

ANNUAL REPORT

2018



Prosafe

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

The annual report comprises the directors' report, the consolidated accounts, the parent company accounts and the independent auditors' report.

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



CONTENT

- 4 About Prosafe
- 6 Highlights
- 7 Key figures
- 9 Directors' report
- 22 Statement of the members of the Board of Directors and other responsible persons
- 24 Consolidated accounts
- 69 Parent company accounts
- 88 Independent auditor's report



ABOUT PROSAFE

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



Prosafe's operations are among others 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 200-500 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 owns and operates seven semi-submersible accommodation vessels and one Tender Support Vessel (TSV) that is currently providing accommodation support services on the Norwegian Continental Shelf. Prosafe is also the manager and operator of an accommodation monohull that is 25% owned by the company.

Furthermore, Prosafe has an agreement with COSCO shipyard for flexible delivery and long-term financing of three new build harsh environment vessels: Safe Eurus, Safe Nova and Safe Vega. These vessels are completed and ready for worldwide operations.

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



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 has a strong track record from demanding operations world wide, 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

- Prosafe reached transforming agreements with COSCO and its lenders, which will significantly enhance Prosafe's fleet and market position, as well as provide additional financial flexibility and runway.
- The Stavanger City Court issued its judgement in favour of Prosafe in the dispute between Westcon and Prosafe 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 legal costs. Westcon filed an appeal and Prosafe filed a counter appeal. The next court hearing is likely to be held in 1H2020. Meanwhile Prosafe is pursuing the best possible security for the claim.
- The market for accommodation services improved and Prosafe increased its order backlog by securing a number of contracts throughout the year for the Safe Scandinavia, Safe Concordia, Safe Caledonia, Safe Boreas, Safe Zephyrus and Regalia in Norway, UK and Brazil.
- The fleet utilisation for the year was 47.3 % (2017: 38.4 %).
- Safe Astoria was sold for recycling/scrap. Following this, Prosafe has scrapped six vessels as part of its strategy to high grade the fleet and protect cash-flow.

In January 2019, Prosafe came first in an online auction for the supply of an accommodation vessel towards a three-year contract in Brazil. The auction is followed by a compliance process before a contract will be formally awarded, expectedly during Q2 2019. Prosafe will mobilize the Safe Eurus if a contract is awarded.



KEY FIGURES

		Note	2018	2017	2016	2015	2014
Profit							
Operating revenues	USD million		330.8	283.0	474.0	474.7	548.7
EBITDA	USD million	1	166.6	122.9	253.2	262.9	312.6
Operating profit	USD million		53.0	(578.2)	52.8	30.8	248.3
Net profit	USD million		(114.5)	(647.1)	172.6	(50.6)	178.8
Earnings per share (fully diluted)	USD	2	(1.30)	(7.35)	8.36	(21.00)	76.00
Balance sheet							
Total assets	USD million		1 736.8	1 947.0	2 686.9	2 187.2	1 816.8
Interest-bearing debt	USD million		1 243.0	1 347.7	1 390.8	1 247.0	830.1
Net interest-bearing debt	USD million	3	1 102.7	1 115.8	1 185.1	1 189.9	707.7
Book equity	USD million		400.2	497.6	1 129.5	715.2	748.5
Book equity ratio		4	23.0 %	26.0 %	42.0 %	32.6 %	41.2 %
Liquidity reserve	USD million	5	277.3	231.9	205.7	57.1	122.4
Net cash flow	USD million		(91.6)	26.2	148.6	(65.3)	9
Net working capital	USD million		58.7	221.3	142.5	(157.1)	63
Valuation							
Market Capitalisation at year-end	USD million		126.7	118.1	306	619	725
Share Price	NOK	6	13.4	12	37	2 100	2 300
Operations							
Fleet utilisation rate			47.3 %	38.4 %	43.2 %	70.1 %	86.7 %

Notes

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. Cash and deposits + available liquidity reserve balance under a committed revolving credit facility
6. Restated to reflect reverse split in 2016





DIRECTORS' REPORT

The directors present their annual report 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 2018.

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 for offshore projects.

Prosafe's vessels are primarily serving oil and gas operating companies as end clients on various offshore projects in key offshore oil and gas provinces. In recent history, the 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 may also be used for decommissioning of offshore installations.



The main geographical markets for the Prosafe vessels are currently the North Sea and Brazil, while historically Mexico has also been an important market and is anticipated to again become a market in the future.

The vessels are normally provided on a time charter basis where Prosafe mans and operates the vessels directly.

The Parent Company is legally domiciled in Cyprus and is the ultimate owner of all group companies. On 3 May 2018, the company moved tax domicile to Norway. The company is in process of moving legal domicile to Norway and this is expected to occur during 2019 pending approval by a General Meeting in May 2019.

FINANCIAL RESULTS, FINANCING AND FINANCIAL POSITION OF THE GROUP

(The figures in brackets correspond to the 2017 comparatives)

INCOME STATEMENT

Operating revenues totalled USD 330.8 million in 2018 (2017: USD 283.0 million), with utilisation¹⁾ of the fleet increasing to 47.3% (38.4%). The increase in utilisation reflects higher activity in the North Sea market.

The increase in operating revenues is due to higher utilisation, although partly offset by lower average day rates as a result of the industry recession over the last few years. In addition, the operating revenues in 2018 includes a total of USD 23.1 million relating to IFRS 15 adjustment which was mainly resulted from the restatement of revenues previously recognised relating to 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.

Operating expenses increased to USD 164.2 million (USD 152.1 million) as a result of higher utilisation.

Depreciation and impairment amounted to USD 113.6 million (USD 709.1 million including

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

an impairment charge of USD 573.9 million). Lower depreciation is due to the lower carrying value of the assets following the impairments carried out in Q3 2017.

The operating profit amounted to USD 53.0 million (USD 578.2 million operating loss).

Interest expenses totalled USD 173.3 million (USD 74.9 million). The increase in 2018 is mainly due to non-cash and one-off effects totalling USD 105.1 million relating to the re-financing in August and amortisation and discontinuation of the cashflow hedge reserve balance (for further information, refer to note 15 of the consolidated accounts relating to re-financing and note 19 of the consolidated accounts for amortisation and discontinuation of the cashflow hedge reserve). The modification of amortised cost resulted from a reduction of the annual amortizations until final maturity for the USD 1300 million loan facility and the increased margin under the new financing terms agreed in August 2018.

Financial items other than interest expenses amounted to USD 13.4 million positive (USD 16.9 million positive).

Share of loss from the associated company (25% of share interests) amounted to USD 1.7 million (USD 3.1 million)

Taxes for 2018 in the amount of USD 5.9 million (USD 7.8 million) were mainly relating to operations in UK and Brazil, partially offset by a full reduction of deferred taxes in Norway as a consequence of the tax relocation from Cyprus to Norway.

Net loss amounted to USD 114.5 million (net loss of USD 647.1 million), resulting in diluted earnings per share of USD 1.3 negative (USD 7.35 negative).

ASSETS

Total assets amounted to 1,736.8 million (USD 1,947.0 million) at the end of 2018.

Investments in tangible assets totalled USD

8.7 million (USD 10.1 million). The investments in 2018 mainly relate to the five-yearly special periodic survey for Safe Scandinavia and main engines overhaul for Safe Concordia.

As of year-end 2018, the Group had total liquid assets (cash and deposits) of USD 140.3 million (USD 231.9 million). In addition, the Group had USD 137 million available under a committed credit facility. The total liquidity reserve (liquid assets plus undrawn credit facilities) totalled USD 277.3 million (USD 231.9 million). Total restricted cash at year-end 2018 was USD 8.8 million (USD 5.3 million).

FINANCING

In August 2018 Prosafe agreed certain amendments of the loan facilities to support the strategic transformation of the Company and to significantly improve its financial position in the years ahead by way of continued covenant relief, continued reduced amortizations and additional financial flexibility to support the continued renewal of its fleet.

Total shareholders' equity amounted to USD 400.2 million (USD 497.6 million), resulting in an equity ratio of 23% (26%).

Interest-bearing debt amounted to USD 1,243.0 million (USD 1,347.7 million) at year-end. Repayments of debt totalled USD 155.2 million (USD 47.4 million).

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).

Net cash-flow in 2018 was USD 91.6 million negative (USD 26.2 million negative). The key reason for a negative net cash flow was mainly due to the repayment of USD 137 million into a committed credit facility. Net cash-flow from operating activities amounted to USD 147.1 million positive. The difference between the operating profit before depreciation and

impairment of USD 166.6 million and cash flow from operating activities of USD 147.1 million mainly relates to IFRS 15 adjustment this year. Total net investment in 2018 amounted to only USD 3.2 million. Gross investment was USD 8.7 million, which was mostly related to normal vessel maintenance works including Special Periodic Survey (SPS) for the Safe Scandinavia, and partially offset by proceeds from sale of tangible assets – mainly the Safe Astoria that was sold for scrap for USD 2.1 million.

FINANCIAL RESULTS AND FINANCIAL POSITION OF THE PARENT COMPANY

The operating profit for the year amounted to USD 31.1 million (loss of USD 738.9 million which included impairment charges relating to investments in subsidiaries of USD 745.2 million). Net financial loss amounted to USD 161.4 million (USD 45.9 million). Net loss for the year equalled USD 131.2 million which includes other comprehensive loss of USD 0.8 million relating to pension re-measurement (net loss of USD 785.5 million).

Total net assets for the year amounted to USD 506.1 million (USD 582.9 million).

OPERATIONS AND PROJECTS

As at year-end, the fleet comprised eight fully owned vessels plus three new builds in progress. Six old vessels have been scrapped since mid-2016. In addition Prosafe owns 25% in Dan Swift Pte. Ltd. which owns the DP-2 accommodation monohull Safe Swift.

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/>.

In August 2018 Prosafe reached an agreement with Cosco allowing for flexible delivery and long-term financing of Safe Eurus, Safe Nova and Safe Vega. This agreement, combined with Prosafe's scrapping of six vessels over the last three years, transforms



its fleet in to a modern and competitive fleet with improved earnings potential for the long term. The Safe Eurus, Safe Nova and Safe Vega remain in strategic stacking mode with Cosco in China until Prosafe takes delivery.

Safe Scandinavia completed a TSV contract with Equinor at Oseberg at the end of June 2018. Following a yard stay the Safe Scandinavia has been operating at Aker BP's Ula platform on the Norwegian Continental Shelf since 1 September 2018, and was in full operation throughout the year. The contract has a duration of seven months with eight one-month options.

Safe Zephyrus commenced a 12-month contract for Equinor at Johan Sverdrup in Norway in early May 2018 and was in operation throughout the year. On 11 October 2018, Safe Zephyrus was awarded a contract by BP to provide gangway connected operations at the Clair Ridge platform West of Shetland in the UK sector of the North Sea. The duration of the contract is five months with a one-month option, and is scheduled to commence mid-May 2019 directly following the completion of the Johan Sverdrup contract.

Safe Notos commenced its three-year and 222-day contract for Petrobras on 7 December 2016 and was fully contracted in the year.

Safe Boreas commenced a 13-month contract for Statoil at the Mariner installation in the UK in early August 2017 and was in operation throughout 2018. On 24 September 2018, Equinor and Prosafe agreed an addendum to the contract which extends the firm period through June 2019 with additional six one-month options.

Safe Concordia commenced a 200-day contract with MODEC to support FPSO maintenance in Brazil on 24 October 2018.

Safe Caledonia completed a six-month contract for BP at the Clair Ridge platform in the UK in late November 2018 and is now laid-up

at Scapa Flow in the UK. She is scheduled to commence work for a major oil and gas operator in the UK sector from mid-April 2019 with a firm duration of four months and up to two months of options. On 24 December 2018, Safe Caledonia was awarded an 80-day contract in the UK sector of the North Sea commencing June 2020 with 30 days of options.



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

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

Safe Astoria was sold for scrap in late 2018.

In November 2018 the PSA issued an order in relation to non-conformances on the Safe Zephyrus. The company submitted a plan for close out and to ensure subsequent compliance in January 2019.

Prosafe remains committed to safe and compliant operations at all times.

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 decided that Westcon must pay Prosafe NOK 344 million plus interest and NOK 10.6 million legal costs. Westcon filed an appeal, and Prosafe filed a counter appeal on 28 May 2018. Prosafe will continue to pursue its case in order to improve on the result in the first instance. The timing for next court hearing is uncertain, but the first half of 2020 is likely. Meanwhile, Prosafe is pursuing the best possible security for the claim.

OUTLOOK

The oil and gas industry is characterized by high cyclical activity and continuous changes which impact activity levels, price levels and planning horizons, requiring continuous risk and opportunity management and adaptability.

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 Mexican market which used to be a key market for many years dropped all requirements for non-Mexican accommodation equipment in early 2016. Also the Brazilian market has been quiet until the end of 2018, while the company's activity through the down cycle has been primarily upheld by hook-up contracts related to the support of new field installation in the North Sea that were entered into before the down cycle.

During late 2017 and 2018, the offshore market has, however, started to show signs of gradual recovery, and Prosafe has secured a number of new contracts and contract extensions during

2018. The result is that all fully owned vessels other than the Safe Bristolia and the three undelivered new builds in China have secured contracts for all or parts of 2019.

The most important feature for the North Sea market is the return of activity related to maintenance and modification which traditionally has been the main activity driver.

Brazil is an important market. In January 2019, Prosafe came first in an online auction for the supply of safety and maintenance support vessels towards three-year contracts in Brazil. There now follows a compliance evaluation process before a contract will be formally awarded. Prosafe will mobilize the Safe Euris if a contract is awarded. Total contract value is estimated to be above USD 80 million. Another long-term contract for Safe Euris in Brazil would be in line with Prosafe's strategy and guidance, and it would create synergies with the Safe Notos and Safe Concordia already on charter offshore Brazil.

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

Total order backlog²⁾ as of 31 December 2018 amounted to USD 287.4 million (USD 340 million) of which USD 209.3 million related to firm contracts and USD 78.1 million related to options. Secured utilisation for 2019 is 42%. For 2020, secured utilisation is currently 9.5%.

The supply side has seen a positive development since 2016 with a reduction in the number of available units, largely supported by Prosafe which has scrapped six vessels to date. In addition, one competitor has scrapped one unit. More scrapping is anticipated over the coming years, as well as further consolidation activities.

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

Tendering activity has continued to pick up with opportunities arising both in the North Sea and internationally. A main driver for this increase is maintenance and modification work being sanctioned as a result of higher oil prices. While the current pricing and backlog do not support earnings growth in 2019, the company anticipates that utilisation will continue to improve in 2020 with an improvement in day rates to follow.

Against this backdrop, Prosafe will focus on opportunities that will allow the company to continue taking delivery of its new builds. In addition, Prosafe continues to pursue efficiencies and intends to be proactive in fleet enhancement and industry restructuring.

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 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 according to the Company's approved Finance Policy. The interest rate risk is largely hedged by the use of interest rate swaps or cap structures for normally 70 – 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 by the organisation and the competence of its personnel, segregation of duties, regular risk assessments and internal reporting, management meetings, board meetings and the 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 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 and procedures and reporting.

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 authori-

ties and the reporting and follow-up of these are important elements to ensure continuous focus on and improvement of internal controls.

CORPORATE SOCIAL RESPONSIBILITY

A detailed presentation of what the Company does to integrate considerations relating to human rights, labour rights and social conditions, the external environment and anti-corruption efforts in its business strategies, daily operations and in relation to its stakeholders is given in Prosafe's annual Communication on progress to UN Global Compact. The report can be found on the Company's website with direct link <https://www.prosafe.com/communication-on-progress/category495.html>



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 absence.

In 2018, Prosafe recorded one incident 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 2018, the LTI frequency was 0.85, as compared to 1.52 in 2017.

Prosafe operates a zero accident mind-set philosophy which means that no accidents or serious incidents are acceptable. A number of initiatives have been implemented over the years in order to further strengthen the safety culture. These and new initiatives will be continuously developed in order to improve safety performance further.

Sick leave was 2.07% in 2018, a decrease from 2.53% in 2017.

Prosafe had no accidental discharges to the natural environment in 2018 and continues to actively reduce emissions by investing in modernizing its fleet and fuel efficient equipment and by pursuing continuous improvement in operating procedures and practices.

HUMAN RESOURCES AND DIVERSITY

Prosafe had 417 employees at the end of 2018 (average 401), compared with 430 in the previous year (average 517). Prosafe's global presence was reflected in the fact that its employees came from 24 countries around the world. The overall voluntary employee turnover in the group was 8.5% in 2018, compared with 5.9% in 2017.

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 2018, women accounted for 11.3% of all employees, compared with 14.2% in 2017. Onshore the proportion of women was 40.6%, as compared to 43.2% in 2017.

Women constituted 25.0% of the managers as at 31 December 2018, compared with 16.7% at the end of 2017.

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 17 October 2018. There are no significant deviations between the code of practice and the way it has been implemented during 2018. 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 2018 and at the date of this report are set out on page 21.

Apart from Nancy Eroticritou, who resigned on 27 April 2018, all 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. All directors are due for re-election in 2019.

As at 31 December 2018, the only director (including associated parties) who held shares in the Company was Birgit Aagaard-Svendsen, owning 3,000 shares. Glen Ole Rødland has an indirect ownership interest in Prosafe through his ownership interest in HitecVision VII, L.P.



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 amendments of the loan facilities in August 2018, the board of directors concludes that the going concern assumption is justified.

AUDITOR

The auditors of the Company, 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 2018, the 20 largest shareholders held a total of 74% of the issued shares. The number of shareholders was 4,929. North Sea Strategic Investments AS was the largest shareholder with a holding of 18.93% of the issued shares.

As at 31 December 2018, Prosafe had an issued share capital of 81,784,212 ordinary shares at a nominal value of EUR 0.10 each.

There are no restrictions in the articles of association related to the right to trade in the shares of the company. The company has well established and communicated internal procedures related to insider trading.

There are no share incentive schemes or shareholder agreements in place in the company.

The company's loan agreements include change of control clauses.

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 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.

EVENTS AFTER THE BALANCE SHEET DATE

Reference is made to note 26 to the consolidated accounts for a description of events after the balance sheet date.

Oslo, 13 March 2019

The Board of Directors of Prosafe SE



Glen Ole Rødland

Non-executive Chairman



Birgit Aagaard-Svendsen

Non-executive Director



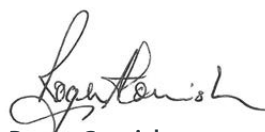
Kristian Johansen

Non-executive Director



Svend Anton Maier

Non-executive Director



Roger Cornish

Non-executive Director



Jesper K. Andresen

Chief Executive Officer



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(l)/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 Executive Officer and the Deputy CEO&CFO 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 2018, that are presented on pages 24 to 87:
 - (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.

Oslo, 13 March 2019

The Board of Directors of Prosafe SE



Glen Ole Rødland

Non-executive Chairman



Birgit Aagaard-Svendsen

Non-executive Director



Kristian Johansen

Non-executive Director



Svend Anton Maier

Non-executive Director



Roger Cornish

Non-executive Director



Jesper K. Andresen

Chief Executive Officer



Stig H. Christiansen

Deputy CEO&CFO



CONSOLIDATED ACCOUNTS

CONSOLIDATED INCOME STATEMENT

(USD million)	Note	2018	2017
Charter revenues	4	293.2	256.0
Other operating revenues	4, 5	37.6	27.0
Operating revenues		330.8	283.0
Employee benefits	6	(76.7)	(76.9)
Other operating expenses	7, 25	(87.5)	(75.1)
Operating profit before depreciation and impairment	25	166.6	130.9
Depreciation	8, 25	(113.0)	(135.2)
Impairment	8	(0.6)	(573.9)
Operating profit/(loss)		53.0	(578.2)
Interest income	10	2.9	1.4
Interest expenses	10	(173.3)	(74.9)
Other financial income	9	13.4	19.8
Other financial expenses	9	(2.9)	(4.3)
Net financial items	10	(159.9)	(58.0)
Share of loss of equity accounted investees	13	(1.7)	(3.1)
Loss before taxes		(108.6)	(639.3)
Taxes	11	(5.9)	(7.8)
Net loss		(114.5)	(647.1)
Attributable to equity holders of the parent		(114.5)	(647.1)
Earnings per share (USD)	12	(1.30)	(8.98)
Diluted earnings per share (USD)	12	(1.30)	(7.35)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(USD million)	Note	2018	2017
Net loss for the year		(114.5)	(647.1)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign currency translation		(5.1)	2.0
Net gain on cash flow hedges	19	48.3	13.2
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		43.2	15.2
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods			
Pension remeasurement		(0.8)	0.0
Net comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(0.8)	0.0
Total comprehensive loss for the year, net of tax		(72.1)	(631.9)
Attributable to equity holders of the parent		(72.1)	(631.9)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(USD million)	Note	Share capital	Con-vertible bonds	War-rants	Other equity	Cash flow hedges	Foreign currency trans-lation	Total equity
Equity at 31 December 2016		7.9	57.0	0.0	1 093.0	(61.5)	33.1	1 129.5
Net loss		0.0	0.0	0.0	(647.1)	0.0	0.0	(647.1)
Other comprehensive income		0.0	0.0	0.0	0.0	13.2	2.0	15.2
Total comprehensive income		0.0	0.0	0.0	(647.1)	13.2	2.0	(631.9)
Conversion of convertible bonds	14	1.0	(33.0)	0.0	32.0	0.0	0.0	0.0
Equity at 31 December 2017		8.9	24.0	-	477.9	(48.3)	35.1	497.6
Adoption of IFRS 15	2	0.0	0.0	0.0	(31.8)	0.0	0.0	(31.8)
Equity at 1 January 2018		8.9	24.0	-	446.1	(48.3)	35.1	465.8
Net loss		0.0	0.0	0.0	(114.5)	0.0	0.0	(114.5)
Other comprehensive income		0.0	0.0	0.0	(0.8)	48.3	(5.1)	42.4
Total comprehensive income		0.0	0.0	0.0	(115.3)	48.3	(5.1)	(72.1)
Conversion of convertible bonds	14	0.1	(3.2)	0.0	3.2	0.0	0.0	0.1
Issue of warrants	14	0.0	0.0	6.4	0.0	0.0	0.0	6.4
Equity at 31 December 2018		9.0	20.8	6.4	334.0	0.0	30.0	400.2

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(USD million)	Note	31/12/2018	31/12/2017
ASSETS			
Vessels	8	1 422.6	1 527.2
New builds	8, 23	125.8	125.2
Other tangible assets	8	2.5	3.6
Investments in associated companies	13	5.2	6.9
Derivatives	18, 19	2.4	0.0
Total non-current assets		1 558.5	1 662.9
Cash and deposits	18, 20	140.3	231.9
Debtors	18, 19	25.2	45.5
Other current assets	18, 21	12.8	6.7
Total current assets		178.3	284.1
Total assets		1 736.8	1 947.0
EQUITY AND LIABILITIES			
Share capital	14	9.0	8.9
Convertible bonds	14	20.8	24.0
Warrants	14	6.4	0.0
Other equity		364.0	464.7
Total equity		400.2	497.6
Interest-bearing non-current liabilities	15, 18, 19	1 198.5	1 329.1
Deferred tax	11	0.0	4.1
Derivatives	18, 19	16.1	39.4
Other non current liabilities		2.4	14.0
Total non-current liabilities		1 217.0	1 386.6
Interest-bearing current debt	15, 18, 19	44.5	18.6
Accounts payable	18	2.2	3.5
Taxes payable	11	14.7	18.2
Other current liabilities	16, 18	58.2	22.5
Total current liabilities		119.6	62.8
Total equity and liabilities		1 736.8	1 947.0

On 13 March 2019 the Board of Directors of Prosafe SE approved and authorised these financial statements for issue.


Glen Ole Rødland

Non-executive Chairman


Birgit Aagaard-Svendsen

Non-executive Director


Kristian Johansen

Non-executive Director


Svend Anton Maier

Non-executive Director


Roger Cornish

Non-executive Director


Jesper K. Andresen

Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT

(USD million)	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxes		(108.6)	(639.3)
Gain on sale of non-current assets		(2.1)	(1.1)
Depreciation and impairment	8, 25	113.6	709.1
Interest income		(2.9)	(1.4)
Interest expenses		173.3	74.9
Share of loss of equity accounted investee		1.7	3.1
Taxes paid		(13.4)	(14.4)
Change in working capital		16.6	11.8
Other items from operating activities	25	(31.1)	13.4
Net cash provided by operating activities		147.1	156.1
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible assets		2.6	1.1
Acquisition of tangible assets	8, 23	(8.7)	(10.1)
Interest received		2.9	1.4
Net cash used in investing activities		(3.2)	(7.6)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of interest-bearing debt		(155.2)	(47.4)
Refinancing cost		(4.2)	0.0
Interest paid		(76.1)	(74.9)
Net cash used in financing activities		(235.5)	(122.3)
Net cash flow		(91.6)	26.2
Cash and deposits at 1 January		231.9	205.7
Cash and deposits at 31 December	20	140.3	231.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: CORPORATE INFORMATION AND PRINCIPAL ACTIVITY

Prosafe SE (the 'Company') is a public limited company domiciled in Nicosia, Cyprus. The registered office of the Company is 73 Metochiou Street, Engomi, CY-2407 Nicosia, Cyprus. The Company is a leading owner and operator of offshore accommodation vessels. 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 2018 were approved and authorised for issue in accordance with a resolution of the board of directors on 13 March 2019.

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 policies adopted are consistent with those in the previous financial years except IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. This is the first set of the Group's annual financial statements in which both IFRS 15 and IFRS 9 have been applied. The changes to significant accounting policies are described in detail below.

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, impairment assessment of non-financial assets and the modification of amortised cost. Estimated useful life of the Group's accommodation/ service vessels is 30 to 50 years dependent on the age at the time of acquisition and subsequent refurbishments and as the economic life varies for the various components on a rig. Management performs an impairment assessment of the fixed asset and whether the accumulated impairments need to be reversed in accordance with IFRS at least on an annual basis. The goodwill related to acquisition of Consafe Offshore AB has been fully impaired in 2017. However, impairment of shares in subsidiaries is a significant estimate required for the preparation of the parent company accounts. As the consequence of refinancing this year, the carrying value of the loan under the new term needs to be adjusted by applying the revised cash flows with a revised effective interest rate so to reflect the new net present value of the loan. Estimates and assumptions are used in calculating the modification of amortised cost which was added into the carrying value of the loan with the same amount of financial costs were recognised.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

As mentioned, the accounting policies adopted are consistent with those of the previous financial year except IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Other standard amendments and interpretations are also effective from 1 January 2018, but they do not have a material effect on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

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 Group has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below.

Lump sum fee, mobilisation and demobilisation fees

Under IAS 18, revenue arising from the re-scheduling, mobilisation and demobilisation income are recognised when the re-scheduling, mobilisation and demobilisation are completed. Revenue is recognised at which the customer acknowledged the completion of the re-scheduling, mobilisation and demobilisation, provided that all other criterias for revenue recognition are met. Under IFRS 15, revenue arising from the re-scheduling, mobilisation and demobilisation income are considered as part of one performance obligation with main charter income and is recognized over the charter period. Therefore, the lump sum from re-scheduling and mobilisation revenue are deferred under IFRS 15 as opposed to under IAS 18. The demobilisation revenue is recognised earlier under IFRS 15 than under IAS 18.

A cumulative adjustment of USD 31.8 million is made in the 2018 opening balance of other equity with a corresponding increase in deferred income (other current liabilities). The adjustment was due to deferred recognition of mobilisation and re-scheduling fees as well as earlier recognition of demobilisation fees.

	As reported as at 31 December 2017	Adjustments due to adoption of IFRS 15	As at 01 January 2018
Other equity	464.7	(31.8)	432.9

IFRS 15 did not have a significant impact on the Group's accounting policies with respect to other revenue streams. For additional information about the Group's accounting policies relating to revenue recognition, see note 3 - Revenue Recognition.

The following tables summarise the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss, other comprehensive income "OCI" and cash flow for the year ended for each of the line items affected. The impact to the respective notes are also shown for each of the line items affected.

Impact on the consolidated statement of financial position

As at 31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
EQUITY AND LIABILITIES			
Other equity	364.0	8.7	372.8
Total equity	400.2	8.7	409.0
Other current liabilities	58.2	(8.7)	49.5
Total current liabilities	119.6	(8.7)	110.9

Impact on the consolidated statement of income statement

31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
Charter revenues	293.2	(23.1)	270.1
Operating revenues	330.8	(23.1)	307.7
Operating profit before depreciation and impairment	166.6	(23.1)	143.5
Operating profit	53.0	(23.1)	29.9
Loss before taxes	(108.6)	(23.1)	(131.6)
Net loss	(114.5)	(23.1)	(137.5)

Impact on the consolidated statement of comprehensive income

31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
Net loss for the year	(114.5)	(23.1)	(137.5)
Total comprehensive loss for the year, net of tax	(72.1)	(23.1)	(95.1)

Impact on the consolidated cash flow statement

31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
Cash flow from operating activities			
Loss before taxes	(108.6)	(23.1)	(131.7)
Change in working capital	16.6	23.1	39.7

There are no impact to Cash flow from investing and financing activities, and net cash flow activities.

Impact on the segment reporting

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

31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
Operating revenues by geographical location			
Europe	272.4	(18.3)	254.1
Americas	56.3	(4.7)	51.6
Total operating revenues	330.8	(23.1)	305.7

There are no impact to other geographical location.

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

Operating revenues from major customers situated in:

Europe 1	156.3	(18.3)	138.0
Americas 1	50.5	(4.7)	45.8

There are no impact to other major customers.

Impact on the note to Other Operating Revenues

31 December 2018	As reported	Adjustments	Amounts with- out adoption of IFRS 15
Mobilisation/demobilisation income	0.0	4.0	4.0
Total other operating revenues	37.6	4.0	41.6

There are no impact to other operating revenues.

IFRS 9 Financial Instruments

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income "FVOCI" and fair value through profit or loss "FVTPL". The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For financial assets held by the Group on 1 January 2018, management has assessed the business models that are applicable on that date to these assets so as to classify them into the appropriate categories under IFRS 9. Material reclassifications resulting from management's assessment are disclosed below. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Impairment of financial asset

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group has the following financial assets subject to the ECL impairment model under IFRS 9: loans and receivables at amortised cost. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in material changes.

Classification and measurement of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirement of IFRS 9, but rather those of IAS 39.

As at 1 January 2018	Original Classification under IAS 39	New Classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Cash and deposits	Loan and receivables	Amortised cost	231.9	231.9
Accounts receivable	Loan and receivables	Amortised cost	45.5	45.5
Other current assets	Loan and receivables	Amortised cost	6.7	6.7
Total financial assets			284.1	284.1

There is no impact to the carrying value of the financial assets and financial liabilities under IFRS 9 as at 1 January 2018.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 LEASES

The new accounting standard IFRS 16 Leases is effective from 1 January 2019. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and replaces the existing IAS 17 and other guidance on lease accounting within IFRS. The new standard represents a significant change in lessees' accounting for leases but keeps the accounting model for lessors mainly unchanged.

IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For each contract that meets this definition, IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability in the balance sheet with certain exemptions for short term and low value leases. Lease payments are to be reflected as interest expense and a reduction of lease liabilities, while the right-of-use assets are to be depreciated over the shorter of the lease term and the assets useful life. The portion of lease payments representing payments of lease liabilities and interest expense shall be classified as cash flows used in financing activities in the statement of cash flows.

The following policies and practical approach are applied by the Group upon transition:

- For contracts already assessed under IAS 17, there will be no reassessment of whether a contract is or contains a lease.
- The opening balance of equity 1 January 2019 will be adjusted with the cumulative implementation effect ("the modified retrospective method").
- Prior year comparatives will not be restated.
- Lease liabilities will be measured at the present value of remaining lease payments, discounted using the incremental borrowing rate 1 January 2019.
- Right-of-use assets will be measured at an amount equal to the lease liability.
- Leases for which the lease term ends during 2019 will be expensed as short term leases.
- Major lease liabilities for the Group comprise of leases of chartered-in vessels, office buildings, warehouses, transportation, logistics assets and other IT infrastructure and office equipment. The Group will separately expense variable expense services and other non-lease components embedded in lease contracts for office buildings and warehouses.
- For leases of other assets, the Group will capitalise non-lease components subject to fixed payments as part of the lease. All the leases in the Group will expire during 2019 except certain office buildings leases that will expire after 2019.
- The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the modified retrospective method and will not restate comparative amounts for the year prior to first adoption. The Group will apply the short term exemption, which means that all leases with a lease term that ends in 2019 will be expensed as before and not capitalized upon transition. Subsequently, the Group will also apply the general short term exemption in IFRS 16 for leases of chartered-in vessels, office buildings, warehouses, transportation, logistics assets and other IT infrastructure and office equipment.
- The Group will apply the general low value exemption in IFRS 16 for leases of office and other equipment. This means that no low value leases of such assets will be capitalized and that lease payments will be expensed in profit or loss.

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

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method and are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. The Group's interest in equity-accounted investees comprise interests in an associate. Unrealised gain arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 currencies other 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

Type of Product/ Service	Nature and timing of satisfaction of performance, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Charter Income/ Bareboat Income/ Mobilisation Income / Demobilisation Income / Lump Sum Fee	The Group charters the accommodation rigs to customers on an agreed period. The Group 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. The invoices are issued on a monthly basis or based on the contractual terms and are normally payable within 30 days.	The activities giving rise to mobilisation, demobilisation and rephasing do not transfer goods or service to the customer. These activities are necessary for the Group to perform its service in providing the accommodation rigs to the customer. These incomes, together with charter income and bareboat income, are considered as a single performance obligation and the revenue are collectively recognised over the charter period. The deferred revenue is included in the contract liabilities.	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 completed. Lump sum fee is recognised upon completion of the agreed term with customer is met.

Management, crew services, catering and other related income	The Group provides optional services upon request from the customer. The invoices are issued on a monthly basis or based on the contractual terms and are payable normally within 30 days.	These income are recognised over time as the services are provided. The related costs are recognised in profit or loss when they are incurred.	These income are recognised over time as the services are provided. The related costs are recognised in profit or loss when they are incurred.
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Interest income is recognised on an accrual basis. Interest income is included in financial items in the income statement. Dividends are recognised when the Group's right to receive the payment is established.

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 the Group 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 (other than rigs) are depreciated on a straight line basis over their useful lifetime as follows:

- Semi-submersible vessels – 30 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 terminal 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, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a significant change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been 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

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group become a party to the contractual provision of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and measurement

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured on following basis: i) financial assets at amortised cost; ii) debt investments at fair value through other comprehensive income "FVOCI"; iii) equity investments at FVOCI; and iv) financial assets at fair value through profit or loss "FVTPL".

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the changes in the business model.

Financial assets at amortised cost	A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: <ul style="list-style-type: none">- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Debt investments at FVOCI	A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: <ul style="list-style-type: none">- It is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets; and- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Equity investments at FVOCI	On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on the investment-by-investment basis.
Financial assets at FVTPL	All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial assets that otherwise meets the requirements to be measured at amortised cost of a FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts, interest rate cap, and interest rate swaps to hedge its foreign currency risks and interest rate risks. 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.

Hedge accounting is not applied in the Group's financial statement. 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 caps and swap contracts is determined by reference to market price for similar instruments.

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 the Group 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.

Policy applicable before 1 January 2018

In the comparative period, 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. The Group 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. The Group's financial assets include cash and short-term deposits, trade and other receivables and financial derivatives.

Subsequent measurement and gains and losses

Policy applicable from 1 January 2018

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Policy applicable before 1 January 2018

Financial assets at FVTPL

In the comparative period, 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

In the comparative period, 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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment of financial assets

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses on:

- financial assets measured at amortised cost

The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured at 12 month expected credit loss:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost of effort. This includes both quantitative and qualitative information and analysis, based in the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Measurement of expected credit losses:

- Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Expected credit losses are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired, which is when one or more events that have a detrimental impact on the estimated future cash flow of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances of expected credit losses for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets as in the statement of financial position.

Policy applicable before 1 January 2018

In the comparative period, 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.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amount due.

FINANCIAL LIABILITIES

Initial recognition

Financial liabilities within the scope of IFRS 9/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. The Group 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. The Group's financial liabilities include non-derivative financial instruments (trade and other payables, 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 IFRS 9/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.

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 tax 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 tax 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 convertible bonds and warrants 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.

NOTE 4: SEGMENT REPORTING

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

Operating revenues by geographical location	2018	2017
Europe	272.4	224.8
Americas	56.3	58.2
Asia	2.1	0.0
Total operating revenues	330.8	283.0

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

Operating revenues from major customers situated in:	2018		2017	
	1)	2)	1)	2)
Europe 1	76.5	23.1%	143.2	50.6%
Europe 2	38.9	11.8%	14.3	5.1%
Europe 3	0.0	0.0%	10.2	3.6%
Europe 4	156.3	47.2%	44.5	15.7%
Americas 1	50.5	15.3%	57.2	20.2%

¹⁾ Operating revenues in USD million

²⁾ Percentage of total revenues

Total assets by geographical location	2018	2017
Europe excl. Cyprus	1 233.6	1 386.3
Cyprus	0.0	20.7
Americas	350.1	395.6
Australia/Asia	153.1	144.4
Total assets	1 736.8	1 947.0

NOTE 5: OTHER OPERATING REVENUES

	2018	2017
Mobilisation/demobilisation income	0.0	3.9
Gain on sale of non-current assets	2.1	1.1
Management, crew services, catering and other related income	35.5	22.0
Total other operating revenues	37.6	27.0

NOTE 6: EMPLOYEE BENEFITS, MANAGEMENT REMUNERATION AND AUDIT FEE

	2018	2017
Wages and salaries	47.4	48.4
Contract personnel	15.1	11.5
Other personnel-related expenses	5.8	6.3
Social security taxes	4.7	5.5
Pension expenses	2.7	3.4
Other remuneration	1.0	1.8
Total employee benefits	76.7	76.9

Number of employees

The average number of employees in the Group for 2018 was 401 (2017: 517). The average number of employees by legal entity was as follows.

	2018	2017
Prosafe Offshore Employment Company Pte Ltd	279	370
Prosafe Offshore Ltd	60	61
Prosafe Services Maritimos Ltda	35	52
Prosafe AS	9	13
Prosafe Offshore Services Pte Ltd ¹⁾	0	0
Prosafe Rigs Pte Ltd	12	11
Prosafe SE	4	5
Prosafe Management AS	0	3
Prosafe Offshore Accommodation Ltd	2	2

¹⁾ Figures are shown in Prosafe Offshore Employment Company Pte. Limited.

Bonus scheme

The CEO, DCEO/CFO, COO and CCO hold incentive agreements which may lead to a bonus payment. The bonus depends on achieving defined targets relating to stretch target for earnings, cost efficiency targets, operational performance and HSE performance and compliance. A portion of 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 from 3 months up to 18 months including the normal notice period.

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 and in a separate report from the compensation committee.

Senior officers (USD 1 000)	Year	Salary	Bonus	Pension	Other benefits	Total
Jesper Kragh Andresen -CEO	2018	404	434	46	21	905
Stig Harry Christiansen - DCEO/ CFO	2018	404	304	46	21	775
Jens Einar Opstad Berge - COO	2018	468	272	47	71	858
Ryan Duncan Stewart - CCO	2018	255	188	26	93	562
Jesper Kragh Andresen (CEO from February 2017)	2017	333	121	42	19	515
Stig Harry Christiansen (Deputy CEO and CFO)	2017	404	0	50	23	477
Jens Einar Opstad Berge (COO from November 2017)	2017	39	0	4	6	49
Ryan Duncan Stewart - CCO	2017	255	0	26	93	374

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

Board of directors

(USD 1 000)

	Year	Board fees ¹⁾
Glen Ole Rødland (chairman)	2018	144
Roger Cornish	2018	109
Birgit Aagaard-Svendsen	2018	107
Svend Anton Maier	2018	96
Kristian Johansen	2018	96
Nancy Ch. Erotocritou (until April 2018)	2018	26
Total fees		578

Glen Ole Rødland (chairman)	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

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

Auditors' fees

(USD 1 000)

	2018	2017
Audit	321	394
Fees for non-audit services	17	10
Total auditors' fees	338	404

Auditors' fees is included in general and administrative expenses (note 7). Other services include USD 17,000 (2017: USD 10,000) in respect of tax compliance and pre-liquidation stage services offered to the group companies by the statutory auditor.

NOTE 7: OTHER OPERATING EXPENSES

	2018	2017
Repair and maintenance	14.9	15.4
Other vessel operating expenses ¹⁾	64.1	44.2
General and administrative expenses	8.5	15.5
Total other operating expenses ¹⁾	87.5	75.1

¹⁾ Refer to note 25 for 2017 reclassification description.

NOTE 8: TANGIBLE ASSETS AND GOODWILL

	Vessels	New builds	Equipment	Buildings	Goodwill	Total
Cost as at 31 December 2016	3 105.5	122.2	6.1	7.9	226.7	3 468.4
Additions	6.4	3.0	0.7	0.0		10.1
Disposals	(120.5)		(1.7)			(122.2)
Cost as at 31 December 2017	2 991.4	125.1	5.1	7.9	226.7	3 356.3
Additions	7.1	0.7	0.3	0.6		8.7
Disposals	(70.8)		(1.6)	(0.7)		(73.0)
Cost as at 31 December 2018	2 927.8	125.8	3.8	7.9	226.7	3 292.0
Accumulated depreciation and impairment						
31 December 2016	1 076.2		4.6	5.5		1 086.3
Accumulated depreciation on disposals (reclassified)						
- Note 25	(93.5)		(1.7)			(95.1)
Depreciation for the year (reclassified) - Note 25	134.4		0.4	0.4		135.2
Impairment	347.2				226.7	573.9
Accumulated depreciation and impairment						
31 December 2017	1 464.2		3.4	5.9	226.7	1 700.2
Depreciation for the year	111.9		0.5	0.6		113.0
Disposals	(70.7)		(1.4)	(0.6)		(72.7)
Impairment	(0.2)			0.8		0.6
Accumulated depreciation and impairment						
31 December 2018	1 505.2		2.4	6.8	226.7	1 741.1
Net carrying amount						
31 December 2018	1 422.6	125.8	1.4	1.1		1 550.9
Net carrying amount						
31 December 2017	1 527.2	152.2	1.7	2.0		1 656.0
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 2018, the capitalised borrowing costs amount to USD 31.5 million (31 December 2017: USD 31.5 million).

Estimated useful life for the semi-submersible accommodation vessels is 30-50 years dependent on the age at the time of the acquisition and subsequent refurbishments. 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. Although market outlook has gradually improved in 2018, management has assessed that this is in the early phase of recovery and too early to conclude the market has permanently improved. Management looked at each individual vessel (including New builds) as a cash generating unit, and concluded that no impairment is required for the vessel and new builds based on the assumptions below.

An impairment charge of USD 0.8 million is charge to a property held in Aberdeen office based on the latest market valuation.

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 2.5% (2017: 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 2.5% (2017: 3%) (general sector inflation assumption)

Capital expenditures

- Capex reflecting long-term capex projections (excluding value enhancing investments)
- Annual increase of capital expenditures 2.5% (2017: 3%) (general sector inflation assumption)

Pre-tax discount rate 8% (2017: 8%)

Sensitivity

- a 1% increase in the pre-tax discount rate would not lead to additional impairment
- a 0.5 % decrease in the growth rate would not lead to additional impairment

In 2017, the following impairment charges have been made as follows:

	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. The Group has only one reporting segment comprising of all accommodation/service vessels to which the goodwill was allocated. Goodwill has been fully impaired in 2017.

NOTE 9: OTHER FINANCIAL ITEMS

	2018	2017
Fair value adjustment currency forwards	0.0	7.9
Fair value adjustment interest rate swaps	11.3	11.9
Fair value adjustment interest rate caps	2.1	0.0
Total other financial income	13.4	19.8
Currency loss	(0.3)	(2.4)
Other financial expenses	(2.7)	(1.9)
Total other financial expenses	(2.9)	(4.3)

NOTE 10: FINANCIAL ITEMS

Year ended 31 December 2018	Financial assets measured at amortised cost	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	2.9	0.0	0.0	2.9
Fair value adjustment - interest rate swaps	0.0	11.3	0.0	11.3
Fair value adjustment - interest rate caps	0.0	2.1	0.0	2.1
Total financial income	2.9	13.4	0.0	16.3
Amortisation of borrowing costs	0.0	0.0	(4.2)	(4.2)
Modification of amortised cost ¹⁾	0.0	0.0	(56.8)	(56.8)
Amortisation relating to abandonment of hedge accounting ¹⁾	0.0	0.0	(48.3)	(48.3)
Interest expenses	0.0	0.0	(64.0)	(64.0)
			(173.3)	(173.3)
Other financial expenses	0.0	0.0	(2.9)	(2.9)
Total financial expenses	0.0	0.0	(176.2)	(176.2)
Net financial items	2.9	13.4	(176.2)	(159.9)

¹⁾ Refer to note 15 relating to the modification of amortised cost and note 19 for amortisation relating to abandonment of hedge accounting.

Year ended 31 December 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)
Interest expenses	0.0	0.0	(58.7)	(58.7)
			(74.9)	(74.9)
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)

NOTE 11: TAXES

Income tax expenses	2018	2017
Taxes in income statement:		
Taxes payable	9.7	9.8
Change in deferred tax	(3.8)	(2.0)
Total taxes in income statement	5.9	7.8
Reconciliation of effective tax rate (IAS 12.81)		
Tax rate	23.0%	
Loss before taxes	(108.6)	
Tax based on applicable tax rate	(25.0)	
Tax effect of non-deductible expenses	11.1	
Tax effect due to unrecognized deferred tax assets	10.1	
Effect of tax in other jurisdictions	9.7	
Tax charge	5.9	

Deferred tax - Specification and movements	2018	2017
Temporary differences:		
Exit from Norwegian tonnage tax system	17.4	22.5
Long-term liabilities	(100.8)	(3.9)
Vessel tax base exceeds net book value	(211.6)	(1.0)
Current liabilities	0.0	0.1
Basis for deferred tax	(295.0)	17.7
Recognised deferred tax	0.0	4.1
Deferred tax 1 January	4.1	6.0
Change in deferred tax in income statement	(3.8)	(2.0)
Translation difference	(0.3)	0.1
Deferred tax 31 December	0.0	4.1
Tax payable as at 31 December	14.7	18.2

Following an assessment of our legal structure to ensure an optimal organisation of the company, the Group decided to relocate the tax residency of 5 legal entities from respectively Cyprus and Singapore (3 legal entities which were tax residents in Cyprus, including parent company Prosafe SE, and 2 vessel-owning legal entities which were tax residents in Singapore) to Norway in Q2 2018. The corporate tax rate in Norway for 2018 is 23% (2017 Cyprus tax rate is 12.5%). The corporate tax rate is 22% in Norway for 2019.

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

The deferred tax liability at the beginning of the year was carried forward from the past enforced departure of the vessel business from the Norwegian tonnage tax system. Following the relocation of the tax residency to Norway, there is no longer a basis for this deferred tax liability for the Group.

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 and warrants.

	2018	2017
Net loss	(114.5)	(647.1)
Weighted average number of outstanding shares (1 000)	87 987	72 052
Basic earnings per share	(1.30)	(8.98)
Weighted average number of outstanding and potential shares (1 000)	87 987	87 987
Diluted earnings per share	(1.30)	(7.35)

NOTE 13: INVESTMENTS IN ASSOCIATED COMPANIES

The investment relates to the 25% shareholding in Dan Swift (Singapore) Pte. Ltd., a company incorporated in Singapore, which was acquired in December 2016. The registered office of the Company is 1 Harbourfront Avenue, #16-08, Keppel Bay Tower, Singapore 098632. The company owns one accommodation monohull. This investment is measured using the equity method.

The following table summarises the financial information of Dan Swift (Singapore) Pte. Ltd., adjusted for valuation adjustments at acquisition. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Dan Swift (Singapore) Pte. Ltd.

	2018	2017
Ownership	25 %	25 %
Non-current assets	89.9	96.1
Current assets	4.6	4.7
Non-current liabilities	56.4	56.4
Current liabilities	2.0	1.8
Net assets (100%)	36.1	42.6
Group's share of net assets (25%)	9.0	10.7
Valuation adjustment non-current assets at acquisition	(3.8)	(3.8)
Carrying amount of interest in associate	5.2	6.9
Operating revenue (100%)	10.5	0.6
Net loss (100%)	(6.6)	(37.2)
Group's share of net loss (25%)	(1.7)	(9.3)
Valuation adjustment non-current assets at acquisition	0.0	6.2
Group's share of net loss in income statement	(1.7)	(3.1)

NOTE 14: SHARE CAPITAL, SHAREHOLDER INFORMATION CONVERTIBLE BONDS AND WARRANTS

	2018	2017
Issued and paid up number of ordinary shares at 31 December	81 784 212	80 725 809
Authorised number of shares at 31 December	140 247 177	130 440 177
Nominal value at 31 December	EUR 0.10	EUR 0.10
Number of shareholders at 31 December	4 929	5 427

Largest shareholders/groups of shareholders at 31.12.2018	No of shares	Percentage
North Sea Strategic Investments AS	15 479 410	18.9 %
HV VI Invest Sierra Malta Ltd	8 657 609	10.6 %
State Street Bank and Trust Comp	8 368 582	10.2 %
Nordea Bank ABP	6 620 205	8.1 %
State Street Bank and Trust Comp	4 234 108	5.2 %
WF Wells Fargo/Non-Repatriate	2 806 111	3.4 %
Pareto Aksje Norge Verdipapirfond	2 765 660	3.4 %
Nordnet Bank AB	1 457 166	1.8 %
Catella Hedgefond	1 273 596	1.6 %
Invesco Global Balanced Fund	1 058 374	1.3 %
Skandinaviska Enskilda Banken S.A.	926 081	1.1 %
UBS Switzerland AG	904 303	1.1 %
Forsvarets Personellservice	896 088	1.1 %
MP Pensjon PK	874 371	1.1 %
Morgan Stanley & Co. International	846 533	1.0 %
Helmer AS	808 000	1.0 %
Verdipapirfondet DNB High Yield	669 689	0.8 %
Invesco Global Balanced Class	666 459	0.8 %
Pictet & Cie (Europe) S.A.	604 000	0.7 %
Mørck	600 000	0.7 %
Total 20 largest shareholders/groups of shareholders	60 516 345	74.0 %

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	2018		2017	
	No. of convertible bonds	Value	No. of convertible bonds	Value
Opening balance as at 31 December	7 261 194	24.0	16 588 001	57.0
Conversion of convertible bonds	(1 058 404)	(3.2)	(9 326 807)	(33.0)
Closing balance as at 31 December	6 202 790	20.8	7 261 194	24.0

Warrants

As part of the USD 1 300 million credit facility refinancing concluded during the year, the Group has issued the warrants to those lenders having elected to receive such instead of increased margins. In total, 9,779,993 warrants have been issued, each of which gives right to subscribe for one new share in the company at a subscription price of NOK 21.37. Of these, 5,141,021 warrants are conditional inter alia on the Group taking delivery of Safe Nova and/or Safe Vega, and the remaining 4,638,972 warrants on the Group taking delivery of both Safe Nova and Safe Vega. As a result, the Group has recognised USD 6.4 million in the equity as the warrants will be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash.

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

NOTE 15: INTEREST-BEARING DEBT

	2018	2017
Credit facilities	1 192.0	1 337.1
Sellers' credits	19.0	22.8
Modification of the amortised cost - credit facilities	50.6	0.0
Unamortised borrowing costs	(18.6)	(12.2)
Total interest-bearing debt	1 243.0	1 347.7
Non-current interest-bearing debt	1 198.5	1 329.1
Current interest-bearing debt	44.5	18.6
Total interest-bearing debt	1 243.0	1 347.7

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 and a revolving credit facility of USD 300 million. Initially the term loan tranches were reduced semi-annually by USD 55 and USD 10 million, respectively. In August 2018 the amortisation profile and covenants relating to this facility were amended. 90 per cent of the originally scheduled repayments in the period 1 January 2017 through 2021 have been postponed and are to be repaid on the final maturity date. The Group secured an option to extend the final maturity by one year, from February 2022 to February 2023. Assuming the extension option is exercised, for the additional year to maturity for the USD 1 300 million facility – from February 2022 to February 2023 - Prosafe will pay an additional 1.2% p.a. margin in the extension year (instead of the increase of 0.6% p.a.). If the extension option is exercised, all interest from February 2022 onwards is payable in cash with the exception of any additional margin relating to Safe Nova and Safe Vega. USD 19.5 million semi-annual instalments in 2022 in the event the extension option is exercised. As of 31 December 2018, there was USD 137 million available under the revolving credit facility.

Under IFRS 9, when a debt instrument is restructured or refinanced and the terms have been modified, it is necessary to assess whether the new terms are considered to have been substantially modified, and thereby conclude on the accounting treatment relating to the loan recognition.

Based on qualitative and quantitative tests performed under IFRS 9, the Group has assessed that the refinancing as a non-substantial loan modification and it does not require in de-recognition of loan. Under a non-substantial loan modification that does not require in de-recognition of the financial liability, the carrying values of the financial liability under the new terms needs to be recalculated by using revised cash flows and a revised effective interest rate so to reflect the new net present value of the loan. The modification of amortised cost of USD 56.8 million is estimated and has been added into the carrying value of the loan and the same amount of financial costs is being recognised in the profit and loss in this year. The modification of the amortised cost carried in the loan amount is mainly the effect from the reduction of the USD 1300 million facility amortization and the increased margin under the new financing term, and will be amortized over the remaining loan periods. See note 10 on modification of the amortised cost - loan recognised as financial expenses.

USD 144 million credit facility (2017: USD 288 million credit facility)

This credit facility, which has a maturity of seven years, consists of one tranche of USD 144 million. The first one was drawn upon delivery of Safe Notos in February 2016, and initially there were a second available tranche (Safe Eurus), this tranche was cancelled in 2018, when financing for Eurus were agreed with Cosco. In September 2016 the amortisation profile 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.

There is a cash sweep mechanism with testing 31 March and 30 September. Any excess cash over USD 155 million threshold shall be shared between lenders (90%) and the company (10%). Once Safe Eurus, Safe Nova and Safe Vega are delivered, the excess cash will be reduced with the initial cash payment for the three new builds (Safe Eurus USD 50 million, Safe Nova USD 25 million, Safe Vega USD 25 million). Any new shareholder contributions shall be subtracted from excess cash, and not swept.

Financial covenants as per amendment in August 2018:

Minimum liquidity:	USD 65 million
Minimum value:	On the USD 1300 million facility, no minimum market value requirement shall apply until 1 January 2022; thereafter 100% minimum market value on at least one out of every two consecutive annual test dates. On the USD 144 million (Safe Notos) facility, no minimum market value requirement shall apply until 1 January 2019. Covenant will in 2019 be set at 110% (in respect of 2 consecutive annual test dates), and there will be a step up in market value covenant in March 2021 to 125%.
Leverage ratio: ¹⁾	Leverage ratio to be negotiated, with first testing date on 31 March 2021.
Interest coverage: ²⁾	No interest coverage ratio until 30 June 2020; 1.00x from 1 July 2020 until 31 March 2021; 1.50x from 1 April 2021 thereafter

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

¹⁾ Leverage ratio = net borrowings/adjusted EBITDA

²⁾ Interest coverage ratio = adjusted EBITDA/net interest expenses

Interest on bank facilities

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

	USD 288 million facility	USD 144 million facility		
		Until 30.06.2019	From 01.07.2019	
	Cash margin	Cash margin	PIK margin	Cash margin
Applicable leverage ratio				
Less than or equal to 3.0:1	2.60 %	2.15 %	0.10 %	2.25 %
Above 3.0:1 and less than 4.0:1	2.75 %	2.15 %	0.10 %	2.25 %
Above 4.0:1 and less than 5.0:1	2.90 %	2.15 %	0.15 %	2.30 %
Above 5.0:1 and less than 5.5:1	3.10 %	2.15 %	0.35 %	2.50 %
Above 5.5:1	3.35 %	2.15 %	0.60 %	2.75 %

Payment in kind ("PIK") margin as stated above will be added to the final balloon payment.

For the USD 1300 million facility, there was an increase in margin from the refinancing in August 2018 compared to the previous margin under the USD 1300 million facility agreement by 0.6% p.a. This additional 0.6% margin will be cash interest if minimum liquidity remains above USD 155 million. However, to protect liquidity if cash falls below USD 155 million, the additional interest will be payment-in-kind (PIK) and added to the final maturity instalment ("PIK toggle").

In addition and as part of the amendments agreed in August 2018, subject to delivery of the Safe Nova and Safe Vega, and the USD 1300 million facility being outstanding at the time of delivery, the USD 1300 million facility lenders (only) may elect to receive either:

- i. An additional margin of 0.225% p.a. for each of Safe Nova and Safe Vega from when they are delivered. The increase in margin in connection with delivery will also be subject to the PIK toggle mechanism, which also apply from February 2022 to February 2023 (assuming the extension option is exercised); or
- ii. Warrants for up to 6.52 million shares per vessel, and up to a maximum of 9.78 million shares in aggregate.

For delivery of the first rig (either Safe Nova or Safe Vega), 21.2% of lenders will get margin uplift.

For the delivery of the second rig (either Safe Nova or Safe Vega), 28.8% of lenders will get margin uplift.

Financial covenants as of 31 December 2018

Cash and deposits	140.3
Restricted cash	(8.8)
Amount available for utilisation, revolving credit facility (max USD 25 million)	25.0
Liquidity ¹⁾ (minimum USD 65 million)	156.5

¹⁾ The liquidity stated above is for the purpose of calculation of financial covenants.

Sellers' credits

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

	2018	2017
Various accrued costs	18.1	3.3
Accrued interest costs	14.1	6.9
Deferred income	9.4	3.0
Accrued layup costs ¹⁾	16.6	9.3
Total interest-free current liabilities	58.2	22.5

¹⁾ Refer to note 23 and 26 for details on accrued layup costs.

NOTE 17: MORTGAGES AND GUARANTEES

2018

As of 31 December 2018, the Group's interest-bearing debt secured by mortgages totalled USD 1,192 million. The debt was secured by mortgages on the accommodation/service vessels Safe Bristol, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 1,422.6 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 2018. 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 2018, the Group 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 201 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.

2017

As of 31 December 2017, the Group'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 Bristol, 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.

NOTE 18: FINANCIAL ASSETS AND LIABILITIES

As of 31 December 2018, the group had financial assets and liabilities in the following categories:

Year ended 31 Dec 2018	Financial assets measured at amortised cost	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying value	Fair value
Cash and deposits	140.3	0.0	0.0	140.3	140.3
Accounts receivable	25.2	0.0	0.0	25.2	25.2
Other current assets	12.8	0.0	0.0	12.8	12.8
Fair value interest rate caps	0.0	1.3	0.0	1.3	1.3
Fair value interest rate swaps	0.0	1.1	0.0	1.1	1.1
Total financial assets	178.3	2.4	0.0	180.7	180.7
Credit facilities ¹⁾	0.0	0.0	1 224.0	1 224.0	1 215.0
Seller Credits	0.0	0.0	19.0	19.0	19.0
Fair value interest rate swaps	0.0	16.1	0.0	16.1	16.1
Accounts payable	0.0	0.0	2.2	2.2	2.2
Other current liabilities	0.0	0.0	58.2	58.2	58.2
Other non-current liabilities	0.0	0.0	2.4	2.4	2.4
Total financial liabilities	0.0	16.1	1 305.8	1 321.9	1 312.9

¹⁾ Fair value reflects current market conditions with the assumption that the credit margin would increase from the actual 274 basis points to 299 basis points. The net present value of the interest advantage, discounted with USD 5-year swap rate, is around USD 9 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 caps. 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 and interest rate and forward rate curves. All derivative contracts are secured under the USD 1300 million credit facility.

Year ended 31 Dec 2018	Total	Level 1	Level 2	Level 3
Fair value interest rate caps	1.3	0.0	1.3	0.0
Fair value interest rate swaps	1.1	0.0	1.1	0.0
Total financial assets	2.4	0.0	2.4	0.0
Fair value interest rate swaps	(16.1)	0.0	(16.1)	0.0
Total financial liabilities	(16.1)	0.0	(16.1)	0.0

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	Carrying 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	1 324.9	1 324.9	1 284.9
Seller credits	0.0	0.0	22.8	22.8	22.8
Fair value interest rate 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
Other non-current liabilities	0.0	0.0	14.0	14.0	14.0
Total financial liabilities	0.0	39.4	1 387.7	1 427.1	1 387.1

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.

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

Assets measured at fair value in the consolidated statement of financial position

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

The Group 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. The Group'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

The Group is exposed to currencies other than USD associated with operating expenditure, capital expenditure, tax, cash and deposits. Cash and deposits are mainly denominated in USD, GBP and NOK.

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.

	2018		2017	
Pre-tax effects	Income state- ment effect	OCI effect	Income state- ment effect	OCI effect
USD +10%				
Re-valuation cash and deposits	(7.1)	0.0	(10.9)	0.0
Total	(7.1)	0.0	(10.9)	0.0
USD - 10%				
Re-valuation cash and deposits	(7.1)	0.0	(10.9)	0.0
Total	(7.1)	0.0	(10.9)	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 swaps and caps agreements. The Group evaluates the hedge profile in relation to the repayment schedule of its loans, the Group's portfolio of contracts, cash flow and cash in hand. The interest rate risk is largely hedged by the use of interest rate swaps or cap structures for normally 70-100% of the debt.

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 ± 50 bps (2017: ± 100 bps) is applied in the analysis.

	2018		2017	
Pre-tax effects	Income statement effect	OCI effect	Income statement effect	OCI effect
Forward curve +50bps (2017: +100bps)				
Re-valuation interest rate swaps	8.3	0.0	36.7	0.0
Re-valuation interest rate caps	2.2	0.0	0.0	0.0
Total	10.5	0.0	36.7	0.0
Forward curve -50bps (2017: -100bps)				
Re-valuation interest rate swaps	(8.4)	0.0	(38.3)	0.0
Re-valuation interest rate caps	(0.8)	0.0	0.0	0.0
Total	(9.2)	0.0	(38.3)	0.0

Changes in other comprehensive income related to financial instruments

As of 31 December 2018, the following changes in other comprehensive income were related to financial instruments:

	2018	2017
Re-valuation interest rate swaps	48.3	13.2
Total	48.3	13.2

The Group ceased hedge accounting for its interest rate swaps on 30 June 2016. Under IFRS 9, when an entity discontinues hedge accounting for a cashflow hedge and the amount accumulated in the cashflow hedge reserve is a loss, this amount should be immediately reclassified from the reserve into profit or loss if the entity does not expect the loss will be recovered in one or more future periods. The Group has assessed the discontinued cashflow hedge reserve balance and concluded that the amount is not expected to be recovered in the future periods due to the interest rate development and forward curve. As a consequence of this assessment, the reserve balance of USD 48.3 million is taken into profit or loss. See note 10 on amortisation relating to abandonment of hedge recognised as financial expenses.

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 the Group 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 the Group a substantial part of the remaining contract value.

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

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

As of 31 December 2018, 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 2018	25.2	25.1	0.0	0.0	0.1	0.0
31 December 2017	45.5	25.3	20.2	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 2018, Prosafe had an unrestricted liquidity reserve totalling USD 268.5 million (unrestricted cash of USD 131.5 million plus USD 137 million in liquidity reserve under a committed revolving credit facility). 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 challenging environment 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 2018 and the spend reductions that have taken place have reduced the liquidity risk.

As of 31 December 2018, the Group's main financial liabilities had the following remaining contractual maturities (assuming the extension option for the USD 1300 million facility is not exercised):

Per year	2019	2020	2021	2022	2023 →
Interest-bearing debt (repayments)	34.0	16.6	140.5	1 019.4	0.0
Interests including interest rate swaps ¹⁾	69.3	67.8	63.0	7.3	0.0
Taxes	14.7	0.0	0.0	0.0	0.0
Accounts payable and other current liabilities	60.4	0.0	0.0	0.0	0.0
Total	178.4	84.4	203.5	1 026.7	0.0

¹⁾ Based on average debt, 3m LIBOR as of mid February 2019 and expected credit margin.

As of 31 December 2018, the commitments under the USD 1,300 million credit facility were not fully utilised. As of year-end, available amount under the revolving credit facility was USD 137 million. 50% of the USD 288 million facility was drawn upon delivery of Safe Notos in February 2016. Initially there was a second available tranche (Safe Eurus), which was cancelled in 2018 when financing for Eurus was agreed with Cosco. Reference is made to note 15 for further information.

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.

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. The Group manages the total of shareholders' equity and long term debt as their capital. The Group'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 Group Gross profit before depreciation and impairment over the last 12 months.

NOTE 20: CASH AND DEPOSITS

	2018	2017
Restricted cash deposits	8.8	5.3
Free cash and short-term deposits	131.5	226.6
Total cash and deposits	140.3	231.9

NOTE 21: OTHER CURRENT ASSETS

	2018	2017
Receivables	8.2	1.9
Prepayments	1.7	3.1
Stock	2.0	1.0
Other current assets	0.9	0.7
Total other current assets	12.8	6.7

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 Services Maritimos Ltda	Brazil	100 %	100 %
Prosafe Holding Limited	Cyprus	100 %	100 %
Prosafe Rigs (Cyprus) Limited	Cyprus	100 %	100 %
Prosafe Offshore Accommodation Ltd	Jersey	100 %	100 %
Prosafe Offshore BV	Netherlands	100 %	100 %
Prosafe AS	Norway	100 %	100 %
Prosafe Management AS	Norway	100 %	100 %
Prosafe Offshore AS	Norway	100 %	100 %
Axis Nova Singapore Pte. Ltd.	Singapore	100 %	100 %
Axis Vega Singapore Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore Asia Pacific Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore Employment Company Pte. Limited	Singapore	100 %	100 %
Prosafe Offshore Holdings Pte. Ltd.	Singapore	100 %	100 %
Prosafe Offshore Pte. Limited	Singapore	100 %	100 %
Prosafe Offshore Services Pte. Ltd.	Singapore	100 %	100 %
Prosafe Rigs Pte. Ltd.	Singapore	100 %	100 %
Safe Eurus Singapore Pte. Ltd.	Singapore	100 %	100 %
Prosafe (UK) Holdings Limited	United Kingdom	100 %	100 %
Prosafe Offshore Limited	United Kingdom	100 %	100 %
Prosafe Rigs Limited	United Kingdom	100 %	100 %

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

Shares owned by senior officers and directors at 31 December 2018:

(includes shares owned by close family/relatives and wholly-owned companies)

	Shares
Senior officers:	
Jesper Kragh Andresen - CEO	32 476
Stig Harry Christiansen - DCEO and CFO	26 500
Jens Einar Opstad Berge - COO	13 000
Ryan Duncan Stewart - CCO	260
Directors:	
Glen Ole Rødland - Chairman	0*
Svend Anton Mayer - Director	0
Roger Cornish - Director	0
Birgit Aagaard-Svendsen - Director	3 000
Kristian Johansen - Director	0

*Mr Rødland has an indirect ownership interest in Prosafe due to his ownership interest in HitecVision VII, L.P.

NOTE 23: CAPITAL COMMITMENTS

New builds

As at 31 December 2018, the Group had three undelivered completed new builds residing at COSCO's Qidong shipyard in China; Safe Eurus, Safe Nova and Safe Vega.

Safe Eurus

Safe Eurus is in a preserved, strategic stacking mode and the Group has accrued lay-up cost for this vessel. In accordance with the previous agreement with COSCO, 50 percent of these costs are to be paid on delivery and the remaining 50 percent after delivery. During August 2018, Prosafe has re-negotiated the terms of the agreements with COSCO. Under the new term, if the Group successfully take delivery of the vessel by December 2019, COSCO will waive the accrued lay up cost incurred by the Group previously. Although the Group intends to take delivery of the vessel by 31 December 2019, it is probable that the Group may not have the contract firm up for Safe Eurus by the set timeline. In this scenario, the Group may need to re-negotiate the terms with COSCO in which COSCO might expect the lay up costs to be paid and with a similar level of lay-up costs to continue for any extended period. As the result, the Group continues to recognise the liability of USD 16.6 million relating to lay-up cost in the balance sheet as at 31 December 2018.

In addition, the Group is committed to pay USD 50 million to COSCO upon taking delivery of Safe Eurus with the remainder of the cost to be financed by COSCO. Repayment of yard finance and interest rates linked to future earnings and day rate achieved. "

Safe Nova and Safe Vega

During the year, an agreement has been reached with COSCO. If the Group gives notice to COSCO within 5 years from August 2018 to take delivery of the vessels, the Group is committed to pay USD 25 million each upon delivery of the vessel and the remainder of the costs will be financed by COSCO. Similar to Safe Eurus, repayment of yard finance and interest rates linked to future earnings and day rate achieved.

NOTE 24: CONTINGENT ASSETS

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

While awaiting the final outcome of the dispute, the Group considers the amount payable by Westcon to be a contingent asset under IAS 37, and has therefore not recognised the amount per 31 December 2017 & 31 December 2018.

NOTE 25: RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION

To align with industry practice and purifying of operating expenses, the Group has reclassified special periodic survey costs of the vessels from operating expenses to depreciation. There is no impact to the net operating results, cash flow and tangible assets. The tables below show the effect to the income statement, cash flow statement and tangible assets.

2017	Previously reported	Adjustment	Reclassified amount
CONSOLIDATED INCOME STATEMENT			
Other operating expenses	(83.1)	8.0	(75.1)
Operating profit before depreciation and impairment	122.9	8.0	130.9
Depreciation	(127.2)	(8.0)	(135.2)
CONSOLIDATED CASH FLOW STATEMENT			
Depreciation and impairment	701.1	8.0	709.1
Other items from operating activities	21.4	(8.0)	13.4
NOTE 7: OTHER OPERATING EXPENSES			
Other vessel operating expenses	52.2	(8.0)	44.2
Total other operating expenses	83.1	(8.0)	75.1
NOTE 8 TANGIBLE ASSETS & GOODWILL			
Accumulated depreciation on disposals	(87.1)	(8.0)	(95.1)
Depreciation for the year	127.2	8.0	135.2

NOTE 26: EVENTS AFTER THE BALANCE SHEET DATE

Safe Eurus Delivery

In January 2019, the Group was ranked first place in the Brazil auction and it is likely that Petrobras will nominate a batch for Safe Eurus. However, before the contract can be formally awarded, there is still a technical compliance evaluation process to be completed and the commercial terms to be agreed upon between the Group and the client. Only upon the contract is officially awarded, the Group will make a formal investment decision so to ensure the use of funds are in line with agreements set with lenders in August 2018. In the situation where no suitable contract can be awarded for Safe Eurus by December 2019, the Group will likely consider to extend terms with COSCO in which COSCO might expect the lay up costs to be paid and with a similar level of lay-up costs to continue for any extended period. As a result, the accrued lay up costs remain in the book as at December 2018 and further under IAS 37 until the conditions for COSCO to waive the legal obligation are met.



PARENT COMPANY ACCOUNTS

INCOME STATEMENT - PROSAFE SE

(USD 1 000)	Note	2018	2017
Income from investments in subsidiaries		40 396	12 600
Impairment of shares in subsidiaries	7	0	(745 188)
Results of investing activities		40 396	(732 588)
Operating expenses	2	(9 324)	(6 321)
Depreciation	3	(10)	(2)
Operating profit/(loss)		31 062	(738 911)
Interest income		7 633	3 804
Interest expenses		(172 683)	(70 141)
Other financial income	4	13 438	45 442
Other financial expenses	4	(9 847)	(25 007)
Net financial items	5	(161 459)	(45 902)
Loss before taxes		(130 397)	(784 813)
Taxes	6	(35)	(669)
Net loss		(130 432)	(785 482)
Attributable to equity holders of the company		(130 432)	(785 482)

STATEMENT OF COMPREHENSIVE INCOME - PROSAFE SE

(USD 1 000)	2018	2017
Net loss	(130 432)	(785 482)
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net gain on cash flow hedges	47 985	13 200
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Pension remeasurement	(822)	0
Total comprehensive loss for the year, net of tax	(83 269)	(772 282)
Attributable to equity holders of the company	(83 269)	(772 282)

STATEMENT OF FINANCIAL POSITION - PROSAFE SE

(USD 1 000)	Note	31/12/18	31/12/17
ASSETS			
Tangible assets	3	0	10
Shares in subsidiaries and in an associate	7	1 553 203	1 828 292
Intra-group receivables	12, 14	248 525	128 591
Derivatives	14	2 452	0
Total non-current assets		1 804 180	1 956 892
Cash and deposits	14	16 024	18 373
Other current assets	8, 14	261	162
Total current assets		16 285	18 534
Total assets		1 820 465	1 975 427
EQUITY AND LIABILITIES			
Share capital		9 021	8 906
Share premium reserve		1 037 353	1 034 280
Share capital reduction reserve		71 846	71 846
Total paid-in equity	9	1 118 220	1 115 032
Retained earnings		(639 395)	(556 127)
Convertible bonds	9	20 809	23 997
Warrants	9	6 461	0
Total equity		506 095	582 902
Intra-group non-current liabilities	12, 14	60 037	0
Interest-bearing long-term debt	10, 14, 15	1 198 269	1 310 701
Derivatives	14	16 136	39 399
Interest-free long-term liabilities	14, 15	2 311	1 770
Total long-term liabilities		1 276 753	1 351 869
Interest-bearing current debt	10, 15	25 728	14 200
Accounts payable	14, 15	491	0
Intra-group current liabilities	12, 14, 15	853	17 968
Other interest-free current liabilities	11, 14, 15	10 545	8 486
Total current liabilities		37 617	40 654
Total equity and liabilities		1 820 465	1 975 427

On 13 March 2019, the Board of Directors of Prosafe SE approved and authorised these financial statements for issue.


Glen Ole Rødland

Non-executive Chairman


Birgit Aagaard-Svendsen

Non-executive Director


Kristian Johansen

Non-executive Director


Svend Anton Maier

Non-executive Director


Roger Cornish

Non-executive Director


Jesper K. Andresen

Chief Executive Officer

CASH FLOW STATEMENT - PROSAFE SE

(USD 1 000)	Note	2018	2017
Cash flow from operating activities			
Loss before taxes		(130 397)	(784 814)
Unrealised currency loss on long-term debt		7 547	4 306
Depreciation	3	10	2
Impairment shares in subsidiaries		0	745 188
Interest income		(7 633)	(3 804)
Interest expenses		172 683	70 141
Change in working capital		(53)	(477)
Taxes paid		(35)	(669)
Other items from operating activities		(25 716)	(6 546)
Net cash flow from operating activities		16 406	23 328
Cash flow from investing activities			
Proceeds from sale of shares in subsidiaries		217 374	0
Acquisition of shares in subsidiaries		(3 200)	(915)
Change in intra-group balances		(23 645)	(7 254)
Interest received		7 633	3 804
Net cash flow from (used in) investing activities		198 162	(4 365)
Cash flow from financing activities			
Repayment of interest-bearing long-term debt		(151 200)	(14 200)
Interest paid		(65 717)	(70 141)
Net cash flow used in financing activities		(216 917)	(84 341)
Net cash flow		(2 349)	(65 378)
Cash and deposits at 1 January		18 373	83 751
Cash and deposits at 31 December		16 024	18 373

STATEMENT OF CHANGES IN EQUITY - PROSAFE SE

(USD 1 000)	Note	Share capital	Share premium	Capital redemption reserve	Retained earnings	Convertible Bonds	Cash flow hedges	Warrants	Total equity
Equity at 31									
December 2016		7 914	1 002 282	71 846	277 341	56 987	(61 185)	0	1 355 185
Net loss		0	0	0	(785 482)	0	0	0	(785 482)
Other comprehensive income		0	0	0	0	0	13 200	0	13 200
Total comprehensive income¹⁾		0	0	0	(785 482)	0	13 200	0	(772 282)
Conversion of convertible bonds	9	992	31 998	0	0	(32 990)	0	0	0
Equity at 31									
December 2017		8 906	1 034 280	71 846	(508 142)	23 997	(47 985)	0	582 902
Net loss		0	0	0	(130 432)	0	0	0	(130 432)
Other comprehensive income		0	0	0	(822)	0	47 985	0	47 163
Total comprehensive income¹⁾		0	0	0	(131 254)	0	47 985	0	(83 269)
Conversion of convertible bonds	9	115	3 073	0	0	(3 188)	0	0	0
Issue of warrants	9	0	0	0	0	0	0	6 461	6 461
Equity at 31									
December 2018		9 021	1 037 353	71 846	(639 395)	20 809	0	6 461	506 095

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.

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 accounting policies adopted are consistent with those in the previous financial years except IFRS 9 Financial Instruments. This is the first set of the parent company's financial statements in which IFRS 9 has been applied. The details of the significant changes and quantitative impact of the changes are set out below. 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 and in an associate are measured at historic cost, unless there is any indication of impairment. In case of impairment, an investment is written down to recoverable amount.

IFRS 9 Financial Instruments

The Company's adoption of IFRS 9 is in line with the Group's adoption as stated in the notes to the consolidated accounts.

The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirement of IFRS 9, but rather those of IAS 39.

As at 1 January 2018	Original Classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New Carrying amount under IFRS 9
Financial assets				
Intra-group long-term receivable	Loan and receivables	Amortised cost	128 591	128 591
Cash and deposits	Loan and receivables	Amortised cost	18 373	18 373
Other current assets	Loan and receivables	Amortised cost	162	162
Total financial assets			147 125	147 125

There is no impact to the carrying value of the financial assets and financial liabilities under IFRS 9 as at 1 January 2018.

NOTE 2: OPERATING EXPENSES

	2018	2017
Services from subsidiaries	3 877	4 043
Directors' fees	578	603
Salaries and management bonus	1 300	468
Other remuneration	60	40
Payroll taxes	154	34
Pension expenses	(104)	(133)
Auditors' audit fees	96	112
Auditors' other fees	2	5
Legal fees	1 703	(230)
Other operating expenses	1 658	1 379
Total operating expenses	9 324	6 321

Board of directors	Year	Board fees ¹⁾
Glen Ole Rødland (Chairman)	2018	144
Roger Cornish	2018	109
Birgit Aagaard-Svendsen	2018	107
Svend Anton Maier	2018	96
Kristian Johansen	2018	96
Nancy Ch. Erotocritou (until April 2018)	2018	26
Total fees		578

Glen Ole Rødland (Chairman)	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

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

Number of employees

The average number of employees in the Company for 2018 was 4 (2017: 5).

NOTE 3: TANGIBLE ASSETS

	Equipment	Total
Acquisition cost 31.12.16	211	211
Acquisition cost 31.12.17	211	211
Additions	0	0
Disposals at acquisition cost	(211)	(211)
Acquisition cost 31.12.18	0	0
Accumulated depreciation 31.12.16	199	199
Depreciation for the year	2	2
Accumulated depreciation 31.12.17	201	201
Accumulated depreciation on disposals	(211)	(211)
Depreciation for the year	10	10
Accumulated depreciation 31.12.18	0	0
Carrying value 31.12.18	0	0
Carrying value 31.12.17	10	10
Depreciation rate (%)	20-30	-

NOTE 4: OTHER FINANCIAL ITEMS

	2018	2017
Currency gain	0	25 668
Fair value adjustment currency forwards	41	7 886
Fair value adjustment interest rate swaps	11 266	11 888
Fair value adjustment interest rate caps	2 130	0
Total other financial income	13 438	45 442
Currency loss	(8 379)	(20 536)
Other financial expenses	(1 469)	(4 471)
Total other financial expenses	(9 847)	(25 007)

NOTE 5: FINANCIAL ITEMS

Year ended 31 December 2018	Financial assets measured at amortised cost	Fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Interest income	7 633	0	0	7 633
Fair value adjustment currency forwards	0	41	0	41
Fair value adjustment interest rate swaps	0	11 266	0	11 266
Fair value adjustment interest rate caps	0	2 130	0	2 130
Total financial income	7 633	13 438	0	21 071
Interest expenses	0	0	(67 865)	(67 865)
Currency loss ¹⁾	0	0	0	(8 379)
Modification of amortised cost ²⁾	0	0	(56 833)	(56 833)
Amortisation relating to abandonment of hedge accounting ²⁾	0	0	(47 985)	(47 985)
Other financial expenses excluding currency loss	0	0	(1 469)	(1 469)
Total financial expenses	0	0	(174 151)	(182 530)
Net financial items	7 633	13 438	(174 151)	(161 459)

Year ended 31 December 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 rate 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 excluding currency loss	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)

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

²⁾ For further information, see note 15 of the consolidated accounts relating to the modification of amortised cost and note 19 of the consolidated accounts for amortisation relating to abandonment of hedge accounting.

NOTE 6: TAXES

	2018	2017
Taxes	35	669
Total taxes in income statement	35	669
<i>Temporary differences:</i>		
Loss carried forward	0	(180 768)
Basis for deferred tax liability (+)/benefit (-)	0	(180 768)
Deferred tax liability (+)/benefit (-)	0	0
Taxes payable at 31 December	0	0

During Q2 2018, the company relocated its tax residency from Cyprus to Norway. The corporate tax rate in Norway for 2018 is 23% (2017 and 2018 Cyprus tax rate is 12.5%). The corporate tax rate is 22% in Norway for 2019.

Reconciliation in accordance with IAS 12.81

	2018	2017
Tax rate	23,0 %	12,5 %
Loss before taxes	(130 397)	(784 813)
Corporation tax thereon at the applicable tax rates	(29 991)	(98 102)
Tax effect of expenses not deductible for tax purposes	11 040	99 271
Tax on income not taxable in determining taxable profit	(9 291)	(7 302)
Effect of unused current year losses	0	6 133
Tax effect due to unrecognized deferred tax assets	28 242	0
Special contribution to defence fund	35	4
Withholding tax	0	665
Tax charge	35	669

NOTE 7: SHARES IN SUBSIDIARIES AND IN ASSOCIATES

(Share capital, carrying value and total equity in 1 000)

Companies	2018 Ownership & Voting Share	No of Shares	Carrying value at 31 Dec. 2018	Equity at 31 Dec. 2018 ⁵⁾	Carrying value at 31 Dec. 2017
Prosafe AS ¹⁾	100 %	100	48 036	56 659	48 036
Prosafe Offshore AS ¹⁾	100 %	100	270	20 606	270
Prosafe Management AS ¹⁾	100 %	100	15	990	15
Prosafe (UK) Holdings Limited ²⁾	100 %	2 000	9 826	3 565	9 826
Prosafe Offshore Pte. Limited ³⁾	100 %	646 050	222 099	185 118	222 099
Prosafe Offshore Services Pte. Ltd. ³⁾	100 %	150	150	805	150
Prosafe Offshore Asia Pacific Pte. Ltd. ³⁾	100 %	10	7	483	7
Prosafe Rigs Pte. Ltd. ³⁾	91 %	2 633	1 259 599	1 168 998	1 476 973
Prosafe Offshore Holdings Pte. Ltd. ³⁾	100 %	3 200	3 200	834	0
Dan Swift (Singapore) Pte. Ltd. ⁴⁾	25 %	10 000	10 000	9 025	10 000
Axis Nova Singapore Pte. Ltd. ³⁾	-	-	-	-	30 915
Axis Vega Singapore Pte. Ltd. ³⁾	-	-	-	-	30 000
Total			1 553 203		1 828 292

The registered address of the subsidiaries and associated company are as follows:

- 1) Forusparken 2, Postboks 39, Forus, 4064 Stavanger
- 2) Greenwell Road, East Tullos Industrial Estate, Aberdeen, AB12 3AX
- 3) 1 International Business Park, #09-03 The Synergy, Singapore 609917
- 4) 1 Harbourfront Avenue, #16-08, Keppel Bay Tower, Singapore 098632

5) The equity value represents only the parent company's interest in its subsidiaries.

In 2018, the Company acquired 100% of the shares in Prosafe Offshore Holdings Pte. Ltd., a company incorporated in Singapore.

In 2018, the Company disposed 100% of the shares in Axis Nova Singapore Pte. Ltd. and Axis Vega Singapore Pte. Ltd. to Prosafe Offshore Holdings Pte Ltd for USD 60.9 million.

In 2018, Prosafe Rigs Pte Ltd has returned USD 217 million to the company as a reduction in capital.

Based on management's assessment of indicators of impairment, there are no triggers which indicate that investment in subsidiaries require impairment. Hence, there was no impairment of shares in subsidiaries in 2018.

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.

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

NOTE 8: OTHER CURRENT ASSETS

	2018	2017
Current receivables due from subsidiaries	7	48
Other current assets	254	114
Total other current assets	261	162

NOTE 9: SHARE CAPITAL, CONVERTIBLE BONDS AND WARRANTS

	2018	2017
Issued and paid up number of ordinary shares at 31 December	81 784 212	80 725 809
Authorised number of shares at 31 December	140 247 177	130 440 177
Nominal value at 31 December	EUR 0.10	EUR 0.10
Number of shareholders at 31 December	4 929	5 427
<i>Ordinary shares</i>		
In issue at 1 January	80 725 809	71 399 002
Issued in connection with conversion of convertible bonds	1 058 403	9 326 807
In issue at 31 December fully paid up	81 784 212	80 725 809

Convertible bonds

	2018		2017	
	No. of convertible bonds	Value	No. of convertible bonds	OCI effect
Opening balance as at 31 December	7 261 194	23 997	16 588 001	56 987
Conversion of convertible bonds	(1 058 404)	(3 188)	(9 326 807)	(32 990)
Ending balance as at 31 December	6 202 790	20 809	7 261 194	23 997

Warrants

As part of the USD 1300 million credit facility refinancing concluded during the year, the Company has issued the warrants to those lenders having elected to receive such instead of increased margins. In total, 9,779,993 warrants have been issued, each of which gives right to subscribe for one new share in the company at a subscription price of NOK 21.37. Of these, 5,141,021 warrants are conditional inter alia on the Group taking delivery of Safe Nova and/or Safe Vega, and the remaining 4,638,972 warrants on the Group taking delivery of both Safe Nova and Safe Vega. As a result, the Company has recognised USD 6.4 million in the equity as the warrants will be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash.

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

NOTE 10: INTEREST-BEARING DEBT

	2018	2017
Credit facility	1 191 999	1 337 099
Modification of the amortised cost - credit facilities	50 583	0
Unamortised borrowing costs	(18 585)	(12 198)
Total interest-bearing debt	1 223 997	1 324 901
Long-term interest-bearing debt	1 198 269	1 310 701
Current interest-bearing debt	25 728	14 200
Total interest-bearing debt	1 223 997	1 324 901

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

NOTE 11: OTHER INTEREST-FREE CURRENT LIABILITIES

	2018	2017
Accrued interest costs	9 922	6 877
Other current liabilities	623	1 609
Total other interest-free current liabilities	10 545	8 486

NOTE 12: INTRA-GROUP BALANCES

	2018	2017
NOK loan to Prosafe AS	126 177	128 591
USD loan to Prosafe Offshore Holdings Pte. Ltd.	62 311	0
USD loan to Safe Eurus Singapore Pte. Ltd.	60 037	0
Intra-group long-term receivables	248 525	128 591

Loan agreements with subsidiaries are based on market prices using 3M NIBOR (NOK loan) and 3M LIBOR (USD loan) interest rates plus a margin of 2.15% (2017: 2.00%) and 3.25-3.40% per annum respectively. Outstanding balances at year-end are unsecured, and settlement normally occurs in cash.

	2018	2017
USD loan from Prosafe Rigs Pte. Ltd.	60 037	0
Intra-group long-term payables	60 037	0

Loan agreements with a subsidiary are based on market prices using 3M LIBOR (USD loan) interest rates plus a margin of 3.4% per annum. Outstanding balances at year-end are unsecured, and settlement normally occurs in cash.

Transactions with related parties	2018	2017
Transactions		
Sales of Investment in Subsidiaries to Prosafe Offshore Holdings Pte. Ltd.	60 915	0
Administrative income from subsidiaries	3	0
Administrative expenses due to subsidiaries	(3 880)	(4 043)
Interest income	6 348	3 598
Interest expenses	(271)	0
Dividends	40 396	12 600

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 a 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	2018	2017
Current receivables due from subsidiaries	7	48
Intra-group long-term receivables	248 525	128 591
Intra-group long-term payables	(60 037)	0
Current payables due to subsidiaries	(853)	(17 968)

Current receivables are not subject to any interest calculation. The short term payables to subsidiaries are subject to interest rates from 0% to 3M LIBOR (USD loan) interest rates plus a margin of 2.15% per annum. 2017: (0% per annum). The balances will be settled on ordinary market terms.

NOTE 13: MORTGAGES AND GUARANTEES

2018

As of 31 December 2018, the company interest-bearing debt secured by mortgages totalled USD 1,192 million. The debt was secured by mortgages on the accommodation/service vessels Safe Bristolia, Safe Caledonia, Safe Concordia, Safe Scandinavia, Regalia, Safe Boreas, Safe Zephyrus and Safe Notos (net carrying value USD 1,422.6 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 2018. 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 1300 million facility.

As at 31 December 2018, 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 201 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.

2017

As of 31 December 2017, the company'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, the 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 the company guarantee and indemnity relating to the bank guarantee referred to above. The amounts specified with regard to the company guarantees reflect the sum of the capped liability under the relevant agreements.

NOTE 14: FINANCIAL ASSETS AND LIABILITIES

Year ended 31 Dec 2018	Financial assets measured at amortised cost	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying value
Intra-group long-term receivables	248 525	0	0	248 525
Cash and deposits	16 024	0	0	16 024
Other current assets	261	0	0	261
Fair value interest rate caps	0	1 310	0	1 310
Fair value interest rate swaps	0	1 142	0	1 142
Total assets	264 810	2 452	0	267 262
Credit facility	0	0	1 223 997	1 223 997
Fair value interest rate swaps	0	16 136	0	16 136
Accounts payable	0	0	491	491
Interest-free long-term liabilities	0	0	2 311	2 311
Intra-group non-current liabilities	0	0	60 037	60 037
Intra-group current liabilities	0	0	853	853
Other interest free current liabilities	0	0	10 545	10 545
Total liabilities	0	16 136	1 298 233	1 314 369

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	1 324 901	1 324 901
Fair value interest rate swaps	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	1 353 124	1 392 523

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

NOTE 15: MATURITY PROFILE LIABILITIES

Year ended 31 December 2018	2019	2020	2021	2022	2023
Interest-bearing debt (repayments)	15 000	16 600	140 500	1 019 900	0
Interests incl interest swaps	69 300	67 800	63 000	7 300	0
Intra-group non-current liabilities	0	0	0	0	79 500
Intra-group current liabilities	853	0	0	0	0
Accounts payable	491	0	0	0	0
Other interest-free current liabilities	10 545	0	0	0	0
Total	96 188	84 400	203 500	1 027 200	79 500

Year ended 31 December 2017	2018	2019	2020	2021	2022
Interest-bearing debt (repayments)	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

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 and interest rate cap agreements. The company evaluates the hedge profile in relation to the repayment schedule of its loans, the subsidiaries' portfolio of contracts, cash flow and cash in hand. The interest rate risk is largely hedged by the use of interest rate swaps or cap structures for normally 70-100% of the debt.

As of 31 December 2018, the company's hedging agreements totalled USD 1,000 million:

Notional amount	Fixed rate	Maturity	Swap type	Fair value (USD 1 000)
USD 225 million	2.4440 %	2022	Bullet	(9 793)
USD 135 million	2.3630 %	2022	Bullet	(3 960)
USD 120 million	1.5330 %	2022	Bullet	1 142
USD 120 million	2.1280 %	2022	Bullet	(2 360)
Sub total				(14 971)

Notional amount	Capped rate	Maturity	Fair value (USD 1 000)
USD 160 million	3.0000 %	2021	354
USD 240 million	3.0000 %	2022	956
Sub total			1 310
Total			(13 661)

Fair value of interest rate swap and interest cap 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 ± 50 bps (2017: ± 100 bps) is applied in the analysis.

	2018		2017	
	Income statement effect	OCI effect	Income statement effect	OCI effect
Pre-tax effects				
Forward curve +50bps (2017: +100bps)				
Re-valuation interest rate swaps	8 276	0	36 700	0
Re-valuation interest rate caps	2 227	0	0	0
Total	10 503	0	36 700	0
Forward curve -50bps (2017: -100bps)				
Re-valuation interest rate swaps	(8 422)	0	(38 300)	0
Re-valuation interest rate caps	(778)	0	0	0
Total	(9 199)	0	(38 300)	0

Changes in other comprehensive income related to financial instruments

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

	2018	2017
Re-valuation interest rate swaps	47 985	13 200
Total	47 985	13 200

The company ceased hedge accounting for its interest rate swaps on 30 June 2016. Under IFRS 9, when an entity discontinues hedge accounting for a cashflow hedge and the amount accumulated in the cashflow hedge reserve is a loss, this amount should be immediately reclassified from the reserve into profit or loss if the entity does not expect the loss will be recovered in one or more future periods. The company has assessed the discontinued cashflow hedge reserve balance and concluded that the amount is not expected to be recovered in the future periods due to the interest rate development and forward curve. As a consequence of this assessment, the reserve balance of USD 47,985,000 is taken into profit or loss.

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 company is exposed to currencies other than USD associated with interest-bearing debt, cash and deposits. Cash and deposits are mainly denominated in USD, GBP, EUR and NOK and the interest bearing debt to Prosafe AS in NOK.

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.

	2018		2017	
	Income statement effect	OCI effect	Income statement effect	OCI effect
Pre-tax effects				
USD +10%				
Re-valuation cash and deposits	(638)	0	(968)	0
Re-valuation NOK Loan to Prosafe AS	11 720	0	0	0
Total	11 082	0	(968)	0
USD -10%				
Re-valuation cash and deposits	638	0	1 065	0
Re-valuation NOK Loan to Prosafe AS	(11 720)	0	0	0
Total	(11 082)	0	1 065	0

Credit risk

The Company is exposed to credit risk in relation to the inter-company loan to three subsidiaries, Prosafe AS, Prosafe Offshore Holdings Pte Ltd & Safe Eurus Singapore Pte Ltd. See note 12 for details about the loan.

Liquidity risk

The Company is exposed to liquidity risk in a scenario when the Company's cash flow from operations is insufficient to cover payments of financial liabilities. The Company manages liquidity and funding on a group level. In order to mitigate the liquidity risk, the Group 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 2018, the Group had an unrestricted liquidity reserve totalling USD 268.5 million (unrestricted cash of USD 131.5 million plus USD 137 million in liquidity reserve under a committed revolving credit facility). 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 challenging environment 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 2018 and the spend reductions that have taken place have reduced the liquidity risk.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital structure in line with economic conditions. The Company manages the total of shareholders' equity and long term debt as their capital. The Company'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 the Group profit/loss before depreciation and impairment over the last 12 months.



INDEPENDENT AUDITOR'S 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 65 and comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, 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 2018, 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

throughout the period of our appointment 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 RIGS

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

The key audit matter

Despite signs of market recovery with increased utilization rates, there is a risk of irrecoverability of the Group’s carrying amount of Property Plant and Equipment, specifically rigs (“PPE”). An assessment whether there is an indication of PPE impairment was carried out by the Group at the year-end by considering key indicators including comparing the value in use of the Group’s cash generating units (“CGUs”), which requires significant assumptions about future developments, with their carrying amounts (“trigger assessment”). Due to the inherent uncertainty and subjectivity involved in forecasting and discounting future cash flows, which are the basis of the trigger assessment, 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 reviewing management's assessment of key indicators and assessing the integrity of the Group's discounted cash flow ("DCF") model. This included comparison of the key assumptions to 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, discussions with management and comparisons with the prior year's model. 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 also assessed whether the Group's disclosures about the sensitivity of the outcome of the assessment to changes in key assumptions reflects the risks inherent in the valuation of rigs.

KEY AUDIT MATTER 2 - CONTINGENT ASSETS

Refer to Notes 3 and 24 to the consolidated financial statements.

The key audit matter

The Group has an ongoing court case with Westcon Yards AS ("Westcon") pertaining to the cost of conversion of one of the Group's vessels to a tender support vessel. The Group won the case and was awarded NOK 344 million plus interest and legal costs. Westcon appealed the decision and the Group counter appealed.

Significant judgment is required in determining the final outcome of the court hearings and thus in determining whether or not a contingent asset should be recognized.

How the matter was addressed in our audit

As part of our audit procedures we

- reviewed and assessed the relevant correspondence between the contract parties;

- requested and obtained a legal letter from the Group's external legal counsel and assessed its content;
- monitored the developments of the case through review and assessment of subsequent events;
- assessed whether the related financial statements disclosure was in line with the requirements of IAS 37.

KEY AUDIT MATTER 3 - 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 in case of a trigger event (detailed under key audit matter 1 above), the Company's investments in the rig owning entities may be 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. This included evaluating the methodology used by the Company and comparing the Company's assumptions to our own assessments in relation to key inputs, taking also into consideration the results of our audit procedures on key audit matter 1.

REPORTING ON OTHER INFORMATION

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

- about Prosafe (page 4);
- key figures (page 7);
- the management report (designated as "Directors' report" in the Annual Report) (pages 9 to 21)

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.

With regards to 'about Prosafe' and 'key figures' 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 and those charged with governance 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.

Those charged with governance are 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 business activities of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 4 years covering the periods ending 31 December 2015 to 31 December 2018.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 8 March 2019.

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”). In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated and separate financial statements.

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

KPMG Center,

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13 March 2019



Prosafe

Accommodating
the Offshore
Industry

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