below.

#### **1.7 Segment reporting**

Our chief operating decision maker ("CODM") measures performance based on our overall return to shareholders based on consolidated net income. Although separate vessel financial information is available, the CODM internally evaluates the performance of the Group as a whole and not on the basis of separate business units or different





types of charters. As a result, the Company has determined that it operates as one reportable segment. Since the Company's vessels regularly move between countries in international waters over many trade routes, it is neither practical nor meaningful to assign revenues or earnings from the transportation of international LNG by geographic area.

### **1.8 Accounting for revenue and related expenses**

Effective from January 1, 2017, we adopted the new accounting standard ASC 606 *Revenue from Contracts with Customers*. Under ASC 606, all contracts with customers fall under this standard unless the contract contains a lease. The Group employs all of its vessels on time charter contracts, which the Group has established to contain a lease since the vessel is a specified asset, the charterer has the right to direct the use of the vessel and there are no substantive substitution rights. All revenue from time charter contracts are therefore not recognized under ASC 606 "Revenue from contracts with customers" and instead are recognized as operating leases under ASC 842 *Leases*, for which it has early adopted from January 1, 2017. There were no 2017 transition adjustments required as a result of this change. The Group receives a fixed charter hire per day of on-hire, whereby revenue is recognized and recorded on an accrual basis over the term of the charter as service is provided including option period if reasonable certain to be exercised.

If the Group receives a lump sum re-positioning fee or fixed ballast bonus, which is probable at the commencement of the lease, this is recognized as part of the lease payments over the course of the time charter on a straight-line basis at the commencement of the lease.

If the Group receives a lump sum ballast bonus, which is not probable at the commencement of the lease then this is recognized as a variable lease payment from the date that the change in facts and circumstances occur. The variable lease payment is therefore recognized on a straight-line basis from the date that the re-delivery port is declared and probability of occurrence is determined, to the date of arrival at the re-delivery port.

If there is an option under a charter party for the lessee to extend the charter, the Group will assess the likelihood of the charterer exercising the extension option at the inception of the lease in order to determine the lease term. If the option period is not included in the initial lease term and the charterer declares such option, the Group will consider the declaration of an option as a lease modification. The Group will then re-measure the total minimum lease payments from the date of declaration of the option, adjusted for any prepaid or accrued rent from the original contract, and recognise this on a straight-line basis to the date of arrival at the re-delivery port.

Under a time charter agreement, the Company is responsible for both the operation and maintenance of the vessel which would be considered to be a non-lease performance obligation. The Company has chosen to elect the practical expedient of ASC 842 to not separate lease and non-lease components and instead combine these as a



single performance obligation as the Group considers the lease component to be the predominant component of the contract, for which ASC 842 will be applied.

A maturity analysis of lease payments to be received on time charter contracts as at December 31, 2018 has not been prepared since all contracts mature in less than one year from the balance sheet date.

Costs incurred during the leasing period for the maintenance and operation of the vessels are expensed as incurred as the timing and pattern of transfer of the components are identical to the operating lease revenue earned from the charter hire.

### **1.9 Finance costs**

Finance costs are expensed as incurred except for interest expenses that are capitalized for qualifying assets that require a period of time to get them ready for their intended use. Interest expenses are capitalized until the qualifying asset is ready for use. The Group does not capitalize amounts beyond the actual interest expense incurred in the period.

If the Group's financing plans associate a specific borrowing with a qualifying asset, the Group uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the Group.

### **1.10 Income taxes**

Income taxes are provided for based upon the tax laws and rates in effect in the countries in which the Group's ocean going LNG carriers' operations were conducted and income was earned. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Group's assets and liabilities using the applicable jurisdictional tax in effect at the year end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized (Note 7).

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on U.S. GAAP guidance. The Group recognizes interest and penalties related to uncertain tax positions in income tax expense.



### 1.11 Vessels

Vessels are carried at historical cost less accumulated depreciation and impairment adjustments, if any.

The depreciation on vessels is 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 the vessel is the purchase price, including duties/taxes, borrowing costs and any other direct costs attributable to bringing it to the location and condition necessary for the vessels intended use. Capitalization of costs will cease once the vessel 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 segregated 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 recognized in the income statement as incurred.

Each vessel is required to be dry-docked every 5 years. The Group capitalizes costs associated with the dry-docking in accordance with ASC Topic 360 *Property, Plant and Equipment* and amortizes these costs on a straight-line basis over the period to the next expected dry-docking. Amortization of dry-docking costs is included in depreciation in the Income Statement. The Group has adopted the "built in overhaul" method for when a vessel is newly acquired, or constructed, whereby a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next dry-docking based on the expected costs relating to the next dry-docking. Dry-docking costs are included within operating activities in the statement of cash flows.

The cost of the vessel, less their estimated residual value, is depreciated on a straight-line basis over the asset's estimated useful economic life. The residual value for owned vessels is calculated by multiplying the lightweight tonnage of the vessel by the estimated scrap value per tonne. The cost of dry-dock is depreciated on a straight-line basis over the assets estimated useful life. The following useful lives have been used:

Vessels: 35 years

Dry-dock: 5 years

### 1.12 Impairment of long-lived assets

The carrying values of long-lived assets held and used by the Group and newbuildings are reviewed whenever events or circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses recoverability of the carrying value of each asset or newbuilding on an individual basis by estimating the future net undiscounted cash flows expected to result from the asset, including eventual disposal. In developing estimates of future undiscounted cash flows, the Group must make assumptions about future performance, with



significant assumptions being related to charter rates, ship operating expenses, utilization, dry-docking requirements, residual values, the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. If the future net undiscounted cash flows are less than the carrying value of the asset, or the current carrying value plus future newbuilding commitments, an impairment loss is recorded equal to the difference between the asset's or newbuilding's carrying value and fair value. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount and fair value less estimated costs to sell.

### **1.13 Newbuildings/Vessel Purchase Prepayments**

The carrying value of vessels under construction ("newbuildings") represents the accumulated costs to the balance sheet date which the Group has paid by way of purchase instalments and other capital expenditures together with capitalized interest and associated finance costs. No charge for depreciation is made until a newbuilding is put into operation.

Vessel purchase prepayments relate to amounts advanced under vessel purchase agreements, where title of the vessel does not transfer to the Group until the date of delivery from the yard.

### **1.14 Inventories**

Inventories comprise principally of fuel and lubricating oils and are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

### **1.15 Cash and cash equivalents**

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments with original maturities of three months or less.

### **1.16 Restricted cash**

Restricted cash consists of cash, which may only be used for certain purposes and is held under a contractual arrangement. The cash is restricted by law for the Norwegian tax authorities in relation to social security tax and personal income tax of employees in Flex LNG Management AS, and is settled every second month. Details on the restricted cash are provided in Note 11.

### **1.17 Debt issuance costs**

Direct costs relating to obtaining a loan are deferred and amortized over the term of the loan using the effective interest rate method. Amortization of debt issuance costs is included under finance costs. The Group has recorded



debt issuance costs as a direct reduction from the carrying amount of the related debt in balance sheet and from the proceeds from long-term debt in the statement of cash flows.

### **1.18 Share-based compensation**

The Company accounts for share-based payments in accordance with ASC Topic 718 *Compensation - Stock Compensation*, under which the fair value of issued stock options is expensed over the period in which the options vest under the simplified method. Stock based compensation represents the cost of vested and non-vested shares and share options granted to employees and to directors, for their services, and are included in administrative expenses in the consolidated statements of operations. The fair value of share options grants is determined with reference to option pricing models, and depends on the terms of the granted options. The fair value is recognized (generally as compensation expense) over the requisite service period.

### **1.19 Earnings per share**

Basic earnings per share ("EPS") are computed based on the income available to ordinary shareholders divided by the weighted average number of shares outstanding. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares and dilutive common share equivalents then outstanding.

### **1.20 Accounting Standards Updates, recently adopted**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* (Topic 842), and has since modified the standard with several ASUs (collectively, the new lease standard). The new lease standard requires most lessees to report a right-of-use asset and a lease liability. The income statement recognition is similar to existing lease accounting and is based on lease classification. The new lease standard requires lessees and lessors to classify most leases using principles similar to existing lease accounting. For lessors, the new lease standard modifies the classification criteria and the accounting for sales-type and direct financing leases. The new lease standard provides entities two options for applying the modified retrospective approach, either (1) retrospectively to each prior reporting period presented in the financial statements with the cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption (January 1, 2019) through a cumulative-effect adjustment.

Short-term leases are in the scope of ASC 842. The standard provides practical expedients for an entity's ongoing accounting. The Group has elected the short-term lease recognition exemption for leases that qualify, meaning that the Group will not recognize Right Of Use assets or lease liabilities for these leases where the Company is the lessee.



The Group has chosen to early adopt ASC 842 Leases with effect from January 1, 2017. There were no 2017 transition adjustments required as a result of this change.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle is that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. Under ASC 606, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations of the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfied a performance obligation. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized.

Effective from January 1, 2017, we adopted the new accounting standard ASC 606 *Revenue from Contracts with Customers*. Under ASC 606, all contracts with customers fall under this standard unless the contract contains a lease. The Group employs all of its vessels on time charter contracts, which the Group has established to contain a lease since the vessel is a specified asset, the charterer has the right to direct the use of the vessel and there are no substantive substitution rights. All revenue from time charter contracts are therefore recognized as operating leases under ASC 842 *Leases*. Under a time charter agreement, the Group is responsible for both the operation and maintenance of the vessel which would be considered to be a non-lease performance obligation. The Group has chosen to elect the practical expedient of ASC 842 to not separate lease and non-lease components and instead combine these as a single performance obligation as the Group considers the lease component to be the predominant component of the contract, for which ASC 842 will be applied. Consequently the implementation of ASC 606 did not have a significant impact on these consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of cash flows* (Topic 230): *Restricted Cash*. The new standard requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result of the adoption of the standard, we have classified restricted cash as a component of cash, cash equivalents and restricted cash in the consolidated statements of cash flows for all periods presented. The adoption of this Update did not have a significant impact on these consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation* (Topic 718): *Scope of Modification Accounting*. The update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this



Update did not have a material impact on our consolidated financial statements and related disclosures upon adoption.

The Company has reviewed all other recent issued accounting pronouncements and has not identified other standard that would make an impact on the Company's current accounting principles.

## Note 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

<b>Company</b>	<b>Country of registration</b>	<b>Main operations</b>	<b>Ownership share</b>	<b>Voting share</b>
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 Limited	United Kingdom	Chartering services	100%	100%
Flex LNG Management AS	Norway	Management	100%	100%
Flex LNG Fleet Limited	Bermuda	Holding company	100%	100%
Flex LNG Management Limited	Isle of Man	Management	100%	100%
Flex LNG Bermuda Limited	Bermuda	Management	100%	100%
Flex LNG Endeavour Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Enterprise Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Ranger Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Rainbow Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Constellation Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Courageous Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Aurora Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Amber Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Resolute Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Reliance Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Freedom Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Vigilant Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Volunteer Limited	Marshall Islands	Shipping	100%	100%
Flex LNG Shipping (Bermuda) Limited	Bermuda	Shipping	100%	100%



Below is a list of all intercompany balances held with subsidiaries for Flex LNG Ltd.

<b>Subsidiary</b> <i>(in thousands of \$)</i>	<b>Company</b> <b>2018</b>	Company 2017
Flex LNGC 1 Limited	—	108,940
Flex LNGC 2 Limited	—	108,643
Flex LNG Shipping (Bermuda) Limited	<b>(10,783)</b>	20,517
Flex LNG Fleet Limited	<b>804,589</b>	284,864
Flex LNG Management Limited	<b>(375)</b>	—
Flex LNG Management AS	<b>476</b>	—
Flex LNG Shipping Limited	<b>18,353</b>	—
	<b>812,260</b>	522,964

### Note 3: Administrative expenses

#### 3.1 Auditors

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

<i>(in thousands of \$)</i>	<b>Group</b> <b>2018</b>	Group 2017	<b>Company</b> <b>2018</b>	Company 2017
Audit	<b>121</b>	69	<b>121</b>	69
Tax and other assistance	<b>8</b>	11	—	—
<b>Total Auditor's fees</b>	<b>129</b>	80	<b>121</b>	69

#### 3.2 Remuneration

As at December 31, 2018, the Company had four Directors (2017: five), and the Group had six employees (2017: nil). All employees are employed by Flex LNG Management Limited and Flex LNG Management AS (the "Management Companies").

<i>(in thousands of \$)</i>	<b>Group</b> <b>2018</b>	Group 2017	<b>Company</b> <b>2018</b>	Company 2017
Wages and salaries	<b>1,826</b>	1,040	—	—
Social security costs	<b>180</b>	150	—	5
Pension costs	<b>76</b>	58	—	—
<b>Total employee benefit expenses</b>	<b>2,083</b>	1,248	—	5





Employees are offered a fixed base salary. The Management Companies contribute to a defined contribution pension scheme and provide health insurance for members of staff. The Company has incurred social security costs of \$nil (2017: \$5k) in relation to the payment of Directors fees.

<b>Directors fees Flex LNG Ltd.</b> <i>(in thousands of \$)</i>	<b>Company 2018</b>	Company 2017
<u>Current Directors</u>		
David McManus	100	100
Marius Hermansen	40	40
Ola Lorentzon	40	20
Nikolai Grigoriev	40	11
<u>Ex. Directors</u>		
Georgina E. Sousa (retired from the Board in December 2018)	9	5
Robin Bakken (retired from the Board in September 2017)	—	14
<b>Total Directors' fees</b>	<b>229</b>	<b>190</b>

In 2018, Mr. McManus, Mr Hermansen, Mr Lorentzon, Mr Grigoriev and Ms. Sousa received their remuneration split as 50%, 50%, 50%, 100% and 0% in shares respectively.

#### Note 4: Finance costs and finance income

<b>Finance cost</b> <i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Loan interest	(17,619)	(234)	(368)	(240)
Amortization of deferred financing costs	(141)	—	—	—
Other interest	(21)	—	(45)	—
<b>Total finance cost</b>	<b>(17,781)</b>	<b>(234)</b>	<b>(413)</b>	<b>(240)</b>

<b>Finance income</b> <i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Interest income from bank deposits	607	123	174	115
<b>Total finance income</b>	<b>607</b>	<b>123</b>	<b>174</b>	<b>115</b>

<b>Other financial items</b> <i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Foreign exchange (loss)/gain	(22)	2 334	(20)	2 348
Other financial items	(32)	-	-	-
<b>Total other financial items</b>	<b>(54)</b>	<b>2,334</b>	<b>(20)</b>	<b>2,348</b>



## Note 5: Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit/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 profit/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 potential dilutive ordinary shares into ordinary shares.

The following reflects the net income/(loss) and share data used in the earnings per share calculation.

<i>(in thousands of \$, except share data)</i>	<b>2018</b>	2017
Net income/(loss) attributable to shareholders - Group	<b>11,779</b>	(10,408)
Net income/(loss) attributable to shareholders - Company	<b>(4,788)</b>	(1,130)
Weighted average number of ordinary shares*	<b>40,451,462</b>	30,763,912
Share options*	<b>141,000</b>	—
Weighted average number of shares, adjusted for dilution*	<b>40,592,462</b>	30,763,912

\*Share options and number of ordinary shares outstanding have been retroactively adjusted for the ten-to-one reverse stock split which was effective from March 7, 2019, see Note 19 for more details.

## Note 6: Management fees, Company

There are no employees in Flex LNG Ltd. Flex LNG Ltd. has contracts for management services with Flex LNG Management Limited and Flex LNG Management AS for services to the Group relating to general administration, finance and contract management. Both Flex LNG Management Limited and Flex LNG Management AS are entitled to compensation covering certain expenses plus a mark-up. The total management fees for both subsidiaries are included in administrative expenses in the income statement.

<b>Management fees</b> <i>(in thousands of \$)</i>	<b>Company</b> <b>2018</b>	Company 2017
Flex LNG Management Limited	<b>2,223</b>	2,482
Flex LNG Management AS	<b>1,436</b>	—
Total	<b>3,659</b>	2,482

## Note 7: Income tax

The Group consists of one legal entity incorporated in the United Kingdom, one entity in Norway, three entities in Bermuda, four entities in the Isle of Man and 13 in the Marshall Islands. The profits attributable to the management companies are taxable in the United Kingdom and Norway.



### 7.1 Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until March 31, 2035.

### 7.2 United States

For the year ended December 31, 2018, the Group accrued U.S. income taxes because, even though the Group is not engaged in a U.S. trade or business, the Group was not able to satisfy the requirements of the exemption from gross basis tax under Section 883 of the U.S. Internal Revenue Code. Under Section 863(c)(2)(A) of the Internal Revenue Code, 50% of all transportation revenue attributable to transportation which begins or ends in the United States shall be treated as from sources within the United States where no Section 883 exemption is available. Such revenue is subject to 4% tax. During the year ended December 31, 2018, revenue tax of \$0.2 million (2017: \$0.0 million) has been recorded in vessel operating costs.

### 7.3 Other Jurisdictions

Certain of the Company's subsidiaries in Norway and the United Kingdom are subject to income tax in their respective jurisdictions. The taxes paid by subsidiaries of the Company that are subject to income tax have been disclosed in the tables below.

The Group does not have any unrecognized tax benefits, material accrued interest or penalties relating to income taxes. The Norwegian income tax returns could be subject to examination by Norwegian tax authorities going back ten years or more. In the United Kingdom, the tax authorities can investigate as far back as 20 years if they suspect tax evasion. More commonly, investigations into careless tax returns in the United Kingdom go back six years and investigations into innocent errors go back up to four years. The Internal Revenue Service ("IRS") can do tax audits which includes tax returns filed within the last three years in an audit. If the IRS identifies a substantial error, the IRS may add additional years, which in most cases does not extend beyond the last six years.

To the Group's knowledge, the Group is not undergoing any tax audits in any tax jurisdictions.

<i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017
Current income tax expense/(credit)	<b>(5)</b>	17
Adjustments in respect of current income tax of previous years	<b>(5)</b>	—
<b>Income tax expense/(credit) reported in the income statement</b>	<b>(10)</b>	17



<i>(in thousands of \$)</i>	<b>Company 2018</b>	Company 2017
Current income tax expense/(credit)	—	—
Adjustments in respect of current income tax of previous years	—	—
<b>Income tax expense/(credit) reported in the income statement</b>	<b>—</b>	<b>—</b>

A reconciliation between the tax expense and the product of the accounting profit multiplied by the Bermuda domestic tax rate for the year ended December 31, 2018 and 2017 is as follows:

<i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017
Net income/(loss) before tax	<b>11,769</b>	(10,391)
Income tax at 0% (2017: 0%)	—	—
Effect of higher overseas tax rates	<b>(10)</b>	17
<b>Effective income tax rate of (0.1)% (2017: (0.2)%)</b>	<b>(10)</b>	17

<i>(in thousands of \$)</i>	<b>Company 2018</b>	Company 2017
Net income/(loss) before tax	<b>(4,788)</b>	(1,130)
Income tax at 0% (2017: 0%)	—	—
<b>Effective income tax rate of 0% (2017: 0%)</b>	<b>—</b>	<b>—</b>

## Note 8: Newbuildings and Vessel purchase prepayments

<b>Newbuildings</b> <i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017
At January 1	<b>594,937</b>	212,472
Additions and instalments on newbuildings	<b>231,019</b>	376,000
Capitalized interest	<b>2,492</b>	1,922
Pre-delivery expenditures	<b>1,436</b>	4,543
Transfer to vessels and equipment	<b>(829,884)</b>	—
<b>At December 31</b>	<b>—</b>	594,937

In January 2018, the Group took delivery of its two first newbuilding LNG carriers, the Flex Endeavour and the Flex Enterprise. In June 2018 the Group took delivery of its third newbuilding LNG carrier the Flex Ranger. In July 2018, the Group took delivery of its fourth newbuilding LNG carrier the Flex Rainbow.



<b>Vessel purchase prepayments</b> <i>(in thousands of \$)</i>	<b>Group</b> <b>2018</b>	Group 2017
At January 1	<b>72,000</b>	—
Additions	<b>349,000</b>	72,000
Capitalized interest	<b>472</b>	—
Transfer to vessels and equipment	—	—
<b>At December 31</b>	<b>421,472</b>	72,000

In May 2017, Flex LNG entered into agreements with entities related to Geveran Trading Co. Limited (“Geveran”), the Company’s largest shareholder, for the acquisition of the two newbuilding MEGI LNG carriers Flex Constellation and Flex Courageous for a purchase price of \$180.0 million per vessel. The vessels are currently under construction at DSME pursuant to shipbuilding contracts between DSME and the sellers, who will continue to be responsible for the supervision of the vessels’ construction. We made advance payments of \$36.0 million per vessel to the sellers in 2017, representing 20% of the purchase price, which are recorded as vessel purchase prepayments. The remaining balance of \$144.0 million per vessel is due upon delivery to us, which is scheduled in June and August 2019, respectively.

In May 2018, Flex LNG entered into agreements with entities related to Geveran for the acquisition of the two newbuilding X-DF LNG carriers Flex Aurora and Flex Amber for a purchase price of \$184 million per vessel. The vessels are currently under construction at HSHI pursuant to shipbuilding contracts between HSHI and the sellers, who will continue to be responsible for the supervision of the vessels’ construction. We made advance payments of \$36.8 million per vessel in 2018, representing 20% of the purchase price, which are recorded as vessel purchase prepayments. The remaining balance of \$147.2 million per vessel is due upon delivery to us, which is scheduled in the second and third quarter of 2020, respectively.

In October 2018, Flex LNG entered agreements with entities related to Geveran for the acquisition of five newbuilding LNG carriers, the Flex Freedom, Flex Reliance, Flex Resolute, Flex Vigilant, and Flex Volunteer, for a purchase price of \$180 million per vessel, with an additional cost of \$6.0 million per vessel for full re-liquefaction systems on three of the vessels. The Flex Freedom, Flex Reliance and Flex Resolute are MEGI LNG carriers under construction at DSME, with two vessels scheduled for delivery in the third quarter of 2020 and the remaining vessel in the fourth quarter of 2020. The Flex Vigilant and Flex Volunteer are X-DF LNG carriers with expected delivery in first and second quarters of 2021, respectively. The sellers will continue to be responsible for the supervision of the vessels’ construction. We made advance payments of \$55.8 million for each of the three MEGI newbuildings and \$54 million for each of the two X-DF newbuildings in 2018, representing 30% of the purchase price, which are recorded as vessel purchase prepayments. The remaining balance of \$130.2 million for each of the three MEGI



newbuildings and \$126 million for each of the two X-DF newbuildings is due upon the delivery of the respective vessels to us.

## Note 9: Vessels and equipment, net and Other fixed assets

The table below summarizes the vessels and equipment and other fixed assets applicable to the Group:

<i>(in thousands of \$)</i>	<b>Vessels and equipment</b>	<b>Dry-docks</b>	<b>Other fixed assets</b>	<b>Total</b>
<b>Cost</b>				
<b>At January 1, 2018</b>	—	—	8	8
Additions	—	—	14	14
Transfer from Newbuildings	819,884	10,000	—	<b>829,884</b>
Disposals	—	—	(2)	<b>(2)</b>
<b>At December 31, 2018</b>	<b>819,884</b>	<b>10,000</b>	<b>20</b>	<b>829,904</b>
<b>Accumulated depreciation</b>				
<b>At January 1, 2018</b>	—	—	5	5
Charge	15,931	1,475	6	<b>17,412</b>
Disposals	—	—	(2)	<b>(2)</b>
<b>At December 31, 2018</b>	<b>15,931</b>	<b>1,475</b>	<b>9</b>	<b>17,415</b>
<b>Net book value</b>				
<b>At January 1, 2018</b>	—	—	3	3
<b>At December 31, 2018</b>	<b>803,953</b>	<b>8,525</b>	<b>11</b>	<b>812,489</b>

In January 2018, the Group took delivery of two MEGI LNG carriers from DSME at a cost of \$197.3 million and \$197.4 million, respectively. In June and July 2018, the Group took delivery of two MEGI LNG carriers from SHI at a cost of \$217.8 million and \$217.5 million, respectively.

The net book value of vessels that serve as collateral for the Group's long-term debt (Note 14) as per December 31, 2018 was \$812.5 million.

## Note 10: Other current assets and other current liabilities

<i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Other receivables	<b>168</b>	486	<b>6</b>	—
Prepayments and accrued income	<b>2,525</b>	6,082	<b>14</b>	3,156
<b>Total other current assets</b>	<b>2,693</b>	6,568	<b>20</b>	3,156



<i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Accrued expenses.	<b>6,441</b>	862	<b>123</b>	2,323
Deferred charter revenue.	<b>2,559</b>	2,603	-	-
Other current liabilities.	<b>15</b>	58	-	-
Provisions.	<b>2,282</b>	-	-	-
<b>Total other current liabilities</b>	<b>11,297</b>	3,523	<b>123</b>	2,323

## Note 11: Cash and cash equivalents, including restricted cash

<i>(in thousands of \$)</i>	<b>Group 2018</b>	Group 2017	<b>Company 2018</b>	Company 2017
Cash and cash equivalents	<b>54,932</b>	9,961	<b>8,497</b>	7,175
Restricted cash	<b>165</b>	—	—	—
<b>Cash and cash equivalents</b>	<b>55,097</b>	9,961	<b>8,497</b>	7,175

The Group has \$0.2 million of restricted cash as at December 31, 2018 (2017: \$0.0 million). This is restricted by law for the Norwegian tax authorities in relation to social security of employees for which there were none in the twelve months to December 31, 2017.

## Note 12: Share capital, shareholder information and dividend

<b>Group &amp; Company</b>	<b>2018</b>	2017
Ordinary shares (nominal amount USD: 0.10)*	<b>54,099,929</b>	36,797,238
<b>Total number of shares issued and outstanding</b>	<b>54,099,929</b>	36,797,238

<b>Group &amp; Company</b> <i>(in thousands of \$, except share data)</i>	<b>Shares*</b>	<b>Share Capital</b>	<b>Additional paid in capital</b>
Ordinary shares - issued and fully paid:			
<b>At December 31, 2016</b>	<b>12,794,565</b>	<b>1,280</b>	<b>573,785</b>
Shares issued	24,002,673	2,400	322,166
<b>At December 31, 2017</b>	<b>36,797,238</b>	<b>3,680</b>	<b>895,951</b>
Shares issued	17,302,691	1,730	293,714
<b>At December 31, 2018</b>	<b>54,099,929</b>	<b>5,410</b>	<b>1,189,665</b>

\*Shares issued and fully paid have been retroactively adjusted for the ten-to-one reverse stock split which was effective from March 7, 2019, see Note 19 for more details.

Nominal value per share is USD 0.10 following the ten-to-one reverse stock split which was effective March 7, 2019. All issued shares have equal voting rights and are equally entitled to dividends. During the year shares were allotted to Directors of the Company to cover between 0% and 100% of their remuneration for the year. The Directors'



shares for the remuneration, covering the period July 1, 2018 to December 31, 2018, had not been issued at December 31, 2018 and are recorded as accrued expenses.

#### Largest shareholders as of December 31, 2018:

Shareholder	Number of shares*	Ownership interest
Geveran Trading Co Ltd	24,133,812	44.6 %
Verdepapirfondet DNB Norge (IV)	1,632,819	3.0 %
Goldman Sachs & Co. LLC	1,386,046	2.6 %
Skagen Vekst	1,350,000	2.5 %
DNB NOR Markets, Aksjehand/Analyse	843,514	1.6 %
State Street Bank and Trust Comp	619,379	1.1 %
Citibank, N.A.	578,781	1.1 %
Verdipapirfondet Pareto Investment	575,000	1.1 %
Verdipapirfondet Delphi Norden	550,000	1.0 %
BNP Paribas Securities Services	550,000	1.0 %
Fidelity Puritan Trust: Fidelity	539,980	1.0 %
Barclays Capital Sec. Ltd Firm	517,765	1.0 %
TR European Growth Trust Plc	516,989	1.0 %
Credit Suisse AG, Dublin Branch	474,464	0.9 %
Vatne Equity AS	405,000	0.7 %
Catella Hedgefond	401,250	0.7 %
Invesco Perp Euran Smler Comps FD	385,646	0.7 %
Goldman Sachs International	357,798	0.7 %
J.P. Morgan Bank Luxembourg S.A.	356,222	0.7 %
Citibank, N.A.	337,669	0.6 %
Others	17,587,795	32.5 %
<b>Total</b>	<b>54,099,929</b>	<b>100.0 %</b>

\*Number of shares has been retroactively adjusted for the ten-to-one reverse stock split which was effective from March 7, 2019, see Note 19 for more details.

### Note 13: Share based payments

On September 7, 2018, the Company's Board of Directors approved a Share Option Scheme. The Share Option Scheme permits the Board of Directors, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The subscription price for all options granted under the scheme is reduced by the amount of all dividends declared by the Company in the period from the date of grant until the date the option is exercised, provided the subscription price is never reduced below the par value of the share. The vesting periods of options granted under the scheme will be specific to each grant. There is no





maximum number of shares authorized for awards of equity share options and authorized, un-issued or treasury shares of the Company may be used to satisfy exercised options.

On September 7, 2018, the Company granted 110,000 share options\*, with an exercise price of \$14.30 per share\*, to officers in accordance with the terms of the Share Option Scheme. The grant date was determined as the date of resolution of the grant by the Board of Directors. The options vest equally based on three years of continuous service and have a five year contractual term.

On November 1, 2018, the Company granted a further 30,000 share options\*, with an exercise price of \$17.60 per share\*, to an officer in accordance with the terms of the Share Option Scheme. The grant date was determined as the date of resolution of the grant by the Board of Directors. The options vest equally based on three years of continuous service and have a five year contractual term.

The fair value of the newly granted option awards is estimated on the date of grant using a Black-Scholes option valuation model with the following assumptions:

	<b>September 2018</b>	<b>November 2018</b>
Risk free interest rate	1.44%	1.59%
Expected life (years)	5	5
Expected volatility	28.3%	36.8%
Expected dividend yield	—%	—%

The risk-free interest rate was estimated using the interest rate on five-year Norwegian Krone (“NOK”) treasury zero coupon issues. The volatility was estimated using historical volatility share price data. The dividend yield has been estimated at 0% as the exercise price is reduced by all dividends declared by the Company from the date of grant to the exercise date. It was assumed that all of the options granted in September and November 2018 will vest and therefore no forfeitures were assumed. The effect of forfeitures is recognized as incurred.

The following table summarizes the unvested option activity for the year ended December 31, 2018 (there was no share option activity during 2017):



	Number of non-vested options	Weighted average exercise price per share (\$)	Weighted average remaining contractual term (years)	Weighted average grant date fair value (\$)	Aggregate intrinsic value
<b>At December 31, 2017</b>	—	—	—	—	—
Granted during the year*	141,000	15.00	4.59	15.00	2,115,300
Converted during the year	—	—	—	—	—
Forfeited during the year	—	—	—	—	—
Expired during the year	—	—	—	—	—
<b>At December 31, 2018</b>	<b>141,000</b>	<b>15.00</b>	<b>4.59</b>	<b>15.00</b>	<b>2,115,300</b>

As at December 31, 2018, there was \$0.7 million in unrecognized stock compensation expense related to non-vested options. As at December 31, 2017, there were no share options and therefore no unrecognized stock compensation related to non-vested options. Stock compensation expense of \$0.1 million was recognized in 2018, recognized in administrative expenses (2017: \$0.0 million). When a share option is exercised, the Board of Directors will use their right, according to the Bye-Laws, to issue new shares.

\*Share options and exercise prices have been retroactively adjusted for the ten-to-one reverse stock split which was effective from March 7, 2019, see Note 19 for more details.

## Note 14: Long-term debt

The table below represents the annual principal payments to be made against our long-term debt, including the Flex Rainbow Sale and Leaseback, after December 31, 2018:

	<b>Group 2018</b>
Due within:	
1 year	23,625
2 years	25,478
3 years	26,404
4 years	26,404
5 years	241,963
More than five years	116,156
<b>Long-term debt</b>	<b>460,030</b>
Less: debt issuance costs	(5,063)
<b>Total-long term debt</b>	<b>454,967</b>



### **\$315 million Secured Term Loan Facility**

In December 2017, we, through three of our vessel owning subsidiaries, entered into a \$315 million secured term loan facility (the “\$315 Million Term Loan Facility”) with a syndicate of banks to part finance the first three of our newbuildings - Flex Endeavour, Flex Enterprise and Flex Ranger, which serve as collateral under the facility. In January 2018, we drew down two \$105 million loan tranches under the facility in connection with the delivery of the Flex Endeavour and the Flex Enterprise. The third \$105 million tranche was utilized in connection with the delivery of the Flex Ranger in June 2018. FLEX LNG Ltd. and Flex LNG Fleet Limited, our wholly owned subsidiary, serve as guarantors under the facility. The facility bears interest at LIBOR plus a margin of 2.85% per annum and matures on June 22, 2023, which is five years from the delivery date of the third and final vessel financed under the facility, which was June 22, 2018.

Pursuant to the facility agreement, we have an option, subject to consent from the lenders under the facility, to substitute one or more of the vessels which serve as collateral under the facility with other vessels in our fleet. We may also request the lenders to make available a fourth tranche to finance a fourth collateral vessel and to increase the amount of borrowings available under a tranche in the event that we secure employment for a collateral vessel with a duration of minimum five years and with a charterer acceptable to the lenders.

The facility has the following financial covenants, tested quarterly, which requires the Group (on a consolidated basis) to maintain at all times, among other things: (i) a book equity ratio of a minimum of 0.25 to 1.0, (ii) a positive working capital, and (iii) minimum liquidity of the higher of \$15 million or an amount equal to 5% of the Group's total interest bearing debt on a consolidated basis and net of any cash and cash equivalents. The facility also requires each vessel owning subsidiary acting as borrower under the facility to maintain at all times, among other things: (i) positive working capital and (ii) minimum liquidity of \$1.2 million. The facility includes a dividend restriction, limiting distributions to circumstances where (i) no default is existing on the time when the distribution is to be made or would result from the making, payment or declaration of the distribution; and (ii) such distributions are in aggregate limited to 50% of the Company's accumulated and consolidated annual net profits as from January 1, 2018 calculated on the basis of the ultimate parent's audited consolidated financial statements; or (iii) as otherwise consented to in writing by the facility agent. The facility also contains a covenant that requires us to provide additional security or prepay an amount of the loan facility as necessary to maintain the fair market value of the vessels securing the loan facility at not less than specified percentages of the principal amount outstanding under the loan facility. The net outstanding amount under the facility as of December 31, 2018 was \$301.0 million (2017: \$0.0 million). At December 31, 2018, we were in compliance with all covenants under the facility.



### **Flex Rainbow Sale and Leaseback**

In July 2018, we, through our wholly-owned subsidiary, Flex LNG Rainbow Ltd., which owned the Flex Rainbow, entered into a sale leaseback transaction (the “Flex Rainbow Sale and Leaseback”), for the vessel with a Hong Kong-based lessor for a lease period of ten years. The gross sales price under the lease was \$210 million, of which \$52.5 million represented advance hire for the ten-year lease period. The agreement includes fixed price purchase options, whereby we have the option to re-purchase the vessel at or after the second anniversary of the agreement, and on each anniversary thereafter, until the end of the lease period. The bareboat rate payable under the lease has a fixed element, treated as principal repayment, and a variable element based on LIBOR plus a margin of 3.50% per annum calculated on the outstanding under the lease. The facility includes a covenant that requires us to provide additional security, by way of a deposit, as necessary to maintain the fair market value of the vessel at not less than a specified percentage of the principal amount outstanding under the lease. The net outstanding under the lease as at December 31, 2018 was \$154.0 million (2017: \$0.0 million). At December 31, 2018, we were in compliance with all covenants under the Flex Rainbow Sale and Leaseback.

### **\$270 million Revolving Credit Facility**

In March 2017, in connection with our acquisition of the shipbuilding contracts for the Flex Endeavour and the Flex Enterprise, we, through our wholly-owned subsidiary, Flex LNG Fleet Limited, entered into a \$270 million revolving credit facility (the “270 Million Revolving Credit Facility”) with Sterna Finance Ltd., a company related to Gevevan. Flex LNG Ltd. serves as guarantor under the facility. The facility can be repaid partially or in full at any time at our discretion and we may continue to draw upon the facility at our discretion to the extent the total outstanding amount thereunder does not exceed \$270 million at any time. The facility matures 12 months following the delivery of the newbuilding Flex Courageous, which is expected to be delivered in August 2019, after which, \$30 million will be available to us as borrowings for working capital until July 1, 2023, unless otherwise mutually agreed. The facility bears interest at LIBOR plus a margin of 3.0% per annum. There are no financial covenants under the \$270 Million Revolving Credit Facility. The net outstanding under the facility as at December 31, 2018 was \$0.0 million (2017: \$160.0 million).

## **Note 15: Fair value of financial assets and liabilities**

The principal financial assets of the Company at December 31, 2018, and 2017 consist of cash and cash equivalents, and restricted cash. The principal financial liabilities of the Company consist of secured long-term debt.

The guidance for fair value measurements applies to all assets and liabilities that are being measured and reported on a fair value basis. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information



used to determine fair values. The same guidance requires that assets and liabilities carried at fair value should be classified and disclosed in one of the following three categories based on the inputs used to determine its fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

The fair value of the Company's cash and cash equivalents and restricted cash approximates their carrying amounts reported in the accompanying consolidated balance sheets.

The fair value of secured term loan facilities and revolving credit facility is estimated based on the average of the current rates offered to the Company for all debt facilities. The carrying value approximates the fair market value for the floating rate loans and revolving credit facilities due to their variable interest rate, being LIBOR plus a fixed margin. This has been categorized at level 2 on the fair value measurement hierarchy.

The following table includes the estimated fair value and carrying value of those assets and liabilities.

			<b>Group 2018</b>	<b>Group 2018</b>	Group 2017	Group 2017
	Note	Fair value hierarchy level	<b>Carrying amount of asset (liability)</b>	<b>Fair value asset (liability)</b>	Carrying amount of asset (liability)	Fair value asset (liability)
Cash and cash equivalents	11	Level 1	<b>54,932</b>	<b>54,932</b>	9,961	9,961
Restricted cash	11	Level 1	<b>165</b>	<b>165</b>	—	—
Receivables due from related parties	16	Level 1	<b>1,720</b>	<b>1,720</b>	340	340
Payables due to related parties	16	Level 1	<b>(206)</b>	<b>(206)</b>	(810)	(810)
Accounts payable		Level 1	<b>(592)</b>	<b>(592)</b>	(76)	(76)
Long-term debt	14	Level 2	<b>(454,967)</b>	<b>(460,030)*</b>	(160,000)	(160,000)

\* Carrying value of Long-term debt is shown net deduction of debt issuing cost, while fair value of Long-term debt is shown gross.



			Company 2018	Company 2018	Company 2017	Company 2017
	Note	Fair value hierarch y level	Carrying amount of asset (liability)	Fair value asset (liability)	Carrying amount of asset (liability)	Fair value asset (liability)
Cash and cash equivalents	11	Level 1	<b>8,497</b>	<b>8,497</b>	7,175	7,175
Receivables due from wholly owned	2	Level 1	<b>823,418</b>	<b>823,418</b>	522,964	522,295
Payables due to wholly owned subsidiaries	2	Level 1	<b>(11,158)</b>	<b>(11,158)</b>	-	-
Accounts payable		Level 1	<b>(192)</b>	<b>(192)</b>	(16)	(16)

There have been no transfers between different levels in the fair value hierarchy during the year.

## Note 16: Related parties

In March 2017, in connection with our acquisition of the shipbuilding contracts for the Flex Endeavour and the Flex Enterprise, we, through our wholly-owned subsidiary, Flex LNG Fleet Limited, entered into the \$270 Million Revolving Credit Facility with Sterna Finance Ltd., a company related to Geveran. Under the current terms of the facility, \$270 million will be available until 12 months following delivery of the newbuilding Flex Courageous, which is scheduled to be delivered in August 2019. Thereafter \$30 million will be available for working capital until July 1, 2023, unless otherwise mutually agreed with the lender. The facility bears interest at LIBOR plus a margin of 3.0% per annum. As of December 31, 2018, the outstanding indebtedness under the facility was \$0.0 million (2017: \$160.0 million), and the full amount of \$270 million is currently available for drawdown.

In May 2017, we entered into agreements with entities related to Geveran, for the acquisition of the two newbuilding MEGI LNG carriers Flex Constellation and Flex Courageous for a purchase price of \$180.0 million per vessel. The vessels are currently under construction at DSME pursuant to shipbuilding contracts between DSME and the sellers, who will continue to be responsible for the supervision of the vessels' construction. We made advance payments of \$36.0 million per vessel to the sellers in 2017, representing 20% of the purchase price. The remaining balance of \$144.0 million per vessel is due upon delivery to us, which is scheduled in June and August 2019, respectively.

In May 2018, we entered into agreements with entities related to Geveran for the acquisition of the two newbuilding X-DF LNG carriers Flex Aurora and Flex Amber for a purchase price of \$184.0 million per vessel. The vessels are currently under construction at HSHI pursuant to shipbuilding contracts between HSHI and the sellers, who will



continue to be responsible for the supervision of the vessels' construction. We made advance payments of \$36.8 million per vessels to the sellers in 2018, representing 20% of the purchase price, with the remaining balance of \$147.2 million per vessel due upon the delivery of the respective vessels to us. The vessels are scheduled for delivery in the second and the third quarter 2020, respectively.

In October 2018, we entered into agreements with entities related to Geveran, for the acquisition of five newbuilding LNG carriers, the Flex Freedom, Flex Reliance, Flex Resolute, Flex Vigilant, and Flex Volunteer, for an aggregate purchase price of \$918.0 million, or \$180.0 million per vessel with an additional cost of \$6.0 million per vessel for full re-liquefaction systems on three of the vessels. The Flex Freedom, Flex Reliance and Flex Resolute are MEG1 LNG carriers under construction at DSME with two vessels scheduled delivery in the third quarter 2020 and the remaining vessel in the fourth quarter of 2020. The Flex Vigilant and Flex Volunteer are X-DF LNG carriers with expected delivery in first and second quarters of 2021, respectively. The sellers will continue to be responsible for the supervision of the vessels' construction. We made advance payments of \$55.8 million for each of the three MEG1 newbuildings and \$54 million for each of the two X-DF newbuildings in 2018, representing 30% of the purchase price. The remaining balance of \$130.2 million for each of the three MEG1 newbuildings and \$126 million for the two X-DF newbuilding is due upon the delivery of the respective vessels to us.

For the four newbuildings delivered in 2018, newbuilding supervision was provided by Frontline Management (Bermuda) Limited ("Frontline Management"), a related party. In the twelve month period to December 31, 2018, costs of \$1.5 million (2017: \$4.4 million) have been capitalized.

At December 31, 2018, the Group had related party receivables of \$1.1 million and \$0.7 million from Frontline Ltd. and Seatankers Management Co. Ltd. ("Seatankers"), respectively. At December 31, 2018, the Group had related party payables of \$0.1 million (2017: \$0.2 million) and \$0.1 million (2017: 0.0 million) due to Frontline Management and Frontline Management AS respectively.

The Group has a service agreement with Frontline Management, under which they provide us with certain administrative support services, for which we pay our allocation of the actual costs they incur on our behalf, plus a margin. In the year ended December 31, 2018, we paid Frontline Management \$0.2 million (excluding newbuilding supervision) for these services (2017: \$1.0 million). The Group also have a services agreement with Seatankers, under which they provide us with certain advisory and support services, for which we pay our allocation of the actual costs they incur on our behalf, plus a margin. In the year ended December 31, 2018, we paid Seatankers \$0.6 million for such services (2017: \$0.3 million).



## Note 17: Commitments and contingencies

Capital commitments for the Group as at December 31, 2018 are detailed in the table below. Flex LNG Ltd. did not have any capital commitments as at December 31, 2018.

	2019	2020	2021	2022	2023	Thereafter	Total
Loan repayments	23,625	25,478	26,404	26,404	241,963	116,156	<b>460,030</b>
Newbuildings	288,000	685,000	252,000	—	—	—	<b>1,225,000</b>
<b>Total</b>	<b>311,625</b>	<b>710,478</b>	<b>278,404</b>	<b>26,404</b>	<b>241,963</b>	<b>116,156</b>	<b>1,685,030</b>

As at December 31, 2018, Flex LNG had nine vessels to be delivered on a Norwegian Sales Form basis, whereby we have paid a deposit to the relevant seller at the time of entering into the agreements, with the remaining purchase price being payable upon delivery and transfer of title of the relevant vessel to us. The remaining capital expenditures on these newbuildings will include building supervision, but excludes future change requests, sundry buyers' supplies, fit out, studies and lube oils.

## Note 18: 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 programme considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance, in a cost effective manner.

### Currency risk

The majority of our transactions, assets and liabilities are denominated in U.S. dollars, our functional currency. However, we incur expenditure in currencies other than the functional currency, mainly overhead costs in Great British Pounds ("GBP") and NOK. Historically these exposures have not been hedged. Hence there is a risk that currency fluctuations in transactions incurred in currencies other than the functional currency will have a negative effect of the value of our cash flows.

Our shares are currently 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**

We are exposed to interest rate fluctuations primarily due to our floating rate interest bearing long-term debt. The international LNG transportation industry is a capital-intensive industry, which requires significant amounts of financing, typically provided in the form of secured long-term debt or lease financing. Our current bank and lease financing agreements bear floating interest rates, based on LIBOR. Significant adverse fluctuations in floating interest rates could adversely affect our operating and financial performance and our ability to service our debt.

### **Liquidity risk**

The Group monitors its risk to a shortage of funds using a cash modelling 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, lease finance and loan finance. Market conditions can have a significant impact on the ability to raise equity, lease finance and loan finance. While equity issuance may be dilutive to existing shareholders, loan and lease finance 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 funds from investors. Upon delivery of the respective vessels from the yards, we expect to finance remaining delivery payments that are due through available liquidity, debt financing and lease financing.

### **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 relates to the advance payments made to the sellers in connection with the agreements to acquire the Newbuilding Vessels. Seatankers Management Co. Ltd., an entity related to Geveran, has provided corporate refund guarantees for the advance payments made to the sellers of \$72 million in aggregate for the Newbuilding Vessels Flex Courageous and Flex Constellation. Blue Sea Navigation Holding Inc., an entity related to Geveran, has provided corporate refund guarantees for the advance payments made to the sellers of \$349 million in aggregate for the Newbuilding Vessels Flex Aurora, Flex Amber, Flex Reliance, Flex Resolute, Flex Freedom, Flex Volunteer and Flex Vigilant. 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**

The operation of a LNG carrier has certain unique operational risks. Our vessels and their cargoes are at risk of being damaged or lost because of events such as marine disasters, bad weather, business interruptions caused by mechanical failures, grounding and fire, explosions and collisions, human error, war, terrorism, piracy, labor strikes, boycotts and other circumstances or events. These hazards may result in death or injury to persons, loss of revenues or property, higher insurance rates, damage to our customer relationships and market disruptions, delay or rerouting.

If our LNG carriers suffer damage, they may need to be repaired at a dry-docking facility. The costs of dry-dock repairs are unpredictable and may be substantial. The Group may have to pay dry-docking costs that our insurance does not cover at all or in full. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, may adversely affect our business and financial condition.

At a commercial level it also includes the ability to secure employment contracts on reasonable terms for the vessels under construction; and obtaining financing and working capital on reasonable terms.

### **Note 19: Subsequent events**

In the first quarter of 2019, the Company agreed a \$250 million secured term loan facility from a syndicate of banks for the financing of the two newbuildings Flex Constellation and Flex Courageous. The financing remains subject to the execution of the loan facility agreement and customary closing conditions, and is expected to be drawn upon delivery of the vessels from the shipyard, currently scheduled for June and August 2019, respectively. The facility will have a term of five years from delivery of the last vessel and will bear interest at LIBOR plus a margin of 2.35% per annum. The facility will contain a minimum value clause, and financial covenants that require the Company, on a consolidated basis, to maintain a book equity level of minimum 25%; a minimum liquidity being the higher of \$25 million and 5% of net interest bearing debt; and a positive working capital.

On March 4, 2019, the Company declared a ten-for-one reverse stock split with an effective date of March 7, 2019. The common share par value was adjusted as a result of the reverse stock split to the value of \$0.10 per share. In line with the guidance in ASC 260 "Earnings Per Share", we have retroactively adjusted for this change in the balance sheet and applicable footnote disclosures.

Subsequent events have been evaluated through to the April 3, 2019 which is also the date the financial statements were issued.

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of 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 2018, the related consolidated statements of operations, other comprehensive income, 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 2018 and their financial performance and cash flows for the year then ended in accordance with U.S. General Accepted Accounting Principles.

#### 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 2018. 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.

#### Related party transactions

The Group has purchased seven newbuilding's currently under construction from related parties of Geveran, the Company's largest shareholder, for a total consideration of 1 286 MUSD, of which 348 MUSD is prepaid. Because of the significant amounts involved and the inherent risk of related parties transactions we considered this to be a key audit matter.

We read the agreement between the Group and the related parties to understand the contractual arrangement for the purchase of the newbuilding contracts. We also inspected board minutes and the external fairness opinions the Company procured from external appraisers. We involved internal valuation specialists on our team and met with the Company's appraisers to understand the basis for the fairness opinions. We further corroborated the values used in the fairness opinion with the contracts for each vessel, and compared the valuation to Management's forecasts as well as the newbuilding prices of other

vessels in the Company's fleet and external market prices for similar vessels. We also assessed the disclosures regarding related party transactions.

We refer to Note 16 of the consolidated financial statements

### **Conversion from IFRS to US GAAP**

The Group changed its accounting policies from International Financial Reporting Standards (IFRS) as adopted by EU to U.S. Generally Accepted Accounting Principles (US GAAP) in the consolidated and company financial statements. The conversion required management to assess and evaluate the differences between historical accounting policies and disclosures of the Group and Company and US GAAP. The conversion also required assessment of whether the financial information for 2017 needed to be restated. The change in accounting policies required significant effort as well as judgment in evaluating the impact of the change in accounting standards. The US GAAP conversion was therefore considered a key audit matter.

We evaluated the appropriateness of management's process for identifying and documenting differences between the historical accounting policies and US GAAP. We reviewed the memos prepared by the company describing the differences between IFRS and US GAAP and assessed the completeness of these differences.

We refer to note 2 of the consolidated financial statements

### **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 U.S. General Accepted Accounting Principles, 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:

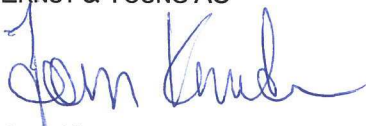
- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 3, 2019  
ERNST & YOUNG AS



Jørn Knutsen  
State Authorised Public Accountant (Norway)