

ANNUAL REPORT

2017



Prosafe

The annual report is only made in electronic format, but can easily be printed.

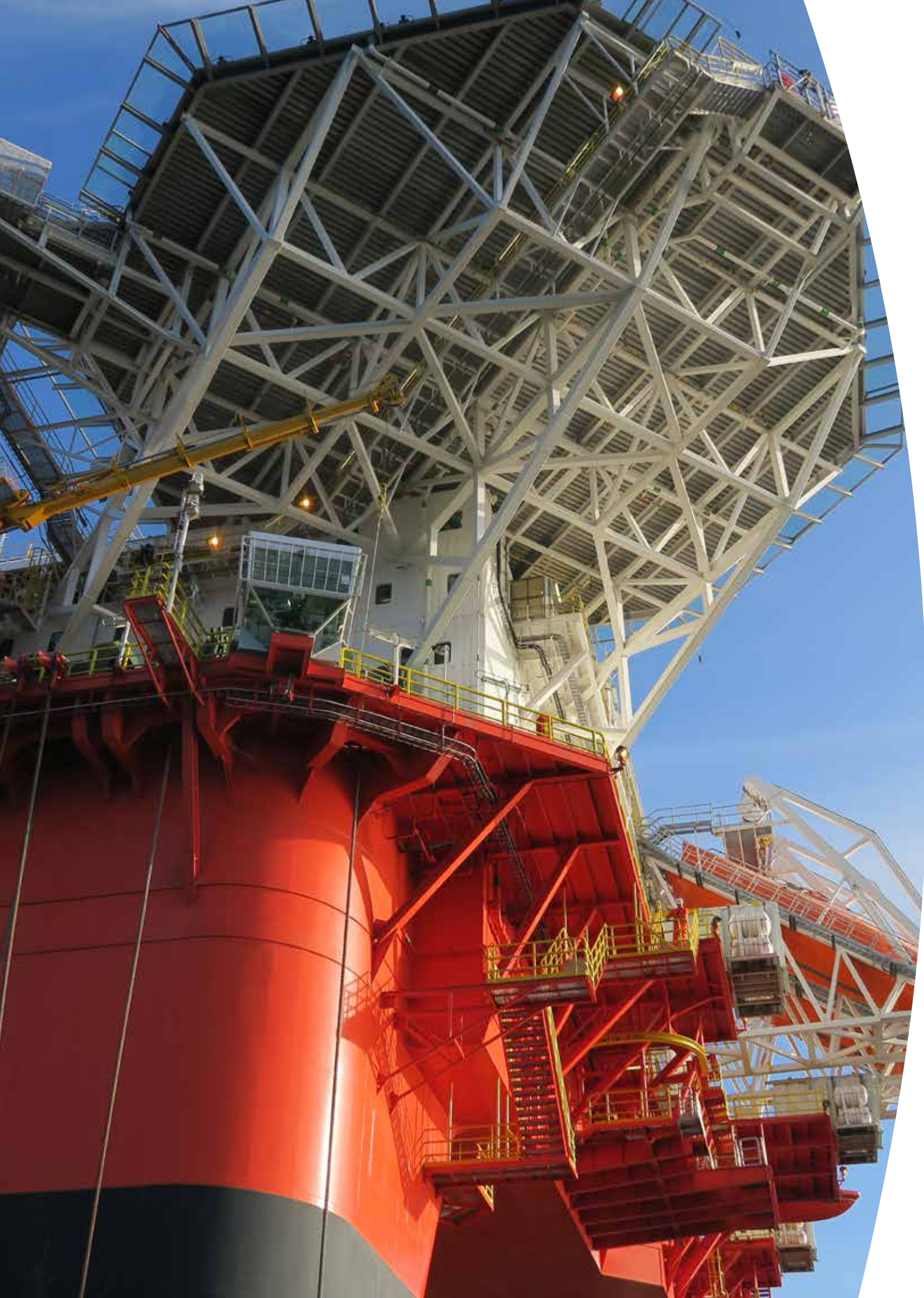
The annual report comprises the directors' report, the declaration by the members of the Board of Directors, the consolidated accounts, the parent company accounts for Prosafe SE and the independent auditors' report.

Information about HSEQA, corporate governance, social responsibility, additional financial and analytical information, executive management and the board of directors can be found on www.prosafe.com



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FINANCIAL CALENDAR

QUARTERLY REPORTING

The following dates have been set for quarterly reporting in 2018:

1st quarter	4 May 2018
2nd quarter	23 August 2018
3rd quarter	7 November 2018
4th quarter	5 February 2019

ANNUAL GENERAL MEETING

The AGM for Prosafe SE will be held 3 May 2018.

KEY FIGURES

		Note	2017	2016	2015	2014	2013
Profit							
Operating revenues	USD million		283.0	474.0	474.7	548.7	523.5
EBITDA	USD million	1	122.9	253.2	262.9	312.6	306.6
Operating (loss) / profit	USD million		(578.2)	52.8	30.8	248.3	245.1
Net (loss) / profit	USD million		(647.1)	172.6	(50.6)	178.8	199.1
Earnings per share	USD	2	(8.98)	8.36	(21.00)	76.00	85.00
Balance sheet							
Total assets	USD million		1 947.0	2 686.9	2 187.2	1 816.8	1 619.9
Interest-bearing debt	USD million		1 347.7	1 390.8	1 247.0	830.1	779.6
Net interest-bearing debt	USD million	3	1 115.8	1 185.1	1 189.9	707.7	666.2
Book equity	USD million		497.6	1 129.5	715.2	748.5	739.7
Book equity ratio		4	26.0 %	42.0 %	32.6 %	41.2%	45.7%
Valuation							
Market capitalisation	USD million		118.1	306.0	619.0	725.0	1 816.0
Share price	NOK	5	12	37	2 100	2 300	4 680

1. Operating profit before depreciation

2. Net profit / Average number of outstanding and potential shares. EPS restated to reflect reverse split in 2016.

3. Interest-bearing debt - Cash and deposits

4. (Book equity / Total assets) * 100

5. Restated to reflect reverse split in 2016



ABOUT PROSAFE

Prosafe is a leading owner and operator of semi-submersible accommodation vessels.



Prosafe owns/operates eight semi-submersible accommodation, safety and support vessels and one Tender Support Vessel (TSV) that is providing drilling support services on the Norwegian Continental Shelf.

Furthermore, Prosafe has an option to take delivery of three complete, new build harsh environment vessels which are kept in a preserved mode at COSCO Shipping (Qidong) Offshore Co. Ltd in China.

Prosafe's fleet consists of a combination of dynamically positioned and anchored vessels. Thereby, the fleet is versatile and able to operate in nearly all offshore environments.

Prosafe's operations are amongst other related to maintenance and modification of installations on fields already in production, hook-up and commissioning of new fields, tie-backs to existing infrastructure and decommissioning.

Accommodation vessels offer additional accommodation, engineering, construction or storage capacity offshore. Prosafe's vessels have accommodation capacity for 306-500 people and offer high quality welfare and catering facilities, storage, workshops, offices, medical services, deck cranes and lifesaving and fire fighting equipment. The vessels are positioned alongside the host installation and are connected by means of a telescopic gangway so that personnel can walk to work.



Prosafe has a strong track record from demanding operations worldwide, with first class operational performance and good safety results. The company has extensive experience from operating gangway connected to fixed installations, FPSOs, TLPs, Semis and Spars.

The company's track record comprises operations offshore Norway, UK, Mexico, USA, Brazil, Denmark, Tunisia, West Africa, North-west and South Australia, the Philippines and Russia.

Prosafe is listed on the Oslo Stock Exchange with ticker code PRS.

HIGHLIGHTS 2017

- In January, Prosafe was awarded a contract for the provision of Safe Caledonia for a period of 134-days with a 30-day option at the Elgin-Franklin Facility in the UK sector of the North Sea by Total E & P UK Limited.
- Prosafe was awarded a contract for the provision of the Safe Zephyrus for Phase 1 of Statoil's Johan Sverdrup hook-up and commissioning project in the Norwegian sector of the North Sea for a duration of 12 months with start-up in Q2 2018.
- In early August, the Safe Boreas successfully commenced a 13-month contract with Statoil at the Mariner installation in the UK.
- Safe Lancia and Safe Regency were sold for recycling/scrap. Following this, Prosafe has scrapped five vessels as part of its strategy to high grade the fleet and protect cash-flow.
- Prosafe has continued to deliver on cost

and capex reductions and the focus on continuous improvement remains.

- **Post balance sheet**

On 8 March 2018, the Stavanger City Court issued its judgement in favour of Prosafe in respect of the dispute between Westcon Yards AS (Westcon) and Prosafe Rigs Pte. Ltd. relating to the conversion of the Safe Scandinavia into a tender support vessel.

The Court ordered Westcon to repay NOK 344 million plus interest and NOK 10.6 million legal costs. There is a deadline of four weeks within which Westcon may file an appeal against this judgement.



DIRECTORS' REPORT

The directors present their annual report on the affairs of Prosafe SE (the “Company” or the “Parent Company”) and its subsidiaries (the Company and its subsidiaries referred to as the “Group” or “Prosafe”) together with the Group’s and the Parent Company’s audited financial statements for the year ended 31 December 2017.

This report shall be deemed to be the management report for the purposes of the Cyprus Companies law.

PRINCIPAL ACTIVITY

Prosafe is a leading owner and operator of semi-submersible accommodation support vessels whose objective is to strengthen its competitive position globally. The Parent Company is managed and controlled in Cyprus and is the ultimate owner of all group companies.

FINANCIAL RESULTS, FINANCING AND FINANCIAL POSITION OF THE GROUP

(The figures in brackets correspond to the 2016 comparatives)

INCOME STATEMENT

Operating revenues totalled USD 283.0 million in 2017 (2016: USD 474.0 million), with utilisation¹⁾ of the fleet dropping to 38.4 per cent (43 per cent). The reduction reflects the soft market conditions.

The significant drop in operating revenues compared to the modest reduction in utilisation is due to lower average day rates as a result of the current market conditions. In addition, the operating revenues in 2016 included a re-phasing charge of USD 30 million relating to the contract with Statoil for the Mariner project, as well as a mobilisation fee of USD 17 million relating to the Safe Notos contract in Brazil.

The main markets for the Prosafe vessels are currently the North Sea and Brazil, serving primarily oil and gas operating companies as end clients on projects typically related to installation or maintenance and modification of offshore oil and gas fields. The vessels are normally provided on a time charter basis where

Prosafe man and operate the vessels directly.

Despite the fact that the total 2017 operating expenses comprise the full year costs for four additional vessels which were delivered or re-built/built during 2016, specifically Safe Zephyrus, Safe Notos, Safe Scandinavia and Safe Eurus, the costs decreased to USD 160 million (USD 220.8 million) as a result of lower utilisation and cost reductions.

Depreciation increased to USD 127.2 million (USD 115.7 million) as a result of the full year effect of the new build vessels Safe Zephyrus and Safe Notos that were delivered in Q3 and Q4 2016, respectively. In addition, there was an impairment charge of USD 573.9 million related to goodwill and Safe Scandinavia, Safe Caledonia, Safe Bristolia, Safe Concordia and Regalia. In 2016, impairment charges amounted to USD 84.7 million for Safe Astoria.

The resulting operating loss amounts to USD 578.2 million (USD 52.8 million operating profit).

Interest expenses totalled USD 74.9 million (USD 88.6 million). This decrease is mainly a consequence of 2016 being impacted by a one-off cost of USD 14.7 million relating to the impact of the discontinuation of hedge accounting attributable to the bonds. Interest costs totalling USD 1.1 million (USD 1.6 million) have been allocated to new build and refurbishment projects and consequently capitalised as part of the vessel investment costs.

Other financial items amounted to USD 15.5 million (USD 225.2 million). The figure for 2016 includes a gain on forgiveness of bond debt of USD 197.6 million which was recognised as a result of the refinancing which took place in the third quarter 2016.

Taxes for 2017 mainly relating to operations in Norway, UK and Brazil were USD 7.8 million (USD 17.1 million). This decrease is primarily

¹⁾ Utilisation = actual vessel days in operation in the period / possible vessel days in the period x 100

due to lower taxation on UK operations as a consequence of lower activity.

Net loss amounted to USD 647.1 million (net profit of USD 172.6 million), resulting in diluted earnings per share of USD -7.35 (USD 8.10).

ASSETS

Total assets amounted to USD 1,947.0 million (USD 2,686.9 million) at the end of 2017.

Investments in tangible assets totalled USD 10.1 million (USD 543.7 million). The investments in 2017 mainly relate to steel strengthening works on the Safe Boreas and a special periodic survey on the Safe Caledonia.

As at year-end 2017, the Group had total liquid assets (cash and deposits) of USD 231.9 million (USD 205.7 million). The liquidity reserve (liquid assets plus undrawn credit facilities) totalled USD 231.9 million (USD 205.7 million).

FINANCING

Total shareholders' equity amounted to USD 497.6 million (USD 1,129.5 million), resulting in an equity ratio of 26 per cent (42 per cent). The main reason for the reduction in the equity ratio is the impairment charge of USD 573.9 million.

Interest-bearing debt amounted to USD 1,347.7 million (USD 1,391 million) at year-end. Repayments of debt totalled USD 47.4 million (USD 112.5 million) including USD 30 million sellers credit repayment to Jurong Shipyard in Singapore.

The interest-bearing debt agreements are subject to termination, repayment or buy back clauses in the event of a change of control of the Company (as control is defined in the relevant agreements).

FINANCIAL RESULTS AND FINANCIAL POSITION OF THE PARENT COMPANY

The operating loss for the year amounted to USD 738.9 million (operating loss of USD 411.4 million) and includes impairment charges relating to investments in subsidiaries of USD 745.2 million (USD 396.5 million). Net financial loss amounted to USD 45.9 million (net financial income of USD 158.1 million). The gain last year included a gain on forgiveness of debt USD 197.6 million. Net loss for the year equalled USD 785.5 million (net loss of USD 253.3 million).

Total net assets for the year amounted to USD 582.9 million (USD 1,355.2 million).

EXECUTIVE MANAGEMENT

Jesper Kragh Andresen was appointed as CEO with effect from 1 March 2017. He holds an Executive MBA from INSEAD, France/Singapore and a Masters degree in law from University of Copenhagen. Prior to joining Prosafe, Mr. Andresen has held various positions including CEO in Axis Offshore, President of Lauritzen Offshore (Singapore) Pte. and Managing Director of J. Lauritzen Singapore.

Stig H. Christiansen was appointed as Deputy CEO & CFO with effect from 1 March 2017. Mr. Christiansen joined Prosafe as CFO in August 2015 and was Acting CEO from April 2016 until 1 March 2017. Prior to this he was CEO in Add Energy group since 2008. Mr. Christiansen holds an MBA from Aalborg in Denmark, and a BCom from University of Birmingham, England.

OPERATIONS AND PROJECTS

As at year-end, the fleet comprised nine vessels and an option to take delivery of three new builds. Five old vessels have been scrapped since mid-2016.

Specifications for each of the vessels and details of the current vessel contracts can be found on the Company's website <http://www.prosafe.com/accommodation-vessels/>.



Safe Scandinavia commenced the TSV contract with Statoil at Oseberg in mid-March 2016. This contract has a firm period until the end of June 2018.

Safe Zephyrus was on contract with Aker BP in Norway until the end of January 2017.

Safe Notos commenced its three-year and 222-day contract for Petrobras on 7 December 2016.

Safe Boreas was on contract with Repsol Sinopec at Montrose in the UK until 24 April 2017 and commenced a 13-month contract with Statoil at the Mariner field in early August 2017.

Safe Concordia was on contract with Petrobras until late July 2017 and is currently laid up in Curaçao.

Safe Caledonia completed a contract for Total in the UK in late October 2017 and is currently laid up in Scapa Flow in the Orkney Islands.

Regalia has been idle throughout the year and is currently laid up in Averøy in Norway.

Safe Bristolia has been idle throughout the year and is cold-stacked in Norway.

Safe Astoria has been off-hire throughout 2017 and is cold-stacked in Batam, Indonesia.

In December 2016 following an audit by the Petroleum Safety Authority Norway (PSA), the PSA issued an order in relation to non-conformances. The next scheduled offshore audit is planned for April 2018 and the target is for the non-conformances to be closed out. Prosafe remains committed to safe and compliant operations at all times.

Safe Eurus is in a preserved, strategic stacking mode, and negotiations continue with COSCO to find a workable commercial solution. Consistent with previous quarters, the Company has accrued for lay-up cost for Safe Eurus. In accordance with the agreement with COSCO, 50 percent of these costs are to be paid on delivery and the remaining 50 percent after delivery.

The standstill agreement between Prosafe and COSCO relating to Safe Nova and Safe Vega has recently been extended until early April 2018. Prosafe remains in negotiations with COSCO and related parties for these vessels. If no agreement is reached, Prosafe has the right to cancel the new build contracts for Safe Nova and Safe Vega due to delay, and claim repayment of the instalments paid including interest of approx. USD 60 million in total. The repayment claim is secured by a refund guarantee from Bank of China.

WESTCON DISPUTE

On 8 March 2018, the Stavanger City Court issued its judgement in favour of Prosafe in respect of the dispute between Westcon Yards AS (Westcon) and Prosafe Rigs Pte. Ltd. relating to the conversion of the Safe Scandinavia into a tender support vessel. The Court ordered Westcon to repay NOK 344 million plus interest and NOK 10.6 million legal costs. There is a deadline of four weeks within which Westcon may file an appeal.

OUTLOOK

The accommodation support segment is late cyclical by nature. Historically, a majority of the work has been related to existing producing fields ('brownfield'), whereas the remainder has been related to hook-up and commissioning of new developments ('greenfield'). Accommodation support vessels are also used during decommissioning of offshore installations. During the down-cycle in recent years, many service segments have seen a significant reduction in activity and that includes demand for offshore accommodation vessels.

The North Sea market has been severely impacted by the downturn. The Company expects activity in the North Sea to remain volatile in the near term.

International markets, including Brazil and Mexico, will be increasingly important when activity recovers.

The supply side has experienced sizable growth during the period from 2012 to 2016 with the entry into the market of a number of accommodation support vessels. However, the growth has been lower than earlier anticipated as a result of the extended down-cycle leading to both scrapping of existing vessels and delays in completion of new builds. More scrapping is anticipated, as well as further consolidation

activities, and therefore the Company foresees a continued rebalancing of the market towards 2020 during which period there will generally be adequate supply in most or all regions.

As all providers of oil production support services are dependent on oilfield operators' cash flow, reductions in spending plans have led to a substantial decrease in demand for oilfield services, including accommodation support vessels. The year 2017 saw a continued slow-down in contracting activity with the gross value of charter contracts, including clients' extension options, reducing by approximately 68.5 per cent to USD 304 million (USD 967 million). Total order backlog²⁾ as of 31 December 2017 amounted to USD 340 million of which USD 304 million related to firm contracts and USD 36 million related to options. Secured utilisation for 2018 is 31.1%. For 2019, secured utilisation is currently 15.2%.

Positive developments during 2017 include a new contract secured for Safe Zephyrus for Statoil at the Johan Sverdrup field in the Norwegian sector of the North Sea. Safe Scandinavia TSV ('Tender Support Vessel') continued strong technical performance delivering drilling support services on the Norwegian Continental Shelf.

Although macro indicators continue to show positive development, this is yet to materialise in activity pick-up in the offshore accommodation market. Consequently, Prosafe continues to anticipate a volatile market for the foreseeable future.

Positioning for upcoming tenders remains a near term priority. Further, Prosafe continues to pursue efficiencies and intends to be proactive in fleet enhancement and industry restructuring.

²⁾ Order backlog = amount of contracted revenue not recognised in income statement yet

RISK

Prosafe categorises its primary risks under the following headings: strategic, operational, financial and compliance related. The Company's board and senior officers manage these risk factors through continuous risk assessments, reporting and periodic reviews in management and board meetings, and as part of rolling strategy and planning processes.

The Company aims to create shareholder value by allocating capital and resources to the business opportunities that yield the best return relative to the risk involved within its specified strategic direction.

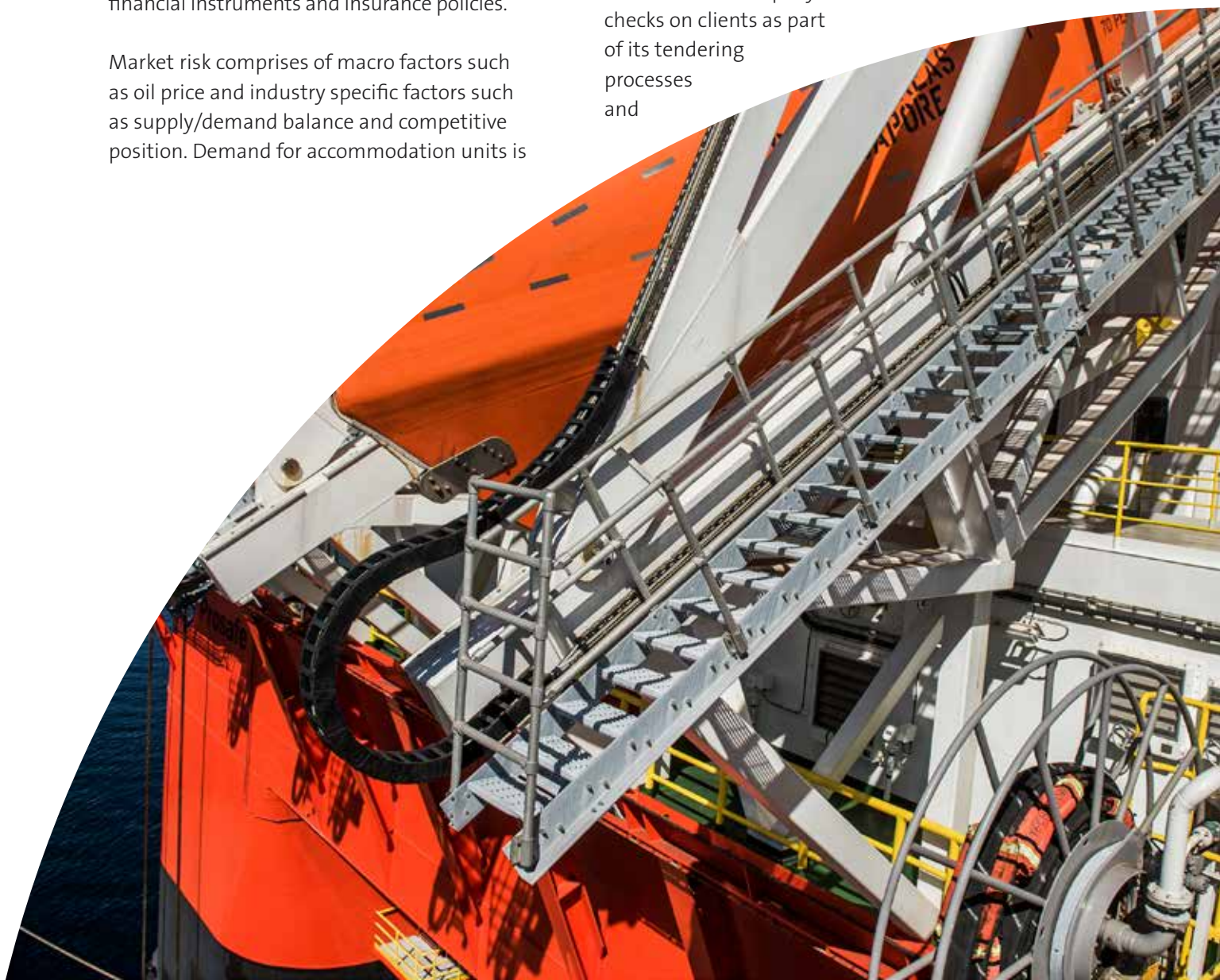
Prosafe seeks to reduce its exposure to operational, financial and compliance related risk through proper operating routines, the use of financial instruments and insurance policies.

Market risk comprises of macro factors such as oil price and industry specific factors such as supply/demand balance and competitive position. Demand for accommodation units is

sensitive to oil price fluctuations and changes in exploration and production spending.

The Company is exposed to financial risks such as currency risk, interest rate risk, financing and liquidity risk and credit and counterparty risk. The continued negative development in the offshore market involves risk that low activity and reduced charter revenues will continue in the short and medium term.

The Company reports in USD and generates income in USD, whereas a large part of its operating costs are in other currencies such as NOK and GBP. This exposure as identified based on rolling forecasts is hedged on a 50-75% basis of estimated currency exposure on a 12-month basis using currency forward instruments. The interest rate risk is largely hedged by the use of interest swaps for 75-100% of the debt. The Company carries out credit checks on clients as part of its tendering processes and



has a history of minimal loss from debtors. There are no material overdue receivables as of year-end. Further information on financial risk management is provided in note 19 to the consolidated financial statements.

An account of the main features of Prosafe's risk management process is available on its website at <http://www.prosafe.com/risk-management/category894.html>

INTERNAL CONTROLS

Internal control is ensured in accordance with Prosafe's policies and procedures which aim to ensure the effectiveness and efficiency of its operations, reliability of its financial reporting and compliance with applicable laws and regulations. These policies and procedures are designed, inter alia, to safeguard assets and protect from accidental loss or fraud.

In addition, the policies and procedures are reinforced inter alia, by the organisation and the competence of its personnel, segregation of duties, regular risk assessments and internal reporting, management meetings, board meetings and internal audit committee, together with external audit and public reporting and communication.

In respect of internal controls relating to the preparation of financial statements, the board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

In addition to the ongoing reviews by the senior officers, annual reviews and assessments are carried out which are approved by the board in respect of risk management and internal controls. The risk management methodology applied by management and the board are in accordance with industry and market practices

generally and as implemented in Prosafe over several years. The risk register forms the basis for the action plan which further represents a main and continuous agenda item for both management and the board to ensure that all key risks and opportunities are appropriately discussed and followed up by management and the board in the form of strategies and mitigating actions.

The Company is committed to attract, develop, and retain competent individuals in alignment with its objectives. The Company holds individuals accountable for their internal control responsibilities in the pursuit of its objectives.

The Company identifies and analyses risks which may potentially affect the achievement of its objectives and how these should be managed. It also considers the potential for fraud, and identifies and assesses changes that could significantly affect the system of internal control.

The Company selects, develops and deploys controls for the mitigation of risks related to the achievement of its financial reporting objectives, including controls over technology. It deploys these controls through policies that establish what is expected and its procedures.

Prosafe carries out regular reviews to ascertain whether the internal controls are present and functioning, and evaluates and communicates any internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate. Audits carried out by external parties like the financial auditor, clients and regulatory authorities and the reporting and follow-up of these are important elements to ensure continuous focus on and improvement of internal controls.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

Robust HSE performance is fundamental to all of Prosafe's operations and is therefore reflected in its core values. As a consequence, Prosafe works proactively and systematically to reduce injuries and sickness absence.

In 2017, Prosafe recorded two incidents classified as a Lost Time Injury (LTI), i.e. those injuries resulting in an employee being absent from the next work shift due to the injury.

The LTI frequency is calculated by multiplying the number of LTIs by 1 million and dividing this by the total number of man-hours worked. In 2017, the LTI frequency was 1.52, as compared to 0.0 in 2016.



Prosafe operates a zero accident mind-set philosophy which means that no accidents or serious incidents are acceptable. Over the past years, it has focused on preventive measures and a number of initiatives have been implemented in order to further strengthen the safety culture. These initiatives will be continuously developed in order to improve safety performance further.

Sick leave decreased from 3.3 percent in 2016 to 2.53 percent in 2017.

Prosafe had no accidental discharges to the natural environment in 2017 and continues to actively reduce emissions by investment in more modern and fuel efficient equipment and continuous improvement in operating procedures.

HUMAN RESOURCES AND DIVERSITY

Prosafe had 430 employees at the end of 2017 (average 517), compared with 608 in the previous year (average 665). Prosafe's global presence was reflected in the fact that its employees came from 25 countries around the world. The overall employee turnover in the group was 5.9 per cent in 2017, compared with 8.8 per cent in 2016.

Prosafe operates an equal opportunity policy including gender equality. Men have, however, traditionally made up a greater proportion of the recruitment base for offshore operations, and this is reflected in Prosafe's gender breakdown. As of 31 December 2017, women accounted for 14.2 per cent of all employees, compared with 11.3 per cent in 2016. Onshore the proportion of women was 43.2 per cent, as opposed to 36.7 per cent in 2016.

Women constituted 16.7 per cent of the managers as at 31 December 2017, compared with 11.6 per cent at the end of 2016.

Prosafe aims to offer the same opportunities to all and there is no discrimination with respect to recruitment, remuneration or promotion, due to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, nationality, religion or belief, sex, and sexual orientation.

CORPORATE GOVERNANCE

Corporate governance in the Company is based on the principles contained in the Norwegian code of practice for corporate governance of 30 October 2014. There are no significant

deviations between the code of practice and the way it has been implemented during 2017. The Company's full corporate governance report is set out on the Company's website at <http://www.prosafe.com/norwegian-code-of-practice/category32.html>.

Significant shareholdings are presented in note 14 to the financial statements and on the Company's website at <http://www.prosafe.com/largest-shareholders/category160.html>

Corporate governance is a key focus for the Company in order to strengthen confidence in Prosafe among shareholders, the capital market and other interested parties, and to help ensure maximum value creation over time in the best interest of shareholders, employees and other stakeholders.

The members of the board of directors at 31 December 2017 and at the date of this report are set out on page 19.

With the exception of Birgit Aagaard-Svendsen and Kristian Johansen, all the remaining members of the board were directors throughout the year. There were no significant changes in the assignment of the responsibilities of the members of the board of directors. The remuneration of the members of the board of directors is disclosed in note 6 to the financial statements.

The Articles of Association of the Company provide for all directors to serve for a period of two years unless the general meeting decides that a director shall serve for a specified period shorter than two years. Currently the directors are appointed for only one year.



At the following general meetings in 2017, the directors set out below were appointed or reappointed (as the case may be) for one year and are due for re-election in 2018:

22 March: General meeting.
Kristian Johansen and Birgit Aagaard-Svendsen

10 May: Annual General meeting
Glen Ole Rødland, Roger Cornish and Nancy Erotocritou

As at 31 December 2017 the directors (including associated parties) who held shares in the Company were Roger Cornish (70 shares) and Birgit Aagaard-Svendsen (3,000 shares).

There have been no changes to the holdings after 31 December 2017, except for Roger Cornish who sold his shareholding on 26 February 2018.

Information on the remuneration of the directors is provided in note 6 to the financial statements. There is no significant change in the assignment of responsibilities of the directors.

GOING CONCERN

The board of directors confirms that the accounts have been prepared under the assumption that the Company is a going concern and that this assumption is realistic at the date of the accounts. This assumption is based on the results for the year and the Prosafe Group's long-term forecasts for the following years. Based on the successful completion of the comprehensive refinancing in 2016, the board of directors concludes that the going concern assumption is justified.

AUDITOR

The auditors of the Company, Messrs KPMG Limited, have expressed their willingness to continue in office. A resolution for authorising the board of directors to fix their remuneration

will be submitted at the forthcoming annual general meeting. Reference to auditors' fee is made in note 6 to the consolidated accounts.

SHAREHOLDERS AND SHARE CAPITAL

According to the shareholder register as at 31 December 2017, the 20 largest shareholders held a total of 73.30 per cent of the issued shares. The number of shareholders was 5,427. North Sea Strategic Investments AS was the largest shareholder with a holding of 19.18 per cent of the issued shares.

As at 31 December 2017, Prosafe had an issued share capital of 80,725,809 ordinary shares at a nominal value of EUR 0.10 each.

Further information on the share capital and changes thereon are shown in note 14 to the consolidated financial statements.

DIVIDENDS

Prosafe's longer term aim is that its shareholders receive a competitive return on their shares through a combination of share price appreciation and a direct return in the form of dividends.

In November 2015, the board decided to temporarily suspend dividend payments. The board believes that this will be beneficial for the Company from a commercial, financial and strategic perspective, and that it will improve the Company's financial robustness and optionality. In addition, as part of the agreed amendments to its credit facilities, Prosafe has agreed that it will not issue any dividends, unless all deferred instalments have been prepaid or cancelled and a 12-month financial forecast has been provided which confirms compliance with the financial covenants.

At 31 December 2017, Prosafe SE had a distributable equity of USD 0.

EVENTS AFTER THE BALANCE SHEET DATE

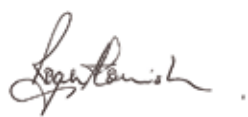
Reference is made to note 24 to the consolidated accounts, and note 17 to the Parent Company's separate accounts for a description of events after the balance sheet date.

Larnaca, 20 March 2018

Board of Directors of Prosafe SE



Glen Ole Rødland
Non-executive Chairman



Roger Cornish
Non-executive Deputy Chairman



Svend Anton Maier
Non-executive Director



Nancy Ch. Erotocritou
Non-executive Director



Birgit Aagaard-Svendsen
Non-executive Director



Kristian Johansen
Non-executive Director



DECLARATION BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS

Responsible for the drafting of the consolidated and separate financial statements (In accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

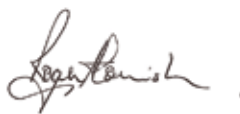
In accordance with sections (3)(c) and (7) of Article 9 of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190(I)/2007, as amended from time to time (the “Law”), we, the members of the Board of Directors, the Chief Financial Officer and the Chief Executive Officer responsible for the drafting of the separate financial statements of Prosafe SE (the “Company”) and the consolidated financial statements of the Company and its subsidiaries (the “Group”), confirm, to the best of our knowledge, that:

- (a) the financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2017, that are presented on pages 22 to 58:
 - (i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of section (4) of Article 9, of the Law; and
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- (b) the Board of Directors’ Report provides a fair review of the developments and performance of the business and the financial position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Board of Directors



Glen Ole Rødland
Non-executive Chairman



Roger Cornish
Non-executive Deputy Chairman



Svend Anton Maier
Non-executive Director



Nancy Ch. Erotocritou
Non-executive Director



Birgit Aagaard-Svendsen
Non-executive Director



Kristian Johansen
Non-executive Director

Chief Executive Officer



Jesper Kragh Andresen
Prosafe Management AS

Chief Financial Officer



Stig Harry Christiansen
Officer Prosafe Management AS

Larnaca, Cyprus
20 March 2018



CONSOLIDATED ACCOUNTS

CONSOLIDATED INCOME STATEMENT

(USD million)	Note	2017	2016
Charter revenues	4	256.0	375.5
Other operating revenues	4, 5	27.0	98.5
Operating revenues		283.0	474.0
Employee benefits	6	(76.9)	(91.6)
Other operating expenses	7	(83.1)	(129.2)
Operating profit before depreciation and impairment		122.9	253.2
Depreciation	8	(127.2)	(115.7)
Impairment	8	(573.9)	(84.7)
Operating (loss) / profit		(578.2)	52.8
Interest income		1.4	0.3
Interest expenses		(74.9)	(88.6)
Other financial income	9	19.8	267.3
Other financial expenses	9	(4.3)	(42.1)
Net financial items	10	(58.0)	136.9
Share of loss of equity accounted investees	13	(3.1)	0.0
(Loss)/profit before taxes		(639.3)	189.7
Taxes	11	(7.8)	(17.1)
Net (loss)/profit		(647.1)	172.6
Attributable to equity holders of the parent		(647.1)	172.6
Earnings per share (USD)	12	(8.98)	8.36
Diluted earnings per share (USD)	12	(7.35)	8.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(USD million)	Note	2017	2016
Net (loss)/profit for the year		(647.1)	172.6
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign currency translation		2.1	1.7)
Net (loss)/gain on cash flow hedges	19	(13.2)	(22.2)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(15.3)	(20.5)
Total comprehensive (loss)/income for the year, net of tax		(631.8)	(152.1)
Attributable to equity holders of the parent		(631.8)	(152.1)

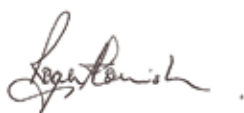
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(USD million)	Note	31/12/2016	31/12/2015
ASSETS			
Goodwill	8	0.0	226.7
Vessels	8	1 527.2	2 029.3
New builds	8, 23	125.2	122.2
Other tangible assets	8	3.6	3.9
Investments in associated companies	13	6.9	10.0
Total non-current assets		1 662.9	2 392.1
Cash and deposits	18, 20	231.9	205.7
Debtors	18, 19	45.5	60.0
Other current assets	18, 21	6.7	29.1
Total current assets		284.1	294.8
Total assets		1 947.0	2 686.9
EQUITY AND LIABILITIES			
Share capital	14	8.9	7.9
Convertible bonds	14	24.0	57.0
Other equity		464.7	1 064.6
Total equity		497.6	1 129.5
Interest-bearing non-current liabilities	15, 18, 19	1 329.1	1 342.9
Deferred tax	11	4.1	6.0
Derivatives	18	39.4	51.3
Other provisions		14.0	4.9
Total non-current liabilities		1 386.6	1 405.1
Interest-bearing current debt	15, 18, 19	18.6	47.9
Accounts payable	18	3.5	16.9
Taxes payable	11	18.2	22.8
Derivatives	18, 19	0.0	7.9
Other current liabilities	16, 18, 19	22.5	56.8
Total current liabilities		62.8	152.3
Total equity and liabilities		1 947.0	2 686.9

On 20 March 2018 the Board of Directors of Prosafe SE approved and authorised these financial statements for issue.



Glen Ole Rødland
Non-executive Chairman



Roger Cornish
Non-executive deputy Chairman



Svend Anton Mayer
Non-executive Director



Nancy Ch. Erotocritou
Non-executive Director



Kristian Johansen
Non-executive Director



Birgit Aagaard Svendsen
Non-executive director

CONSOLIDATED CASH FLOW STATEMENT

(USD million)	Note	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before taxes		(639.3)	189.7
Unrealised currency (gain)/loss on long-term debt		0.0	18.3
Gain on forgiveness of bond debt		0.0	(197.6)
Loss/(gain) on sale of tangible assets		(1.1)	(0.6)
Depreciation and impairment	8	701.1	200.4
Interest income		(1.4)	(0.3)
Interest expenses		74.9	85.6
Share of loss of equity accounted investees		3.1	0.0
Taxes paid		(14.4)	(10.0)
Change in working capital		11.8	(59.4)
Other items from operating activities		21.4	(40.2)
Net cash flow from operating activities		156.1	185.9
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible assets		1.1	0.7
Acquisition of tangible assets	8, 23	(10.1)	(483.9)
Interest received		1.4	0.3
Net cash flow from investing activities		(7.6)	(482.9)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new interest-bearing debt	15, 18, 19	0.0	503.3
Repayments of interest-bearing debt	15, 18, 19	(47.4)	(112.5)
Share issue	14	0.0	140.4
Interest paid		(74.9)	(85.6)
Net cash flow from financing activities		(122.3)	445.6
Net cash flow		26.2	148.6
Cash and deposits at 1 January		205.7	57.1
Cash and deposits at 31 December	20	231.9	205.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(USD million)	Share capital	Con-vertible bonds	Other equity	Cash flow hedges	Foreign currency translation	Total equity
Equity at 31 December 2015	72.1	0.0	651.1	(39.3)	31.4	715.3
Net profit	0.0	0.0	172.6	0.0	0.0	172.6
Other comprehensive income	0.0	0.0	0.0	(22.2)	1.7	(20.5)
Total comprehensive income	0.0	0.0	172.6	(22.2)	1.7	152.1
Capital reduction	14 (71.8)	0.0	71.8	0.0	0.0	0.0
Share and bond issues	14 7.6	57.3	197.2	0.0	0.0	262.1
Conversion of convertible bonds	14 0.0	(0.3)	0.3	0.0	0.0	0.0
Equity at 31 December 2016	7.9	57.0	1 093.0	(61.5)	33.1	1 129.5
Net loss	0.0	0.0	(647.1)	0.0	0.0	(647.1)
Other comprehensive income	0.0	0.0	0.0	13.2	2.1	15.3
Total comprehensive income	0.0	0.0	(647.1)	13.2	2.1	(631.8)
Conversion of convertible bonds	14 1.0	(33.0)	32.0	0.0	0.0	0.0
Equity at 31 December 2017	8.9	24.0	477.9	(48.3)	35.2	497.6

The legal form of the share capital and the share premium accounts are reflected in the statement of changes in equity of the accompanying parent financial statements. Other equity includes share premium reserve, capital reduction reserve and retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: CORPORATE INFORMATION AND PRINCIPAL ACTIVITY

Prosafe SE (the 'Company') is a public limited company domiciled in Larnaca, Cyprus. The registered office of the Company is Stadiou 126, 6020 Larnaca, Cyprus. The Company is listed on the Oslo Stock Exchange with ticker code PRS. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together referred to as the 'Group'). The consolidated financial statements for the year ended 31 December 2017 were approved and authorised for issue in accordance with a resolution of the board of directors on 20 March 2018. The Group is a leading owner and operator of semi-submersible accommodation vessels.

NOTE 2: BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113. The accounts have been prepared on a historical cost basis, except for derivative financial instruments which are stated at fair value. The consolidated financial statements are presented in US dollars (USD), and all values are presented in USD million unless otherwise stated. In adding up rounded figures and calculating percentage rate of changes, slight differences may result compared with totals arrived at by adding up component figures which have not been rounded. The accounting principles adopted are consistent with those of the previous financial year.

JUDGMENTS. The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

ESTIMATES AND ASSUMPTIONS. The estimates and assumptions are assessed on a continuous basis. The estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements relate to depreciation and impairment assessment of non-financial assets. Estimated useful life of the Group's semi-submersible accommodation/service vessels is 30 to 50 years dependent on the age at the time of acquisition and subsequent refurbishments. The management determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the group of cash generating units to which the goodwill is allocated, which requires management to estimate the future cash flow from the cash-generating units and to apply a suitable discount rate. Further details are given in note 8. Impairment of shares in subsidiaries is a significant estimate required for the preparation of the parent company accounts.

NEW AND AMENDED STANDARDS. The accounting policies adopted are consistent with those of the previous financial year. The following standards and interpretations were adopted with effect from 1 January 2017 with no implementation impact on the group's consolidated financial statements:

- Annual Improvement to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Standards issued but not yet effective, which the Group has not early adopted

IASB has issued multiple new standards and interpretations that may impact the Group, which are described below. These standards are not yet effective, and the Group has not early adopted these standards. The effect on the consolidated financial statements is not expected to be significant.

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 Financial instruments: Recognition and Measurement and is effective from 1 January 2018 with earlier adoption allowed. The standard deals with classification, measurement, hedge accounting and impairment of financial instruments. The Group's opening balance 1 January 2018 is not affected by the new standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a joint revenue recognition standard issued from IASB and FASB and is effective from 1 January 2018, with earlier adoption allowed. The standard presents a single, principles-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. The standard replaces existing IFRS requirements in IAS 11 Construction Contracts and IAS 18 Revenue, as well as supplemental IFRIC guidance. The new standard might occasionally result in deferred recognition of mobilisation fees and/or earlier recognition of demobilisation fees. The estimated impact of adoption of IFRS 15 would be as follows.

	As reported 31.12.2017	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance 01.01.2018
Other equity	464.7	(31.8)	432.9

The adjustment of USD 31.8 million relates to the mobilisation/demobilisation/re-phasing fees as per the current contracts for Safe Scandinavia, Safe Notos and Safe Boreas. The effect of this adjustment on the income statement for 2018 is an increase of operating revenues (and operating profit) of USD 24.6 million. The remaining USD 7.2 million will be recognised from 2019 and onwards.

IFRS 16 Leases.

IFRS 16 was issued by IASB in January 2016. The standard principally requires lessees to recognise assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position, and is effective from 1 January 2019. Going forward, lessees will therefore no longer be required to make the distinction between finance and operating leases that was required in the past in accordance with IAS 17.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION. The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

BUSINESS COMBINATIONS AND GOODWILL. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

FOREIGN CURRENCY TRANSLATION. The presentation currency is USD. This is also the functional currency for the parent company. Transactions in other currencies than the functional currency are translated at the exchange rate prevailing at the transaction date. Monetary items in other currencies than the functional currency are translated to the functional currency at the exchange rate on the reporting date, and the currency difference is recognised in the profit and loss account. Non-monetary items in other currencies than the functional currency are translated at the exchange rate at the transaction date. When consolidating companies with a functional currency other than the USD, profit and loss items are translated at the monthly average exchange rate, while balance sheet items are translated at the exchange rate on the reporting date. Translation differences are recognised in other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income, relating to that particular operation, is recognised in the income statement.

SEGMENT REPORTING. For management and monitoring purposes, the Group is organised into one segment; chartering and operation of accommodation/service vessels. For geographical information, reference is made to note 4.

REVENUE RECOGNITION. The Group's vessels may operate on time charters or bareboat charters. Revenue is recognised to the extent that it is probable that the economic benefits will flow to Prosafe and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Charter income is recognised on a straight line basis over the period the vessel has operated. Mobilisation and demobilisation fees are recognised in the period in which the mobilisation or demobilisation takes place. Prosafe does not transfer the risks or benefits of ownership of the asset to the customers and none of the contracts are accounted for as a lease. Management, crew services and other related income are recognised in the period the services are rendered. Interest income is recognised on an accrual basis. Interest income is included in financial items in the income statement. Dividends are recognised when Prosafe's right to receive the payment is established. Proceeds from customers for catering and other services that are provided by sub-contractors of Prosafe is recognised as reimbursement revenue. These services are recognised in the period when the services are rendered.

PROVISIONS are recognised when, and only when, the Group has a present obligation as a result of events that have taken place, and it can be proven probable that a financial settlement will take place as a result of this liability, and that the size of the amount can be measured reliably. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. When Prosafe expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

TANGIBLE ASSETS are recognised at cost less cumulative depreciation and accumulated impairment losses, if any. Assets are depreciated on a straight-line basis over their estimated economically useful lives, with account taken of their estimated residual value. Management makes annual assessments of residual value, methods of depreciation and the remaining economic life of the assets. Components of an asset which have an estimated shorter life than the main component of the asset are accordingly depreciated over this shorter period. Acquisition cost includes costs directly attributable to the acquisition of the assets. Subsequent expenditures are added to the book value of the asset or accounted for on a separate basis, when it is likely that future benefits would derive from the expenditures. The vessels are subject to a periodic survey every five years, and associated costs are amortised over the five-year period to the next survey. Other repair and maintenance costs are expensed in the period they are incurred.

Expenditures for new builds are capitalised, including instalments paid to the yard, project management costs, and costs relating to the initial preparation, mobilisation and commissioning until the vessel is placed into service. In accordance with IAS 23, borrowing costs are capitalised on qualifying assets.

Tangible fixed assets are depreciated on a straight line basis over their useful lifetime as follows:

- Semi-submersible vessels – 5 to 50 years dependent on the age at the time of the acquisition and subsequent refurbishments
- Buildings – 20 to 30 years
- Equipment – 3 to 5 years

IMPAIRMENT OF NON-FINANCIAL ASSETS. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples.

The Group bases its impairment calculation on a detailed forecast calculation which is prepared for the Group's cash generating units. The forecast calculation is generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

For non-financial assets except goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, Prosafe estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

IMPAIRMENT OF GOODWILL. Goodwill is tested for impairment annually, and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating units to which the goodwill relates. When the recoverable amount is lower than the carrying amount, the impairment loss is recognised in the income statement. Impairment losses related to goodwill cannot be reversed in future periods.

FINANCIAL ASSETS

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Prosafe determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus directly attributable costs, with the exception of assets measured at fair value through profit and loss. Prosafe's financial assets include cash and short-term deposits, trade and other receivables and financial derivatives.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near future. This category also includes derivative instruments entered into that do not meet the hedge accounting criteria as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains and losses recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

FINANCIAL LIABILITIES

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, financial liabilities measured at amortised cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Prosafe determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and, in case of loans and borrowings, net of directly attributable costs. Prosafe's financial liabilities include non-derivative financial instruments (trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts) and derivative financial instruments.

Non-derivative financial instruments

Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. This category also includes derivative instruments entered into that do not meet the hedge accounting criteria as defined by IAS 39. Gains and losses on liabilities held for trading are recognised in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

FAIR VALUE OF FINANCIAL INSTRUMENTS.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

EMPLOYEE BENEFITS. Companies within the Group make contributions to pension schemes that are defined contribution plans. The companies' payments are recognised in the income statement for the year to which the contribution applies.

BORROWING COSTS. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Other borrowing costs are capitalised as calculated using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS. Prosafe uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks respectively. Such instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are recognised in the income statement. The fair value of forward currency contracts is the discounted difference between the forward exchange rate and the contract price. The fair value of interest rate swap contracts is determined by reference to market price for similar instruments.

At the inception of a hedge relationship, Prosafe formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Prosafe applied hedge accounting for the interest rate swaps until 30 June 2016 when this practice ceased. Hedges which met the strict criteria for hedge accounting were accounted for as follows:

Cash flow hedges

The effective portion of the gain and loss on the hedging instrument was recognised directly in other comprehensive income, while any ineffective portion was recognised immediately in the income statement. Amounts recognised as other comprehensive income were transferred to the income statement when the hedged transaction affected profit and loss, such as when the hedged financial income or financial expense was recognised.

Current versus non-current classification

Derivative instruments that were not a designated and effective hedging instrument were classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances.

When Prosafe held a derivative as an economic hedge for a period beyond 12 months after the balance sheet date or a derivative instrument was designated as an effective hedging instrument, the fair value of the derivative instrument was classified as current or non-current consistent with the classification of the underlying item. Economic hedges were not treated as hedging for accounting purposes.

INCOME TAXES in the income statement include taxes payable and changes in deferred tax. Deferred tax is calculated on the basis of temporary differences between book and tax values that exist at the end of the period. Deferred tax asset is recognised in the statement of financial position when it is probable that the tax benefit can be utilised. Deferred tax and deferred tax asset are measured at nominal value.

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. Deferred tax liabilities are measured at the tax rates that are expected to apply in the year when the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is provided using the liability method. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

CASH AND DEPOSITS comprise cash at banks and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

DIVIDEND distribution to the shareholders is recognised in the financial statements on the date on which the shareholders' right to receive payment is established.

SHAREHOLDER'S EQUITY. Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity. Zero coupon contracts that will be settled by the Company by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash are equity instruments and recognised in equity.

ASSOCIATED COMPANIES. The equity method is applied for investments in associated companies. Investments are initially recognised at cost, and subsequently adjusted for profit or loss, changes arising from the proportionate interest in the associated company and other comprehensive income and dividends received.

NOTE 4: SEGMENT REPORTING

Prosafe has one segment, which is chartering and operation of accommodation/service vessels.

Operating revenues by geographical location	2017	2016
Europe excl. Cyprus	224.8	389.2
Cyprus	0.0	0.0
Americas	58.2	84.8
Total operating revenues	283.0	474.0

The revenue allocation is based on place of operation of the vessel.

Operating revenues from major customers situated in:	2017		2016	
	1)	2)	1)	2)
Europe1	143.2	51 %	125.3	26 %
Europe2	14.3	5 %	71.2	15 %
Americas1	57.2	20 %	68.5	14 %
Europe3	10.2	4 %	68.2	14 %
Europe4	0.0	0 %	56.7	12 %
Europe5	44.5	16 %	30.0	6 %

1) Operating revenues in USD million

2) Percentage of total revenues

Total assets by geographical location	2017	2016
Europe excl. Cyprus	1 386.3	1 966.1
Cyprus	20.7	85.6
Americas	395.6	470.3
Australia/Asia	144.4	164.9
Total assets	1 947.0	2 686.9

NOTE 5: OTHER OPERATING REVENUES

	2017	2016
Mobilisation/demobilisation income	3.9	34.0
Gain on sale of non-current assets	1.1	0.6
Reimbursement revenues	22.0	63.0
Total other operating revenues	27.0	98.5

NOTE 6: EMPLOYEE BENEFITS, MANAGEMENT REMUNERATION AND AUDIT FEE

	2017	2016
Wages and salaries	48.4	58.0
Contract personnel	11.5	13.8
Other personnel-related expenses	6.3	9.1
Social security taxes	5.5	4.9
Pension expenses	3.4	3.8
Other remuneration	1.8	2.0
Total employee benefits	76.9	91.6

Number of employees

The average number of employees in the Group for 2017 was 517 (2016: 665). The average number of employees by legal entity was as follows.

	2017	2016
Prosafe Offshore Employment Company Pte Ltd	370	478
Prosafe Offshore Ltd	61	82
Prosafe Services Maritimos Ltda	52	60
Prosafe AS	13	16
Prosafe Offshore Services Pte Ltd	0	19
Prosafe Rigs Pte Ltd	11	0
Prosafe SE	5	5
Prosafe Management AS	3	2
Prosafe Offshore Accommodation Ltd	2	3

Bonus scheme

The CEO and the deputy CEO and CFO hold bonus agreements. The bonus depends on achieving defined results relating to earnings, onshore costs and HSE. The net proceeds from bonus payments shall be used to buy shares in the Company.

Severance pay

Certain senior officers have agreements on severance pay. Under these agreements, the Company guarantees a remuneration corresponding to the base salary received at the time of departure for a period of up to 12 months after the normal six-month period of notice.

In accordance with the code of practice for corporate governance recommended by the Oslo Stock Exchange, remuneration for the corporate management and the board of directors is specified below.

Senior officers (USD 1 000)	Year	Salary	Bonus	Pen- sion	Other benefits
Jesper Kragh Andresen (CEO from March 2017)	2017	333	121	42	19
Stig Harry Christiansen (Deputy CEO and CFO)	2017	404	0	50	23

On 8 February 2017 Jesper Kragh Andresen was appointed CEO and Stig Harry Christiansen was appointed deputy CEO and CFO.

Senior officers (USD 1 000)	Year	Salary	Bonus	Pen- sion	Other benefits
Stig Harry Christiansen (Acting CEO from April 2016)	2016	312	237	41	25
Karl Ronny Klungvedt (CEO until April 2016)	2016	218	0	22	1337
Robin Laird (Acting CFO)	2016	485	0	78	184

Other benefits to Mr Klungvedt in 2016 include severance pay and accrued early retirement pension.

Board of directors (USD 1 000)	Year	Board fees ¹⁾
Glen Ole Rødland (chair)	2017	137
Roger Cornish	2017	112
Nancy Ch. Erotocritou	2017	90
Svend Anton Maier	2017	87
Birgit Aagaard-Svendsen (from May 2017)	2017	78
Kristian Johansen (from May 2017)	2017	63
Carine Smith Ihenacho (until May 2017)	2017	16
Anastasis Ziziros (until May 2017)	2017	19
Total fees		603

Board of directors (USD 1 000)	Year	Board fees ¹⁾
Glen Ole Rødland (chair from May 2016)	2016	103
Roger Cornish	2016	101
Nancy Ch. Erotocritou	2016	83
Svend Anton Maier (from December 2016)	2016	8
Harald Espedal (chair until May 2016)	2016	58
Christian Brinch (until May 2016)	2016	46
Carine Smith Ihenacho	2016	77
Anastasis Ziziros	2016	92
Total fees		568

¹⁾ If applicable, figures include compensation from audit committee and compensation committee.

Auditors' fees

(USD 1 000)

	2017	2016
Audit	394	352
Fees for non-audit services	10	79
Total auditors' fees	404	431

Auditors' fees is included in general and administrative expenses (note 7). Other services include USD5K in respect of tax compliance services (2016: USD32K in respect of tax compliance, corporate finance and transaction related assurance services) offered to the group companies by the statutory auditor

NOTE 7: OTHER OPERATING EXPENSES

	2017	2016
Repair and maintenance	15.4	12.8
Other vessel operating expenses	52.2	82.8
General and administrative expenses	15.5	33.6
Total other operating expenses	83.1	129.2

NOTE 8: TANGIBLE ASSETS AND GOODWILL

	Vessels	New builds	Equipment	Buildings	Goodwill	Total
Acquisition cost	2 461.1	228.5	6.1	7.9	226.7	2 930.2
31 December 2015						
Additions	650.0	(106.3)	0.0	0.0	0.0	543.7
Disposals	(5.6)	0.0	0.0	0.0	0.0	(5.6)
Acquisition cost	3 105.5	122.2	6.1	7.9	226.7	3 468.3
31 December 2016						
Additions	6.4	3.0	0.7	0.0	0.0	10.1
Disposals	(120.5)	0.0	(1.7)	0.0	0.0	(122.2)
Acquisition cost	2 991.4	125.2	5.1	7.9	226.7	3 356.2
31 December 2017						
Accumulated depreciation	882.5	0.0	4.0	5.0	0.0	891.5
31 December 2015						
Accumulated depreciation on disposals	(5.7)	0.0	0.0	0.0	0.0	(5.6)
Depreciation for the year	114.7	0.0	0.5	0.5	0.0	115.7
Impairment	84.7	0.0	0.0	0.0	0.0	84.7
Accumulated depreciation	1 076.2	0.0	4.6	5.5	0.0	1 086.3
31 December 2016						
Accumulated depreciation on disposals	(85.5)	0.0	(1.7)	0.0	0.0	(87.1)
Depreciation for the year	126.4	0.0	0.4	0.4	0.0	127.2
Impairment	347.2	0.0	0.0	0.0	226.7	573.9
Accumulated depreciation	1 464.2	0.0	3.4	5.9	226.7	1 700.2
31 December 2017						
Net carrying amount	1 527.2	125.2	1.7	2.0	0.0	1 656.0
31 December 2017						
Net carrying amount 31	2 029.3	122.2	1.5	2.4	226.7	2 382.1
December 2016						
Depreciation rate (%)	2-20	-	20-33	3-5	-	-
Economically useful life (years)	5-50	-	3-5	20-30	-	-

New builds include prepayment to the yard cost, owner-furnished equipment and other project costs incurred.

Borrowing costs are capitalised as part of the asset in accordance with IAS 23. As at 31 December 2017, capitalised borrowing costs amount to USD 21.9 million (31 December 2016: USD 29.0 million). The amount of borrowing costs capitalised in the period equalled USD 1.1 million (USD 1.6 million) and the

capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 3.6% (3.1%).

Special periodic survey (SPS) costs are capitalised and amortised over the five-year period until the next SPS takes place. As at 31 December 2017, capitalised SPS costs amount to USD 21.6 million (31 December 2016: USD 25.5 million). Capitalised SPS costs are included in 'Vessels' presented above.

Estimated useful life for the semi-submersible accommodation vessels is 30-50 years. Certain equipment on a vessel is depreciated over a shorter period than the life of the vessel itself. The estimated scrap value per vessel is between USD 3 million and USD 6 million. This estimate is based on steel prices and costs associated with scrapping and is reviewed on an annual basis.

Management performed an annual impairment assessment of the fixed assets in accordance with IFRS. Management looked at each individual vessel as a cash generating unit, and concluded that several of the vessels are impaired due to a continued weak market outlook. On this basis, the following impairment charges have been made in the accounts for 2017.

(USD million)	Impairment	Recoverable amount
Safe Scandinavia	117.9	274.9
Regalia	116.9	75.7
Safe Concordia	57.0	103.2
Safe Bristolia	28.2	42.9
Safe Caledonia	27.2	109.4
Total vessels	347.2	606.1
Impairment goodwill	226.7	
Total impairment	573.9	

The goodwill of USD 226.7 million related to the acquisition of Consafe Offshore AB in 2006. Prosafe has only one reporting segment comprising of all accommodation/service vessels to which the goodwill was allocated. Due to a continuing weak market outlook, the slower than expected pick up in activity, the anticipated continued market volatility, the supply side growth in recent years as well as the fact that all the rigs that were in place when the goodwill was created are now either fully or materially impaired and/or scrapped, management can no longer reasonably justify the carrying amount of any goodwill. Consequently, goodwill has been fully impaired.

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

Revenues

- Current contracts portfolio and contract renewals reflecting current market conditions, remaining life of asset, and historical utilisation rates
- Annual increase of operating revenues 3% (general sector inflation assumption)
- No mobilisation or demobilisation fees have been included

Expenses

- Operating expenses and overheads reflecting current market conditions and historical utilisation rates
- Annual increase of operating expenses and overheads 3% (general sector inflation assumption)

Capital expenditures

- Capex reflecting long-term capex projections (excluding value enhancing investments)
- Annual increase of capital expenditures 3% (general sector inflation assumption)

Pre-tax discount rate 8%.

-

Sensitivity:

- a 1% increase in the pre-tax discount rate would have lead to an additional impairment of USD 50 million
- a 2% increase in the pre-tax discount rate would have lead to an additional impairment of USD 140 million
- a 2% decrease in the utilisation rate would have lead to an additional impairment of USD 23 million
- a 2% decrease in the average day rate would have lead to an additional impairment of USD 23 million

NOTE 9: OTHER FINANCIAL ITEMS

	2017	2016
Gain on forgiveness of bond debt	0.0	197.6
Fair value adjustment currency forwards	7.9	32.8
Fair value adjustment interest rate swaps	11.9	36.9
Total other financial income	19.8	267.3
Currency loss	(2.4)	(40.4)
Other financial expenses	(1.9)	(1.7)
Total other financial expenses	(4.3)	(42.1)

NOTE 10: FINANCIAL ITEMS - IAS 39 CATEGORIES

Year ended 31 Dec 2017	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	1.4	0.0	0.0	1.4
Fair value adjustment currency forwards	0.0	7.9	0.0	7.9
Fair value adjustment interest rate swaps	0.0	11.9	0.0	11.9
Total financial income	1.4	19.8	0.0	21.2
Amortisation of borrowing costs	0.0	0.0	(3.0)	(3.0)
Amortisation relating to abandonment of hedge accounting	0.0	0.0	(13.2)	(13.2)
Other interest expenses	0.0	0.0	(58.7)	(58.7)
Other financial expenses	0.0	0.0	(4.3)	(4.3)
Total financial expenses	0.0	0.0	(79.2)	(79.2)
Net financial items	1.4	19.8	(79.2)	(58.0)

Year ended 31 Dec 2016	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	0.3	0.0	0.0	0.3
Fair value adjustment currency forwards	0.0	32.8	0.0	32.8
Fair value adjustment interest rate swaps	0.0	36.9	0.0	36.9
Gain on forgiveness of bond debt	0.0	0.0	197.6	197.6
Total financial income	0.3	69.7	197.6	267.6
Amortisation of borrowing costs	0.0	0.0	(3.0)	(3.0)
Amortisation relating to abandonment of hedge accounting	0.0	0.0	(18.0)	(18.0)
Other interest expenses	0.0	0.0	(67.6)	(67.6)
Other financial expenses	0.0	0.0	(42.1)	(42.1)
Total financial expenses	0.0	0.0	(130.7)	(130.7)
Net financial items	0.3	69.7	66.9	136.9

NOTE 11: TAXES

	2017	2016
Taxes in income statement:		
Taxes payable	9.8	19.1
Change in deferred tax	(2.0)	(2.0)
Total taxes in income statement	7.8	17.1
Temporary differences:		
Exit from Norwegian tonnage tax system	22.5	26.8
Long-term liabilities	(3.9)	(1.7)
Non-current assets	(1.0)	(1.2)
Current liabilities	0.1	0.1
Basis for deferred tax	17.7	24.0
Recognised deferred tax	4.1	6.0
Deferred tax 1 January	6.0	7.8
Change in deferred tax in income statement	(2.0)	(2.0)
Translation difference	0.1	0.2
Deferred tax 31 December	4.1	6.0
Payable tax as at 31 December	18.2	22.8

The cumulated tax loss carried forward in Cyprus as at 31 December 2017 and 2016 amounted to USD 181 million and USD 128 million respectively. The tax rate in Cyprus is 12.5%. No deferred tax asset is recognised in respect of this tax loss carried forward as utilisation of this deferred tax asset is deemed not probable. The tax loss for each year may be carried forward for five years.

The majority of the Group's vessels are subject to taxation based on the rules for taxation of shipping and offshore companies in Singapore.

The deferred tax liability related to the enforced departure of the vessel business from the Norwegian tonnage tax system effective 1 January 2006, was initially calculated to NOK 780 million equivalent to USD 115 million applying the exchange rate prevailing on this date. This liability is paid at a rate of 20 per cent annually on the outstanding balance. The tax rate in Norway was 24% in 2016, but effective 1 January 2018 the tax rate is 23%.

NOTE 12: EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing net profit by the weighted average number of ordinary shares plus the number of potential shares relating to the convertible bonds.

	2017	2016
Net (loss)/profit	(647.1)	172.6
Weighted average number of outstanding shares (1 000)	72 052	20 643
Basic earnings per share	(8.98)	8.36
Weighted average number of outstanding and potential shares (1 000)	87 987	21 319
Diluted earnings per share	(7.35)	8.10

NOTE 13: ASSOCIATED COMPANIES

This item relates to the 25% shareholding in Safe Swift Pte Ltd, a company incorporated in Singapore, which was acquired in December 2016. The company owns one accommodation monohull. This investment is measured using the equity method.

	2017	2016
Ownership	25 %	25 %
Non-current assets	96.1	126.3
Current assets	4.7	10.4
Non-current liabilities	56.4	56.4
Current liabilities	1.8	0.4
Net assets (100%)	42.6	79.9
Group's share of net assets (25%)	10.7	20.0
Valuation adjustment non-current assets at acquisition	(3.8)	(10.0)
Carrying amount of interest in associate	6.9	10.0
Operating revenue (100%)	0.6	26.0
Net loss (100%)	(37.2)	(43.9)
Group's share of net loss (25% from 1 January 2017)	(9.3)	0.0
Valuation adjustment non-current assets at acquisition	6.2	0.0
Group's share of net loss in income statement	(3.1)	0.0

NOTE 14: SHARE CAPITAL, SHAREHOLDER INFORMATION AND CONVERTIBLE BONDS

	2017	2016
Issued and paid up number of ordinary shares at 31 December	80 725 809	71 399 002
Authorised number of shares at 31 December	130 440 177	130 440 177
Nominal value at 31 December	EUR 0.10	EUR 0.10
Number of shareholders at 31 December	5 427	6 227

In August 2016 the share capital of the Company was reduced by cancelling paid up nominal capital (in lieu and without cancelling any shares per se) amounting to EUR 64,633,019 (equivalent to USD 71,846,225), being EUR 0.249 per share on each of the 259,570,359 ordinary fully paid up shares, reducing the nominal value of all such ordinary share from EUR 0.25 each to EUR 0.001 each with the corresponding effect on authorised share capital; the entire amount of EUR 64,633,019 corresponding to the amount cancelled was credited to the capital reduction reserve fund.

In September 2016 4,376,600,000 shares were issued in a private placement, 1,400,839,757 were issued to the bond holders and 12,000,000 shares were issued to convertible bond holders.

In November 2016 504,000,000 shares were issued in a subsequent share offering. A 100:1 reverse share split was completed on 30 November 2016. Prior to the reverse split, the share capital consisted of 6,553,010,116 shares at face value of EUR 0.001 each. Subsequent to the reverse split, the share capital consisted of 65,530,102 shares at face value of EUR 0.10 each.

In December 2016 5,868,900 shares were issued as a part of the consideration relating to the acquisition of Axis Nova Singapore Pte Ltd and Axis Vega Singapore Pte Ltd. During 2017 a total of 9,326,807 shares of EUR 0.10 each were issued in connection with conversion of convertible bonds.

Largest shareholders/groups of shareholders at 31.12.2017	No of shares	Percentage
North Sea Strategic Investments AS	15 479 410	19.2 %
State Street Bank and Trust (nom.)	12 602 690	15.6 %
HV VI Invest Sierra	8 657 609	10.7 %
Nordea Bank AB (nom.)	6 764 759	8.4 %
WF Wells Fargo/Non Repatriate	2 806 111	3.5 %
Pareto Aksje Norge	2 526 178	3.1 %
RBC Investor Services Trust (nom.)	1 714 933	2.1 %
Nordnet Bank AB (nom.)	1 581 008	2.0 %
Forsvarets Personellservice	896 088	1.1 %
Fondsfinans Norge	750 000	0.9 %
Verdipapirfondet DNB High Yield	669 689	0.8 %
Helmer AS	600 000	0.7 %
MP Pensjon PK	585 625	0.7 %
Danske Bank A/S (nom.)	555 915	0.7 %

Pictet & Cie (nom.)	553 000	0.7 %
Per Jacob Mørck	500 000	0.6 %
The Bank of New York (nom.)	498 896	0.6 %
BR Industrier AS	496 460	0.6 %
JP Morgan Chase Bank (nom.)	472 510	0.6 %
Verdipapirfondet DNB Norden (III)	462 650	0.6 %
Total 20 largest shareholders/groups of shareholders	59 173 531	73.3 %

All ordinary shares rank equally. Holders of these shares are entitled to dividends from time to time and are entitled to one vote per share at general meetings of the Company.

Convertible bonds

As part of the refinancing completed in September 2016, zero coupon convertible bonds amounting to NOK 81,790,013 were issued. These bonds can be converted into Prosafe shares at a price of NOK 25 per share. In February 2017, 8,007 of these bonds were converted to shares. As of 31 December 2017 the remaining outstanding principal of this convertible bond loan was NOK 78,589,829 (31 December 2016: NOK 78,790,013).

In December 2016, as part consideration of the shares in Axis Vega Singapore Ltd, Axis Nova Singapore Ltd and Dan Swift Singapore Pte Ltd, zero coupon convertible bonds of nominal value NOK 403,092,000 were issued. These bonds can be converted into Prosafe shares at a price of NOK 30 per share. In November 2017, 4,537,900 of these bonds were converted to shares and in December 2017, another 4,780,900 bonds were converted. As of 31 December 2017 the remaining outstanding principal of these convertible bonds loan was NOK 123,528,000 (31 December 2016: NOK 403,092,000).

NOTE 15: INTEREST-BEARING DEBT

	2017	2016
Credit facilities	1 337.1	1 350.0
Sellers' credits	22.8	56.0
Unamortised borrowing costs	(12.2)	(15.2)
Total interest-bearing debt	1 347.7	1 390.8
Non-current interest-bearing debt	1 329.1	1 342.9
Current interest-bearing debt	18.6	47.9
Total interest-bearing debt	1 347.7	1 390.8

USD 1,300 million credit facility

The credit facility of USD 1,300 million consists of two term loan tranches of USD 800 million and USD 200 million (drawn on delivery of Safe Zephyrus in January 2016) and a revolving credit facility of USD 300 million. In September 2016 the amortisation profile and covenants relating to this facility were amended. Prior to the amendment, the term loan tranches were reduced semi-annually by USD 55 and USD 10 million, respectively. 90 per cent of the originally scheduled repayments in the period 1 January 2017 until 30 June 2019 have been postponed and are to be repaid on the final maturity date.

For the period 1 July 2019 until 31 December 2020, 70 per cent of the scheduled repayments have been postponed until the final maturity date. As of 31 December 2017, there was no amount available under the revolving credit facility.

USD 288 million credit facility

This credit facility, which has a maturity of seven years, consists of two tranches of USD 144 million (USD 288 million in total). The first one was drawn upon delivery of Safe Notos in February 2016, and the second one can be drawn upon delivery of Safe Eurus.

In September 2016 the amortisation profile and covenants relating to this facility were amended. Prior to the amendment, the term loan tranches were reduced quarterly by USD 3 million, starting three months after delivery of the tranche security. 90 per cent of the originally scheduled repayments for the Safe Notos tranches in the period 1 January 2017 until 30 June 2019 have been postponed and are to be repaid on the final maturity date. For the period 1 July 2019 until 31 December 2020, 70 per cent of the scheduled repayments for the Safe Notos tranches have been postponed until the final maturity date.

As part of the amendment in 2016, a cash sweep mechanism was included whereby the Company on 30 April annually (first time in 2018) shall make cash sweep payments to the banks based on excess cash available. Any cash sweep payment shall only be made if the firm contract backlog represents no less than USD 350 million of revenue for the next 12 months.

Financial covenants as per amendment in September 2016:

Dividend restrictions:	No dividends until repayments have been made equal to the deferred instalments.
Minimum liquidity:	USD 65 million
Interest coverage ratio: ¹⁾	Minimum 1.0 until 31.12.19, thereafter minimum 1.5.
Leverage ratio: ²⁾	Suspended until 31.12.20, thereafter to be negotiated.
Market value vessels:	Suspended until 31.12.18, thereafter minimum 110% of total outstanding loans based on two consecutive market value test dates (31 March each year). For the USD 288 million facility only, there is a step up in the minimum market value covenants in March 2021 to 125%.

There is also a maximum capital expenditure covenant which is agreed before the start of each financial year.

¹⁾ Interest coverage ratio = adjusted EBITDA/net interest expenses

²⁾ Leverage ratio = net borrowings/adjusted EBITDA

Interest on bank facilities

Interest is USD LIBOR plus margin. Margin on outstanding amounts are as follows.

Applicable leverage ratio	USD 1 300 million facility			USD 288 million facility		
	Until 30.06.2019	From 01.07.2019		Until 30.06.2019	From 01.07.2019	
	Cash margin	PIK margin	Cash margin	Cash margin	PIK margin	Cash margin
Less than or equal to 3.0:1	2.00 %	-	2.00 %	2.15 %	0.10 %	2.25 %
Above 3.0:1 and less than 4.0:1	2.15 %	-	2.15 %	2.15 %	0.10 %	2.25 %
Above 4.0:1 and less than 5.0:1	2.15 %	0.15 %	2.30 %	2.15 %	0.15 %	2.30 %
Above 5.0:1 and less than 5.5:1	2.15 %	0.35 %	2.50 %	2.15 %	0.35 %	2.50 %
Above 5.5:1	2.15 %	0.60 %	2.75 %	2.15 %	0.60 %	2.75 %

Payment in kind (PIK) will be added to the final balloon payment.

Financial covenants as of 31 December 2017

Cash and deposits	231.9
Restricted cash	(5.3)
Amount available for utilisation, revolving credit facility (max USD 25 million)	0.0
Liquidity (minimum USD 65 million)	226.6
EBITDA	122.9
Net interest expenses excluding PIK interests	72.2
Interest coverage ratio (minimum 1.0)	1.7

Sellers' credits

In November 2015, Jurong Shipyard Pte Ltd. granted Prosafe a sellers' credit of USD 30 million as a reduction on the final delivery instalment of the Safe Zephyrus. The sellers' credit was repaid in 2017. The annual interest rate was 6.7%.

In January 2016, Cosco (Qidong) Offshore Co. Ltd. granted a sellers' credit of around USD 29 million as a reduction on the final delivery instalment of the Safe Notos. In August 2016, further amendment was made to the existing payment schedule. It was agreed that the first instalment of USD 2.3 million was to be paid in October 2016 and thereafter USD 0.3 million monthly until December 2019, except August 2018 instalment of USD 0.7 million. The remaining balance of the sellers' credit amount together with the annual interest of 5.9% is due to be repaid in a single payment on or before December 2019.

NOTE 16: OTHER CURRENT LIABILITIES

	2017	2016
Various accrued costs	12.6	42.0
Accrued interest costs	6.9	4.2
Deferred income	3.0	4.3
Other interest-free current liabilities	0.0	6.3
Total interest-free current liabilities	22.5	56.8

NOTE 17: MORTGAGES AND GUARANTEES

2017

As of 31 December 2017, Prosafe's interest-bearing debt secured by mortgages totalled USD 1,337.1 million. The debt was secured by mortgages on the accommodation/service vessels Safe Astoria, Safe Bristolia, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 1,527.2 million). Negative pledge clauses apply on shares in the vessel owning subsidiaries. Earnings accounts are pledged as security for the credit facilities, but cash will only be restricted if a continuing event of default occurs.

A bank guarantee has been issued on behalf of Prosafe Rigs Pte. Ltd. in favour of Westcon Yards AS, amounting to NOK 245 million at 31 December 2017. This bank guarantee is secured by a cash deposit of USD 5 million and a counter bank guarantee of USD 30 million issued under the USD 1.3 billion facility.

As at 31 December 2017, Prosafe had issued parent company guarantees to clients and vendors on behalf of its subsidiaries in connection with the award and performance of contracts totalling approximately USD 318 million and a parent company guarantee and indemnity relating to the bank guarantee referred to above. The amounts specified with regard to parent company guarantees reflect the sum of the capped liability under the relevant agreements.

2016

As of 31 December 2016, Prosafe's interest-bearing debt secured by mortgages totalled USD 1,350 million. The debt was secured by mortgages on the accommodation/service vessels Safe Astoria, Safe Bristolia, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 2,029 million). Negative pledge clauses apply on shares in the vessel owning subsidiaries. Earnings accounts are pledged as security for the credit facilities, but cash will only be restricted if a continuing event of default occurs.

A bank guarantee has been issued on behalf of Prosafe Rigs Pte. Ltd. in favour of Westcon Yards AS, amounting to NOK 245 million at 31 December 2016. This bank guarantee is secured by a cash deposit of USD 5 million and a counter bank guarantee of USD 30 million issued under the USD 1.3 billion facility.

As at 31 December 2016, Prosafe had issued parent company guarantees to clients and vendors on behalf of its subsidiaries in connection with the award and performance of contracts totalling approximately USD 345 million and a parent company guarantee and indemnity relating to the bank

guarantee referred to above. The amounts specified with regard to parent company guarantees reflect the sum of the capped liability under the relevant agreements.

NOTE 18: FINANCIAL ASSETS AND LIABILITIES

As of 31 December 2017, the group had financial assets and liabilities in the following categories:

Year ended 31 Dec 2017	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Book value	Fair value
Cash and deposits	231.9	0.0	0.0	231.9	231.9
Accounts receivable	45.5	0.0	0.0	45.5	45.5
Other current assets	6.7	0.0	0.0	6.7	6.7
Total financial assets	284.1	0.0	0.0	284.1	284.1
Credit facilities ¹⁾	0.0	0.0	1 337.1	1 337.1	1 297.1
Fair value interest swaps	0.0	39.4	0.0	39.4	39.4
Accounts payable	0.0	0.0	3.5	3.5	3.5
Other current liabilities	0.0	0.0	22.5	22.5	22.5
Total financial liabilities	0.0	39.4	1 363.1	1 402.5	1 362.5

¹⁾ Fair value reflects current market conditions with the assumption that the credit margin would increase from the actual 215 basis points to 300 basis points. The net present value of the interest advantage, discounted with USD 5-year swap rate, is around USD 40 million.

Management assessed the cash and deposits, accounts receivables, other current assets, accounts payable and other current liabilities to approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate and forward rate curves. All derivative contracts are secured under the USD 1,300 million credit facility.

Year ended 31 Dec 2017	Total	Level 1	Level 2	Level 3
Fair value currency forwards	0.0	0.0	0.0	0.0
Fair value interest swaps	(39.4)	0.0	(39.4)	0.0
Total financial assets/liabilities	(39.4)	0.0	(39.4)	0.0

As of 31 December 2016, the group had financial assets and liabilities in the following categories:

Year ended 31 Dec 2016	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying value	Fair value
Cash and deposits	205.7	0.0	0.0	205.7	205.7
Accounts receivable	60.0	0.0	0.0	60.0	60.0
Other current assets	29.1	0.0	0.0	29.1	29.1
Total financial assets	294.8	0.0	0.0	294.8	294.8
Credit facilities	0.0	0.0	1 350.0	1 350.0	1 300.0
Fair value interest swaps	0.0	51.3	0.0	51.3	51.3
Fair value currency forwards	0.0	7.9	0.0	7.9	7.9
Accounts payable	0.0	0.0	16.9	16.9	16.9
Other current liabilities	0.0	0.0	56.8	56.8	56.8
Total financial liabilities	0.0	59.2	1 423.7	1 482.9	1 432.9

Year ended 31 Dec 2016	Total	Level 1	Level 2	Level 3
Fair value currency forwards	(7.9)	0.0	(7.9)	0.0
Fair value interest swaps	(51.3)	0.0	(51.3)	0.0
Total financial assets/liabilities	(59.2)	0.0	(59.2)	0.0

Assets measured at fair value in the balance sheet

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1** - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2** - Inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3** - Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The currency forwards and interest swaps are valued based on current exchange rates and forward curves.

NOTE 19: FINANCIAL RISKS AND DERIVATIVE FINANCIAL INSTRUMENTS

Prosafe operates on a global basis with cash flows and financing in various currencies. This means that the Group is exposed to market risks related to fluctuations in exchange rates and interest rates. Prosafe's presentation currency is USD, and financial risk exposure is managed with financial instruments in accordance with internal policies and standards approved by the board of directors.

Currency risk

Prosafe is exposed to currencies other than USD associated with operating expenditure, capital expenditure, interest-bearing debt, tax, cash and deposits. Cash and deposits are mainly denominated in USD, GBP, EUR and NOK. Cash and deposits in currencies other than USD, are to a certain extent natural hedges for any GBP, EUR and NOK liabilities. The proportion of the total currency exposure hedged by use of financial derivatives will normally lie between 50 and 75 per cent for the next 12-month period, by using forward contracts.

Operating expenditure

Operating expenditure are mainly denominated in GBP and NOK, but depending on the country of operation and the nationality of the crew, operating expenses can also be in SGD, SEK, EUR, USD and BRL. Operating expenditure and maintenance related capital expenditure currencies other than USD is typically currency-hedged using forward contracts with a time horizon of 9-12 months.

Capital expenditure

Capital expenditure will, depending on the origin of equipment and the location of the yard, tend to be in USD, GBP, EUR and NOK. Planned capital expenditure in currencies other than USD is typically currency-hedged independent of time horizon, by using forward contracts.

Interest bearing debt

As of 31 December 2017, interest bearing debt consists of USD denominated liabilities only. The principal amounts of liabilities denominated in other currencies than USD are fully hedged by using multiple forward contracts with different settlement dates with a time horizon of up to 12 months. At maturity, the forwards are rolled for further 12 months until debt maturity.

Tax

Tax liabilities predominantly consist of a NOK denominated deferred tax associated with the exit from the Norwegian tonnage tax system effective 1 January 2006. Payable tax related to the deferred tax liability is also currency hedged.

Forward exchange contracts

Fair value of forward exchange contracts are estimated using quoted market prices. The fair value estimates the gain or loss that would have been realised if the contracts had been closed out at the balance sheet date.

A negative fair market value on currency forwards will be associated with a positive effect on the fair market value of the underlying hedged item. For example, a NOK depreciation will cause a negative fair market value on currency forwards, but a positive effect on the fair market value of future operating expenses, capital expenditure, NOK denominated interest-bearing debt and NOK denominated tax liabilities. A NOK appreciation will have the opposite effects.

As of 31 December 2017 there were no forward exchange contracts outstanding.

Currency risk - sensitivity

The sensitivity analysis is based on a reasonably possible change in the relevant exchange rates and reflects the main effects on profit or loss and equity assuming that the change had occurred at the balance sheet date. A 10% strengthening/weakening of the USD against NOK and GBP will have the following effects. Exposures to foreign currency changes for all other currencies are not material.

Pre-tax effects	2017		2016	
	Income state- ment effect	OCI effect	Income state- ment effect	OCI effect
USD +10%				
Re-valuation cash and deposits	(10.9)	0.0	(2.6)	0.0
Re-valuation currency forwards	0.0	0.0	(8.9)	0.0
Total	(10.9)	0.0	(11.5)	0.0
USD - 10%				
Re-valuation cash and deposits	10.9	0.0	2.8	0.0
Re-valuation currency forwards	0.0	0.0	15.8	0.0
Total	10.9	0.0	18.6	0.0

Interest rate risk

Interest on debt is in principle floating, but has been hedged to reduce the variability of cash flows in the interest payments through the use of interest rate swap agreements. Prosafe evaluates the hedge profile in relation to the repayment schedule of its loans, the company's portfolio of contracts, cash flow and cash in hand. The proportion hedged will normally lie between 75 and 100 per cent for all loans.

Hedge accounting

The objective of the interest rate hedging is to reduce the variability of cash flows in the interest payments for the floating-rate debt (i.e. cash flow hedging). Changes in the cash flows of the interest rate swaps are expected to offset the changes in cash flows (i.e. changes in interest payments) attributable to fluctuations in the benchmark interest rate on the part of the floating-rate debt that is hedged. Effective 1 July 2016, the Company decided, based on a cost-benefit evaluation, to abandon hedge accounting of interest rate swaps. As from this date, any change in fair value of interest rate swaps is taken through the income statement rather than via other comprehensive income. As a result of the abandonment of hedge accounting, an amount of USD 13.2 million (2016: USD 36.9 million) has been expensed in the income statement.

As of 31 December 2017, Prosafe's hedging agreements totalled USD 1,000 million :

Notional amount	Fixed rate	Maturity	Swap type	Fair value
USD 400 million	2,3150 %	2022	Bullet	(17.8)
USD 225 million	2,4440 %	2022	Bullet	(12.8)
USD 135 million	2,3630 %	2022	Bullet	(5.7)
USD 120 million	1,5330 %	2022	Bullet	0.5
USD 120 million	2,1280 %	2022	Bullet	(3.6)
Total				(39.4)

Fair value of interest rate swap agreements are estimated using quoted market prices. The fair value estimates the gain or loss that would have been realised if the contracts had been closed out at the balance sheet date.

Interest rate risk - sensitivity

The sensitivity analysis is based on a reasonably possible change in the relevant forward curves and reflects the main effects on profit or loss and equity assuming that the change had occurred at the balance sheet date. A forward curve shift of ± 100 bps is applied in the analysis.

	2017		2016	
	Income statement effect	OCI effect	Income statement effect	OCI effect
Pre-tax effects				
Forward curve +100bps				
Re-valuation interest rate swaps	36.7	0.0	46.8	0.0
Total	36.7	0.0	46.8	0.0
Forward curve -100bps				
Re-valuation interest rate swaps	(38.3)	0.0	(49.5)	0.0
Total	(38.3)	0.0	(49.5)	0.0

Changes in other comprehensive income related to financial instruments

As of 31 December 2017, the following changes in other comprehensive income were related to financial instruments:

	2017	2016
Re-valuation interest rate swaps	13.2	(22.2)
Total	13.2	(22.2)

Credit risk

In line with industry practice, other contracts normally contain clauses which give the customer an opportunity for early cancellation under specified conditions. Providing Prosafe has not acted negligently, however, the effect on results in such cases will normally be wholly or partly offset by a financial settlement in the company's favour. Following a potential notice of convenience termination, the customer will have to pay Prosafe a substantial part of the remaining contract value.

Credit assessment of financial institutions issuing guarantees in favour of Prosafe, yards, sub-contractors and equipment suppliers is part of Prosafe's project evaluations and risk analyses.

The counterparty risk is in general limited when it comes to Prosafe's clients, since these are typically major oil companies and national oil companies.

As of 31 December 2017, there is no objective evidence that accounts receivable is impaired, and no impairment loss has been recognised in the income statement.

Accounts receivables	Total	Not due	< 30 days	30 - 60 days	61-90 days	> 90 days
31 December 2017	45.5	25.3	20.2	0.0	0.0	0.0
31 December 2016	60.0	35.7	24.3	0.0	0.0	0.0

Liquidity risk

Prosafe is exposed to liquidity risk in a scenario when the Group's cash flow from operations is insufficient to cover payments of financial liabilities. Prosafe manages liquidity and funding on a group level. In order to mitigate the liquidity risk, Prosafe makes active use of a system for planning and forecasting the development of its liquidity, and utilises scenario analyses to secure stable and sound development in order to maintain sufficient cash to cover its financial and operational obligations.

As of 31 December 2017, Prosafe had an unrestricted liquidity reserve totalling USD 226.6 million. Under the existing credit facility agreements, the Group is required to maintain minimum liquidity of USD 65 million (including up to USD 25 million of total commitments available for utilisation).

The continued negative development in the oil and gas industry has increased the risk of reduced charter revenues in the short and mid term. On the other hand, the refinancing which was completed during 2016 and the spend reductions that have taken place have reduced the liquidity risk.

As of 31 December 2017, the Group's main financial liabilities had the following remaining contractual maturities:

Per year	2018	2019	2020	2021	2022 →
Interest-bearing debt (repayments)	18.6	46.8	42.6	256.7	995.2
Interests including interest rate swaps ¹⁾	68.9	73.2	66.9	61.6	7.1
Taxes	18.2	0.8	0.7	0.5	2.1
Accounts payable and other current liabilities	26.0	0.0	0.0	0.0	0.0
Total	131.7	120.8	110.2	318.8	1 004.4

¹⁾ Based on forecasted average debt, average LIBOR per 31 December 2017 and average weighted margin.

As of 31 December 2017, the commitments under the USD 1,300 million credit facility were fully utilised. As of year-end, available amount under the revolving credit facility was USD 0 million. At year-end, 50% of the USD 288 million facility has been drawn (the tranche of USD 144 million relating to Safe Eurus). Reference is made to note 15 for further information.

As of 31 December 2016, the Group's main financial liabilities had the following remaining contractual maturities:

Per year	2017	2018	2019	2020	2021 →
Interest-bearing debt (downpayments)	47.9	18.3	46.5	42.6	1 250.7
Interests including interest rate swaps ¹⁾	66.0	65.0	63.9	62.5	69.5
Taxes	22.8	1.2	1.0	0.8	3.1
Accounts payable and other current liabilities	73.7	0.0	0.0	0.0	0.0
Total	210.4	84.5	111.4	105.9	1 323.3

¹⁾ Based on forecasted average debt, average LIBOR per 31 December 2016 and average weighted margin.

As of 31 December 2016, the commitments under the USD 1,300 million credit facility were fully utilised. As of year-end, available amount under the revolving credit facility was USD 0 million. At year-end, 50% of the USD 288 million facility has been drawn (the tranche of USD 144 million relating to Safe Eurus). Reference is made to note 15 for further information.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital structure in line with economic conditions. Prosafe manages the total of shareholders' equity and long term debt as their capital. Prosafe's main tool to assess its capital structure is the leverage ratio, which is calculated by dividing net interest-bearing debt including bank guarantees, by EBITDA over the last 12 months.

NOTE 20: CASH AND DEPOSITS

	2017	2016
Restricted cash deposits	5.3	0.2
Free cash and short-term deposits	226.6	205.5
Total cash and deposits	231.9	205.7

NOTE 21: OTHER CURRENT ASSETS

	2017	2016
Receivables	1.9	24.7
Prepayments	3.1	3.0
Stock	1.0	0.9
Other current assets	0.7	0.5
Total other current assets	6.7	29.1

NOTE 22: RELATED PARTY DISCLOSURES

The financial statements comprise the parent company, Prosafe SE, and the subsidiaries listed below.

Company name	Country of incorporation	Ownership	Voting share
Prosafe AS	Norway	100 %	100 %
Prosafe Management AS	Norway	100 %	100 %
Prosafe Offshore AS	Norway	100 %	100 %
Prosafe (UK) Holdings Limited	United Kingdom	100 %	100 %
Prosafe Rigs Limited	United Kingdom	100 %	100 %
Prosafe Offshore Limited	United Kingdom	100 %	100 %
Prosafe Rigs (Cyprus) Limited	Cyprus	100 %	100 %
Prosafe Holding Limited	Cyprus	100 %	100 %
Prosafe Offshore Accommodation Ltd	Jersey	100 %	100 %
Prosafe Rigs Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore Pte. Limited	Singapore	100 %	100 %
Prosafe Offshore Employment Company Pte. Limited	Singapore	100 %	100 %
Prosafe Offshore Services Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore Asia Pacific Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore S.a.r.l.	Luxembourg	100 %	100 %
Prosafe Offshore Sp.zo.o.	Poland	100 %	100 %
Prosafe Offshore BV	Netherlands	100 %	100 %
Prosafe Services Maritimos Ltda	Brazil	100 %	100 %
Axis Vega Singapore Pte Ltd	Singapore	100 %	100 %
Axis Nova Singapore Pte Ltd	Singapore	100 %	100 %

Transactions and outstanding balances within the Group have been eliminated in full.

Shares owned by senior officers and directors at 31 December 2017:

(includes shares owned by wholly-owned companies)

Senior officers:	Shares
Jesper Kragh Andresen - CEO	32 476
Stig Harry Christiansen - deputy CEO and CFO	26 500
Glen Ole Rødland - chairman	0
Svend Anton Mayer - director	0
Roger Cornish - director	70
Carine Smith Ihenacho - director	0
Nancy Ch. Erotocritou - director	0
Birgit Aagaard-Svendsen - director	3 000
Kristian Johansen - director	0

NOTE 23: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

New builds

As at 31 December 2017 the Group had three completed new builds residing at COSCO's Qidong shipyard in China; Safe Eurus, Safe Nova and Safe Vega. Prosafe continues to work with the yard to find a workable commercial solution for these vessels. Safe Eurus is in a preserved, strategic stacking mode and the Group has accrued for lay-up cost for this vessel. In accordance with the agreement with COSCO, 50 percent of these costs are to be paid on delivery and the remaining 50 percent after delivery.

The standstill agreement with COSCO relating to Safe Nova and Safe Vega has recently been extended until early April 2018 and Prosafe remains in negotiations with COSCO and related parties for these vessels. If no agreement is reached, Prosafe has the right to cancel the new build contracts for Safe Nova and Safe Vega due to delay, and claim repayment of the instalments paid including interest of approx. USD 60 million in total. The repayment claim is secured by a refund guarantee from Bank of China.

NOTE 24: EVENTS AFTER THE BALANCE SHEET DATE

Conversion of convertible bonds

With reference to the convertible bonds described in note 14 and issued as part consideration of the shares in Axis Vega Singapore Ltd, Axis Nova Singapore Ltd and Dan Swift Singapore Pte Ltd in December 2016, convertible bonds of nominal value NOK 692,000 were converted into 23,066 new ordinary shares in the Company in February 2018. The conversion price was NOK 30 per share.

Westcon dispute - contingent asset

On 8 March 2018, Stavanger City Court made a favourable decision in the court case regarding the dispute with Westcon Yards AS (Westcon). The dispute between Westcon and Prosafe was related to a substantial cost overrun of Westcon's price estimate for the conversion of the Safe Scandinavia to a tender support vessel. Westcon claimed an additional compensation of approx. NOK 306 million plus interest, whereas Prosafe disputed Westcon's claim and claimed a substantial repayment. The Court decided in favour of Prosafe that Westcon must repay Prosafe NOK 344 million plus interest and NOK 10.6 million of legal costs.

Awaiting the final outcome of the dispute, Prosafe considers the amount payable by Westcon to be a contingent asset under IAS 37, and has therefore not recognised the amount per 31 December 2017. Provisions totalling USD 35.1 million related to the dispute has been released. As the provisions were charged against the cost of the vessel, impairment charges equalling the provisions have been reduced in the accounts. This represents a change compared to Q4 2017 report which was published on 6 February 2018.



ACCOUNTS PROSAFE SE

INCOME STATEMENT - PROSAFE SE

(USD 1 000)	Note	2017	2016
Income from investments in subsidiaries		12 600	11 397
Impairment of shares in subsidiaries	7	(745 188)	(396 516)
Results of investing activities		(732 588)	(385 119)
Operating expenses	2	(6 321)	(26 253)
Depreciation	3	(2)	(7)
Operating loss		(738 911)	(411 379)
Other financial income	4, 5	49 245	332 148
Other financial expenses	4, 5	(95 148)	(174 063)
Net financial items	5	(45 902)	158 085
Loss before taxes		(784 814)	(253 294)
Taxes	6	(669)	(1)
Net loss		(785 482)	(253 294)
Attributable to the owners of the company		(785 482)	(253 294)

STATEMENT OF COMPREHENSIVE INCOME - PROSAFE SE

(USD 1 000)	2017	2016
Net loss	(785 482)	(253 294)
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net loss on cash flow hedges	13 200	(21 693)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	13 200	(21 693)
Total comprehensive (loss)/income for the year, net of tax	(772 282)	(274 987)
Attributable to the owners of the company	(772 282)	(274 987)

STATEMENT OF FINANCIAL POSITION - PROSAFE SE

(USD 1 000)	Note	31/12/17	31/12/16
ASSETS			
Tangible assets	3	10	12
Shares in subsidiaries and associated companies	7	1 828 292	2 572 565
Intra-group non-current receivables	12, 14	128 591	118 473
Total non-current assets		1 956 892	2 691 049
Cash and deposits	14	18 373	83 751
Other current assets	8, 14	162	140
Total current assets		18 534	83 891
Total assets		1 975 427	2 774 940
EQUITY AND LIABILITIES			
Share capital	9	8 906	7 914
Share premium reserve		1 034 280	1 002 282
Share capital reduction reserve		71 846	71 846
Total paid-in equity		1 115 032	1 082 043
Retained earnings		(556 127)	216 155
Total retained earnings		(556 127)	216 155
Convertible bonds	9	23 997	56 987
Total equity		582 902	1 355 184
Interest-bearing long-term debt	10	1 310 701	1 320 595
Derivatives	14	39 399	51 286
Interest-free long-term liabilities	14, 15	1 770	1 742
Total long-term liabilities		1 351 869	1 373 624
Interest-bearing current debt	10, 15	14 200	14 200
Derivatives	14	0	7 886
Intra-group current liabilities	12, 14, 15	17 968	15 104
Other interest-free current liabilities	11, 14, 15	8 486	8 941
Total current liabilities		40 654	46 131
Total equity and liabilities		1 975 427	2 774 940

On 20 March 2018 the Board of Directors of Prosafe SE approved and authorised these financial statements for issue.



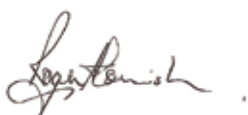
Glen Ole Rødland
Non-executive Chair



Svend Anton Maier
Non-executive Director



Kristian Johansen
Non-executive Director



Roger Cornish
Non-executive Deputy Chair



Nancy Ch. Erotocritou
Non-executive Director



Birgit Aagard-Svendsen
Non-executive Director

CASH FLOW STATEMENT - PROSAFE SE

(USD 1 000)	Note	2017	2016
Cash flow from operating activities			
Loss before taxes		(784 814)	(253 294)
Unrealised currency loss / (gain) on long-term debt		4 306	763
Gain on forgiveness of bond debt		0	(197 600)
Depreciation	3	2	7
Impairment shares in subsidiaries		745 188	396 516
Interest income		(3 804)	(12 572)
Interest expenses		70 141	77 586
Change in working capital		(477)	23 317
Taxes paid	6	(669)	(1)
Other items from operating activities		(6 546)	(51 728)
Net cash flow from operating activities		23 328	(17 006)
Cash flow from investing activities			
Acquisition of shares		(915)	(671 090)
Change in intra-group balances	12	(7 254)	347 804
Interest received		3 804	12 572
Net cash flow from investing activities		(4 365)	(310 713)
Cash flow from financing activities			
Proceeds from issue of shares	9	0	140 394
New interest-bearing long-term debt	10	0	444 008
Repayment of interest-bearing long-term debt	10	(14 200)	(107 540)
Interest paid		(70 141)	(77 586)
Net cash flow from financing activities		(84 341)	399 277
Net cash flow		(65 378)	71 557
Cash and deposits at 1 January		83 751	12 194
Cash and deposits at 31 December		18 373	83 751

STATEMENT OF CHANGES IN EQUITY - PROSAFE SE

(USD 1 000)	Note	Share capital	Share premium	Share capital redemption reserve	Retained earnings	Convertible Bonds	Cash flow hedges	Total equity
Equity at 31 December 2015		72 135	804 700	0	530 635	0	(39 492)	1 367 978
Net loss		0	0	0	(253 294)	0	0	(253 294)
Other comprehensive income		0	0	0	0	0	(21 693)	(21 693)
Total comprehensive income¹⁾		0	0	0	(253 294)	0	(21 693)	(274 987)
Share capital reduction	9	(71 846)	0	71 846	0	0	0	0
Share and bond issue	9	7 612	197 235	0	0	57 347	0	262 194
Conversion of convertible bonds	9	13	347	0	0	(360)	0	0
Equity at 31 December 2016		7 914	1 002 282	71 846	277 341	56 987	(61 185)	1 355 185
Net loss		0	0	0	(785 482)	0	0	(785 482)
Other comprehensive income		0	0	0	0	0	13 200	13 200
Total comprehensive income¹⁾		0	0	0	(785 482)	0	13 200	(772 282)
Conversion of convertible bonds	9	992	31 998	0	0	(32 990)	0	0
Equity at 31 December 2017		8 906	1 034 280	71 846	(508 142)	23 997	(47 985)	582 902

¹⁾ Total comprehensive income is attributable to the owners of the company

Nature and purpose of reserves

Share premium: The difference between the issue price of the shares and their nominal value. The share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law, Cap. 113 on reduction of share capital.

Capital redemption reserve: This reserve was created pursuant to section 64(1)(e) of the Companies Law, Cap. 113 following a capital reduction by the Company in previous years. The reserve is subject to the same treatment as the share premium account.

Convertible bonds: The reserve for convertible bonds comprises the amount allocated to the equity component for the convertible bonds. See note 9.

Cash flow hedges: The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

NOTES - PROSAFE SE

All figures in USD 1 000 unless otherwise stated.

NOTE 1: ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113. The accounting policies applied to the consolidated accounts have also been applied to the parent company, Prosafe SE. The parent company financial statements should be read in conjunction with the consolidated accounts. The notes to the consolidated accounts provide additional information to the parent company's accounts which is not presented here separately. The Company's functional currency is US dollars (USD), and the financial statements are presented in USD. Investments in subsidiaries are measured at historic cost, unless there is any indication of impairment. In case of impairment, an investment is written down to recoverable amount.

NOTE 2: OPERATING EXPENSES

	2017	2016
Services from subsidiaries	4 043	5 592
Directors' fees (see details below)	603	568
Salaries and management bonus	468	417
Other remuneration	40	34
Payroll taxes	34	36
Pension expenses	(133)	(100)
Auditors' audit fees	112	155
Auditors' other fees	5	75
Legal fees	(230)	17 551
Other operating expenses	1 379	1 926
Total operating expenses	6 321	26 253
Board of directors	Year	Fees
Glen Ole Rødland (chair)	2017	137
Roger Cornish	2017	112
Nancy Ch. Erotocritou	2017	90
Svend Anton Maier	2017	87
Birgit Aagaard-Svendsen (from May 2017)	2017	78
Kristian Johansen (from May 2017)	2017	63
Carine Smith Ihenacho (until May 2017)	2017	16
Anastasis Ziziros (until May 2017)	2017	19
Total fees		603

Board of directors	Year	Fees
Glen Ole Rødland (chair from May 2016)	2016	103
Roger Cornish	2016	101
Nancy Ch. Erotocritou	2016	83
Svend Anton Maier (from Dec 2016)	2016	8
Harald Espedal (chair until May 2016)	2016	58
Christian Brinch (until May 2016)	2016	46
Carine Smith Ihenacho	2016	77
Anastasis Ziziros	2016	92
Total fees		568

Number of employees

The average number of employees in the Company for 2017 was 5 (2016: 5).

NOTE 3: TANGIBLE ASSETS

	Equipment	Total
Acquisition cost 31.12.15	211	211
Additions	0	0
Disposals at acquisition cost	0	0
Acquisition cost 31.12.16	211	211
Additions	0	0
Disposals at acquisition cost	0	0
Acquisition cost 31.12.17	211	211
Accumulated depreciation 31.12.15	192	192
Accumulated depreciation on disposals	0	0
Depreciation for the year	7	7
Accumulated depreciation 31.12.16	199	199
Accumulated depreciation on disposals	0	0
Depreciation for the year	2	2
Accumulated depreciation 31.12.17	201	201
Carrying value 31.12.17	10	10
Carrying value 31.12.16	12	12
Depreciation rate (%)	20-30	-

NOTE 4: OTHER FINANCIAL ITEMS

	2017	2016
Interest receivable from subsidiaries	3 598	12 436
Other interest receivable	206	136
Gain on forgiveness of bond debt	0	197 600
Currency gain	25 668	52 238
Fair value adjustment currency forwards	7 886	32 821
Fair value adjustment interest rate swaps	11 888	36 917
Total other financial income	49 245	332 148
Interest expenses	(70 141)	(77 586)
Currency loss	(20 536)	(86 320)
Other financial expenses	(4 471)	(10 157)
Total other financial expenses	(95 148)	(174 063)

NOTE 5: FINANCIAL ITEMS - IAS 39 CATEGORIES

Year ended 31 Dec 2017	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	3 804	0	0	3 804
Currency gain ¹⁾	0	0	0	25 668
Fair value adjustment currency forwards	0	0	7 886	7 886
Fair value adjustment interest swaps	0	11 888	0	11 888
Total financial income	3 804	11 888	7 886	49 245
Interest expenses	0	0	(70 141)	(70 141)
Currency loss ¹⁾	0	0	0	(20 536)
Other financial expenses	0	0	(4 471)	(4 471)
Total financial expenses	0	0	(74 612)	(95 148)
Net financial items	3 804	11 888	(66 726)	(45 902)

Year ended 31 Dec 2016	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	12 572	0	0	12 572
Currency gain ¹⁾	0	0	0	52 238
Fair value adjustment currency forwards	0	0	32 821	32 821
Fair value adjustment interest swaps	0	36 917	0	36 917
Gain on forgiveness of bond debt	0	0	197 600	197 600
Total financial income	12 572	36 917	230 421	332 148
Interest expenses	0	0	(77 586)	(77 586)
Currency loss ¹⁾	0	0	0	(86 320)
Other financial expenses	0	0	(10 157)	(10 157)
Total financial expenses	0	0	(87 743)	(174 063)
Net financial items	12 572	36 917	142 678	158 085

¹⁾ Excluded from the category breakdown, but added to the total for net effect.

NOTE 6: TAXES

	2017	2016
Tax base	0	0
Taxes	669	1
Temporary differences:		
Loss carried forward	(180 768)	(127 543)
Basis for deferred tax liability (+)/benefit (-)	(180 768)	(127 543)
Deferred tax liability (+)/benefit (-)	0	0
Taxes payable at 31 December	0	0

No deferred tax asset has been recognised in respect of the tax loss carried forward as utilisation of this deferred tax asset is deemed not probable. Tax losses for each year are carried forward for 5 years. The tax rate in Cyprus is 12.5%.

Reconciliation in accordance with IAS 12.81

	2017	2016
Tax rate	12,5 %	12,5 %
Loss before taxes	(784 814)	(253 294)
Corporation tax thereon at the applicable tax rates	(98 102)	(31 662)
Tax effect of expenses not deductible for tax purposes	99 271	64 940
Tax on income not taxable in determining taxable profit	(7 302)	(41 165)
Effect of unused current year tax losses	6 133	7 887
Special contribution to defence fund	4	1
Withholding tax	665	0
Tax charge	669	1

NOTE 7: SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

(Share capital and carrying value in 1 000)

Company		Share capital	Carrying value 2017	Carrying value 2016	Ownership
Prosafe AS	NOK	100	48 036	69 316	100 %
Prosafe Offshore AS	NOK	100	270	270	100 %
Prosafe Management AS	NOK	100	15	15	100 %
Prosafe (UK) Holdings Ltd	GBP	11 000	9 826	9 826	100 %
Prosafe Offshore Pte Ltd	USD	10 000	222 099	498 380	100 %
Prosafe Offshore Services Pte Ltd	USD	10	150	150	100 %
Prosafe Asia Pacific Pte Ltd	SGD	10	7	7	100 %
Prosafe Rigs Pte Ltd	USD	2 500 040	1 476 973	1 924 600	91 %
Axis Nova Singapore Pte. Ltd	USD	30 915	30 915	30 000	100 %
Axis Vega Singapore Pte. Ltd	USD	30 000	30 000	30 000	100 %
Dan Swift Singapore Pte. Ltd	USD	10 000	10 000	10 000	25 %
Total carrying value			1 828 292	2 572 565	

In December 2016, the Company acquired a 25% shareholding in Dan Swift Pte Ltd, a company incorporated in Singapore. This company owns one accommodation monohull, the Safe Swift. This investment is measured using the equity method.

In December 2016, the Company also acquired 100% of the shares in Axis Nova Singapore Pte Ltd and Axis Vega Singapore Pte Ltd. Each of these companies owns a new build vessel under construction in China.

In the income statement for 2017, the following impairment charges were made:

Prosafe Rigs Pte Ltd USD 447.6 million, Prosafe Offshore Pte Ltd USD 276.3 million and Prosafe AS USD 21.3 million.

In the income statement for 2016, the following impairment charges were made: Prosafe Rigs Pte Ltd USD 324.4 million and Prosafe Offshore Pte Ltd USD 72.2 million.

There are mortgages on the shares in Prosafe Rigs Pte Ltd and Prosafe Offshore Services Pte Ltd. Please refer to note 13.

NOTE 8: OTHER CURRENT ASSETS

	2017	2016
Current receivables from group companies	48	23
Other current assets	114	117
Total other current assets	162	140

NOTE 9: SHARE CAPITAL AND CONVERTIBLE BONDS

	2017	2016
Issued and paid up number of ordinary shares at 31 December	80 725 809	71 399 002
Authorised number of shares at 31 December	130 440 177	130 440 177
Nominal value at 31 December	EUR 0.10	EUR 0.10
Number of shareholders at 31 December	5 427	6 227
<i>Ordinary shares</i>		
In issue at 1 January	71 399 002	259 570 359
Issued for cash in private placement	0	4 376 600 000
Issued to bond holders	0	1 400 839 757
Issued in connection with conversion of convertible bonds	9 326 807	12 000 000
Issued for cash in subsequent share offering	0	504 000 000
100:1 share split	0	(6 487 480 014)
Issued as part of the consideration icw Axis acquisition	0	5 868 900
In issue at 31 December fully paid up	80 725 809	71 399 002

In August 2016 the share capital of the Company was reduced by cancelling paid up nominal capital (in lieu and without cancelling any shares per se) amounting to EUR 64,633,019 (equivalent to USD 71,846,225), being EUR 0.249 per share on each of the 259,570,359 ordinary fully paid up shares, reducing the nominal value of all such ordinary share from EUR 0.25 each to EUR 0.001 each with the corresponding effect on authorised share capital; the entire amount of EUR 64,633,019 corresponding to the amount cancelled was credited to the capital reduction reserve fund. In September 2016 4,376,600,000 shares were issued in a private placement, 1,400,839,757 were issued to the bond holders and 12,000,000 shares were issued to convertible bond holders.

In November 2016 504,000,000 shares were issued in a subsequent share offering. A 100:1 reverse share split was completed on 30 November 2016. Prior to the reverse split, the share capital consisted

of 6,553,010,116 shares at face value of EUR 0.001 each. Subsequent to the reverse split, the share capital consisted of 65,530,102 shares at face value of EUR 0.10 each. In December 2016 5,868,900 shares were issued as a part of the consideration relating to the acquisition of Axis Nova Singapore Pte Ltd and Axis Vega Singapore Pte Ltd. During 2017 a total of 9,326,807 shares of EUR 0.10 each were issued in connection with conversion of convertible bonds.

Convertible bonds

As part of the refinancing completed in September 2016, zero coupon convertible bonds amounting to NOK 81,790,013 were issued. These bonds can be converted into Prosafe shares at a price of NOK 25 per share. In February 2017, 8,007 of these bonds were converted to shares. As of 31 December 2017 the remaining outstanding principal of this convertible bond loan was NOK 78,589,838 (31 December 2016: NOK 78,790,013).

In December 2016, as part consideration of the shares in Axis Vega Singapore Ltd, Axis Nova Singapore Ltd and Dan Swift Singapore Pte Ltd, zero coupon convertible bonds of nominal value NOK 403,092,000 were issued. These bonds can be converted into Prosafe shares at a price of NOK 30 per share. In November 2017, 4,537,900 of these bonds were converted to shares and in December 2017, another 4,780,900 bonds were converted. As of 31 December 2017 the remaining outstanding principal of these convertible bonds loan was NOK 123,528,000 (31 December 2016: NOK 403,092,000).

NOTE 10: INTEREST-BEARING DEBT

	2017	2016
Credit facility	1 337 099	1 350 008
Unamortised borrowing costs	(12 198)	(15 213)
Total interest-bearing debt	1 324 901	1 334 795
Long-term interest-bearing debt	1 310 701	1 320 595
Current interest-bearing debt	14 200	14 200
Total interest-bearing debt	1 324 901	1 334 795

For further information, see note 15 of the consolidated accounts.

NOTE 11: OTHER INTEREST-FREE CURRENT LIABILITIES

	2017	2016
Accrued interest costs	6 877	4 162
Other current liabilities	1 609	4 779
Total other interest-free current liabilities	8 486	8 941

NOTE 12: INTRA-GROUP BALANCES

	2017	2016
NOK loan to Prosafe AS	128 591	118 473
Intra-group long-term receivables	128 591	118 473

Loan agreements with subsidiaries are made at market prices using 3M NIBOR (NOK loan) and 3M LIBOR (USD loan) interest rates and a margin of 2.00%. Outstanding balances at year-end are unsecured, and settlement normally occurs in cash.

Transactions with related parties	2017	2016
Transactions		
Administrative services from subsidiaries	(4 043)	(5 592)
Interest income	3 598	12 436
Dividend	12 600	11 397

Prosafe AS and Prosafe Management AS are performing services on behalf of Prosafe SE relating to management, corporate activities, investor relations, financing and insurance. The services are invoiced on monthly basis and paid on market terms. Please refer to note 6 to the consolidated accounts for disclosure of remuneration to directors.

Year-end balances

Current receivables from group companies	48	23
Intra-group long-term receivables	128 591	118 473
Current payables from the ultimate parent to subsidiaries	17 968	15 104

Current receivables and payables are not subject to any interest calculation. The balances will be settled on ordinary market terms.

NOTE 13: MORTGAGES AND GUARANTEES

2017

As of 31 December 2017, Prosafe's interest-bearing debt secured by mortgages totalled USD 1,337.1 million. The debt was secured by mortgages on the accommodation/service vessels Safe Astoria, Safe Bristolia, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 1,527.2 million). Negative pledge clauses apply on shares in the vessel owning subsidiaries. Earnings accounts are pledged as security for the credit facilities, but cash will only be restricted if a continuing event of default occurs.

A bank guarantee has been issued on behalf of Prosafe Rigs Pte. Ltd. in favour of Westcon Yards AS, amounting to NOK 245 million at 31 December 2017. This bank guarantee is secured by a cash deposit of USD 5 million and a counter bank guarantee of USD 30 million issued under the USD 1.3 billion facility.

As at 31 December 2017, Prosafe had issued parent company guarantees to clients and vendors on behalf of its subsidiaries in connection with the award and performance of contracts totalling approximately USD 318 million and a parent company guarantee and indemnity relating to the bank guarantee referred to above. The amounts specified with regard to parent company guarantees reflect the sum of the capped liability under the relevant agreements.

2016

As of 31 December 2016, interest-bearing debt secured by mortgages totalled USD 1,320 million. The debt was secured by mortgages on the accommodation/service vessels Safe Astoria, Safe Bristolia, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 1,971 million). Negative pledge clauses apply on shares in the vessel owning subsidiaries. Earnings accounts are pledged as security for the credit facilities, but cash will only be restricted if a continuing event of default occurs.

Bank guarantees amounted to NOK 245 million at 31 December 2016. The guarantees were secured by parent company guarantee and mortgages on the accommodation/service vessels Safe Regency and Safe Lancia (net carrying value USD 0 million).

As of 31 December 2016, Prosafe had issued parent company guarantees to clients and vendors on behalf of its subsidiaries in connection with the award and performance of contracts totalling approximately USD 277 million.

NOTE 14: FINANCIAL ASSETS AND LIABILITIES

Year ended 31 Dec 2017	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying value
Intra-group long-term receivable	128 591	0	0	128 591
Cash and deposits	18 373	0	0	18 373
Other current assets	162	0	0	162
Total assets	147 125	0	0	147 125
Credit facility	0	0	1 337 099	1 337 099
Fair value derivatives	0	39 399	0	39 399
Interest-free long-term liabilities	0	0	1 770	1 770
Intra-group current liabilities	0	0	17 968	17 968
Other interest free current liabilities	0	0	8 486	8 486
Total liabilities	0	39 399	1 365 322	1 404 721

Year ended 31 Dec 2016	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying value
Intra-group long-term receivable	118 473	0	0	118 473
Cash and deposits	83 751	0	0	83 751
Other current assets	140	0	0	140
Total assets	202 364	0	0	202 363
Credit facility	0	0	1 350 008	1 350 008
Fair value derivatives	0	59 172	0	59 172
Interest-free long-term liabilities	0	0	1 742	1 742
Intra-group current liabilities	0	0	15 104	15 104
Other interest free current liabilities	0	0	8 941	8 941
Total liabilities	0	59 172	1 375 795	1 434 968

For further information, see note 18 of the consolidated accounts.

NOTE 15: MATURITY PROFILE LIABILITIES

Year ended 31 Dec 2017	2018	2019	2020	2021	2022 →
Interest-bearing debt (downpayments)	14 200	28 400	42 600	256 700	995 200
Interests incl interest swaps	68 900	68 100	66 900	61 600	7 100
Intra-group current liabilities	17 968	0	0	0	0
Other interest-free current liabilities	8 486	0	0	0	0
Total	109 554	96 500	109 500	318 300	1 002 300

Year ended 31 Dec 2016	2017	2018	2019	2020	2021 →
Interest-bearing debt (downpayments)	14 200	14 200	28 400	42 600	1 250 608
Interests incl interest swaps	66 039	64 980	63 943	62 518	69 455
Intra-group current liabilities	15 104	0	0	0	0
Other interest-free current liabilities	8 941	0	0	0	0
Total	104 284	79 180	92 343	105 118	1 320 063

NOTE 16: FINANCIAL RISKS

Interest rate risk

Interest on debt is in principle floating, but has been hedged to reduce the variability of cash flows in the interest payments through the use of interest rate swap agreements. Prosafe evaluates the hedge profile in relation to the repayment schedule of its loans, the company's portfolio of contracts, cash flow and cash in hand. The proportion hedged will normally lie between 75 and 100 per cent for all loans.

Hedge accounting

The objective of the interest rate hedging is to reduce the variability of cash flows in the interest payments for the floating-rate debt (i.e. cash flow hedging). Changes in the cash flows of the interest rate swaps are expected to offset the changes in cash flows (i.e. changes in interest payments) attributable to fluctuations in the benchmark interest rate on the part of the floating-rate debt that is hedged. Effective 1 July 2016, the Company decided, based on a cost-benefit evaluation, to abandon hedge accounting of interest rate swaps. As from this date, any change in fair value of interest rate swaps is taken through the income statement rather than via other comprehensive income. As a result of the abandonment of hedge accounting, an amount of USD 13.2 million (2016: USD 36.9 million) has been expensed in the income statement.

As of 31 December 2017, Prosafe's hedging agreements totalled USD 1,000 million:

Notional amount	Fixed rate	Maturity	Swap type	Fair value (USDm)
USD 400 million	2.3150 %	2022	Bullet	(17.8)
USD 225 million	2.4440 %	2022	Bullet	(12.8)
USD 135 million	2.3630 %	2022	Bullet	(5.7)
USD 120 million	1.5330 %	2022	Bullet	0.5
USD 120 million	2.1280 %	2022	Bullet	(3.6)
Total				(39.4)

Fair value of interest rate swap agreements are estimated using quoted market prices. The fair value estimates the gain or loss that would have been realised if the contracts had been closed out at the balance sheet date.

Interest rate risk - sensitivity

The sensitivity analysis is based on a reasonably possible change in the relevant forward curves and reflects the main effects on profit or loss and equity assuming that the change had occurred at the balance sheet date. A forward curve shift of ± 100 bps is applied in the analysis.

Pre-tax effects	2017		2016	
	Income state- ment effect	OCI effect	Income state- ment effect	OCI effect
Forward curve +100bps				
Re-valuation interest rate swaps	(36 700)	0	46 800	0
Total	(36 700)	0	46 800	0
Forward curve -100bps				
Re-valuation interest rate swaps	(38 300)	0	(49 500)	0
Total	(38 300)	0	(49 500)	0

Changes in other comprehensive income related to financial instruments

The following changes in other comprehensive income were related to financial instruments:

	2017	2016
Re-valuation interest rate swaps	13 200	(21 693)
Total	13 200	(21 693)

Currency risk

The Company's operating expenses are primarily denominated in EUR and NOK, and the operating result is therefore exposed to currency risk relating to fluctuations in the EUR and NOK exchange rates versus the USD.

The Group is exposed to currencies other than USD associated with operating expenditure, capital expenditure, interest-bearing debt, tax, cash and deposits. Cash and deposits are mainly denominated in USD, GBP, EUR and NOK. Cash and deposits in currencies other than USD, are to a certain extent natural hedges for any GBP, EUR and NOK liabilities. The proportion of the total currency exposure hedged by use of financial derivatives will normally lie between 50 and 75 per cent for the next 12-month period. Currency forward contracts are entered into by the Company to hedge the currency risk within the Group.

Interest bearing debt

As of 31 December 2017, interest bearing debt consists of USD denominated liabilities only. The principal amounts of liabilities denominated in other currencies than USD are fully hedged by using multiple forward contracts with different settlement dates with a time horizon of up to 12 months. At maturity, the forwards are rolled for further 12 months until debt maturity.

Forward exchange contracts

Fair value of forward exchange contracts are estimated using quoted market prices. The fair value estimates the gain or loss that would have been realised if the contracts had been closed out at the balance sheet date.

A negative fair market value on currency forwards will be associated with a positive effect on the fair market value of the underlying hedged item. For example, a NOK depreciation will cause a negative fair market value on currency forwards, but a positive effect on the fair market value of future operating expenses, capital expenditure, NOK denominated interest-bearing debt and NOK denominated tax liabilities. A NOK appreciation will have the opposite effects.

As of 31 December 2017 there were no forward exchange contracts outstanding.

Currency risk - sensitivity

The sensitivity analysis is based on a reasonably possible change in the relevant exchange rates and reflects the main effects on profit or loss and equity assuming that the change had occurred at the balance sheet date. A 10% strengthening/weakening of the USD against NOK, EUR and GBP will have the following effects. Exposures to foreign currency changes for all other currencies are not material.

Pre-tax effects	2017		2016	
	Income state- ment effect	OCI effect	Income state- ment effect	OCI effect
USD +10%				
Re-valuation cash and deposits	(968)	0	(762)	0
Re-valuation currency forwards	0	0	(8 900)	0
Total	(968)	0	(9 662)	0
USD -10%				
Re-valuation cash and deposits	1 065	0	838	0
Re-valuation currency forwards	0	0	15 800	0
Total	1 065	0	16 638	0

Credit risk

The Company is exposed to credit risk in relation to the inter-company loan to one of its subsidiaries, Prosafe AS (ref note 12 for details about the loan).

Liquidity risk

Prosafe is exposed to liquidity risk in a scenario when the Group's cash flow from operations is insufficient to cover payments of financial liabilities. Prosafe manages liquidity and funding on a group level. In order to mitigate the liquidity risk, Prosafe makes active use of a system for planning and forecasting the development of its liquidity, and utilises scenario analyses to secure stable and sound development in order to maintain sufficient cash to cover its financial and operational obligations.

As of 31 December 2017, the Group had an unrestricted liquidity reserve totalling USD 226.6 million. Under the existing credit facility agreements, the Group is required to maintain minimum liquidity of USD 65 million (including up to USD 25 million of total commitments available for utilisation).

The continued negative development in the oil and gas industry has increased the risk of reduced charter revenues in the short and mid term. On the other hand, the refinancing which was completed during 2016 and the spend reductions that have taken place have reduced the liquidity risk.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital structure in line with economic conditions. Prosafe manages the total of shareholders' equity and long term debt as their capital. Prosafe's main tool to assess its capital structure is the leverage ratio, which is calculated by dividing net interest-bearing debt including bank guarantees, by EBITDA over the last 12 months.

NOTE 17: EVENTS AFTER THE BALANCE SHEET DATE**Conversion of convertible bonds**

With reference to the convertible bonds described in note 9 and issued as part consideration of the shares in Axis Vega Singapore Ltd, Axis Nova Singapore Ltd and Dan Swift Singapore Pte Ltd in December 2016, convertible bonds of nominal value NOK 692,000 were converted into 23,066 new ordinary shares in the Company in February 2018. The conversion price was NOK 30 per share.



INDEPENDENT AUDITORS' REPORT

To the members of Prosafe SE

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of Prosafe SE (the “Company”), and its subsidiaries (“the Group”), which are presented on pages 15 to 53 and comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated income statement and statements of other comprehensive income, changes in equity and cash flows of the Group, and the income statement, and statements of comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the separate financial statements of the Company give a true and fair view of the financial position of the Group and the Company, respectively, as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS-EU”) and the requirements of the Cyprus Companies Law, Cap. 113 as amended from time to time (the “Companies Law, Cap. 113”).

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 “Auditors’ responsibilities for the audit of the consolidated and separate financial

statements” section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (“IESBA Code”), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated and the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 judgement, were of most significance in our audit of the consolidated and the separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and the separate financial statements, as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER 1 - VALUATION OF GOODWILL AND RIGS

Refer to Notes 3 and 8 to the consolidated financial statements.

The key audit matter

There is a risk of irrecoverability of the Group’s carrying amount of Property Plant and Equipment, specifically rigs (“PPE”), and goodwill due to the continued weak demand in key markets. An impairment assessment of PPE and goodwill was carried out by the Group by assessing the value in use of the Group’s cash generating units (“CGUs”) which requires significant assumptions about future developments. Due to the inherent uncertainty and subjectivity involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of

the key judgmental areas that our audit is concentrated on.

How the matter was addressed in our audit

Our audit procedures included testing of the Group's budgeting procedures and principles on which the forecasts are based and the integrity of the Group's discounted cash flow ("DCF") model. This included comparison of the key assumptions to external data as well as our own assessments in relation to key inputs and calculations such as utilization rates, operating revenues/expenses, expected lifetime of the rigs, annual capital expenditure and terminal value, based on our knowledge of the industry. We considered the historical accuracy of the Group's assumptions and used external data and our own valuation specialists when assessing the discount rate applied. We assessed whether the DCF valuation is performed at the appropriate level of CGU. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflects the risks inherent in the valuation of rigs.

KEY AUDIT MATTER 2 - INVESTMENTS IN SUBSIDIARIES

Refer to Note 7 to the separate financial statements and note 3 to the consolidated financial statements.

The key audit matter

As a consequence of the risk of impairment of rigs (detailed above), the Company's investments in the rig owning entities are exposed to impairment risk.

How the matter was addressed in our audit

Our audit procedures included testing of the principles and integrity of the Company's valuation model. These included evaluating the methodology and assumptions used by the Company and comparing the Company's assumptions to our own assessments in rela-

tion to key inputs, taking also into consideration the results of our audit procedures on key audit matter 1.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the following:

- the financial calendar and key figures (page 5);
- about Prosafe (page 6); and the management report (designated as "Directors' report" in the Annual Report) (page 9 to 19)

but does not include the consolidated and the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 respect.

With regards to the 'financial calendar' and 'key figures' and 'about Prosafe' we have nothing to report.

With regards to the 'management report', our report is presented in the "Report on other legal and regulatory requirements" section.

Responsibilities of the Board of Directors for the consolidated and separate financial statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible for assessing the Group's and 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 there is an intention to either liquidate the Group or the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 Group's and 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 auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- 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 the Board of Directors 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 to 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 consolidated and separate financial statements of the current period and are therefore the key audit matters.

REPORT ON OTHER REGULATORY AND LEGAL REQUIREMENTS

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014, we provide the following information, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors by the General Meeting of the Company's members on 13 May 2015 to audit the consolidated and separate financial statements of the Group and the Company, respectively. Our total uninterrupted period of engagement is 3 years covering the periods ending 31 December 2015 to 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 13 March 2018.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with

the consolidated and separate financial statements.

- In the light of the knowledge and understanding of the business and the Group's and the Company's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is also published in full on the Company's website, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- in our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

OTHER MATTER

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Sylvia A. Loizides.

Sylvia A. Loizides

Certified Public Accountant and Registered Auditor for and on behalf of

KPMG Limited

Certified Public Accountants and Registered Auditors

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Limassol, 20 March 2018



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