



INTERIM REPORT



Q2 Report 2020

Q2 2020

Floatel International Ltd

Hamilton – August 25, 2020 – Floatel International Ltd (“Floatel”) presents its consolidated financial statements for the second quarter of the financial year 2020.

Highlights:

- The Group's financial situation is unsustainable as liquidity is under pressure;
 - The Company has stopped interest and amortization payments and discussions with secured creditors are ongoing, however the outcome of these discussions is uncertain.
 - It was announced on August 16, 2020 that the forbearance agreement with an ad hoc group of 1st Lien Bondholders has been extended to August 31, 2020 and that the payment agreement with Lenders, where certain expenses in respect of Floatel Endurance are covered by proceeds in the blocked accounts, is operational,
 - Accounts are prepared on a going concern basis as discussions with key stakeholders are ongoing and if successful result in a sustainable financial solution (see note 2 for more information), and
- The vessels, which are on charter continue to operate as normal and it is business as usual for the Group's operations.
- The Company announced on July 30, 2020 that it had completed the independent review which was announced May 31, 2020;
 - The Company determined in light of the independent review as well as the Coronavirus pandemic and its impact on oil and gas companies' capital expenditure and maintenance spending to update its business plan, the long-term market outlook and the sustainable steady state profitability of the Group's vessels, and
 - The Company as a consequence of the above performed new impairment assessments of its vessels in accordance with IFRS, which resulted in aggregate impairment charges of USD 398 million. Book value of vessels after the impairments is USD 779 million (USD 1,189 million in Q1-2020).
- The COVID-19 pandemic has caused unprecedented impact on the global economy and the oil price, which in turn have material impact on the industry;
 - The pandemic has resulted in many oil and gas companies announcing cuts in 2020 capital expenditure and creates negative impact on the demand for offshore accommodation services, please refer to Market outlook for further details.
 - The Coronavirus lead to Ineos contract being postponed but has otherwise had limited impact on current contracts and operations. Measures have been taken to safeguard the health and safety of clients, guests and workforce.

- Contract status update;
 - Contract with Equinor for Martin Linge was extended on April 29, 2020 to end January 2021 with Equinor having the option to extend the charter further.
 - Ineos FPS and Floatel International agreed in April 2020 to postpone the charter for Floatel Victory at the Unity platform, UK sector, Central North Sea to April 2021.
 - Agreement made with Singapore authorities for Floatel Triumph to provide accommodation for healthy foreign workers in the fight against COVID-19 with a firm period to October 2020.
- Fleet status update;
 - Floatel Superior idle in Skipavika, Norway and completed its second special periodic survey.
 - Floatel Reliance idle in Tenerife in the Canary Islands awaiting next assignment.
 - Floatel Victory idle in Skipavika, Norway awaiting the Ineos charter.
 - Floatel Endurance in operation at Martin Linge field on the Norwegian Continental shelf.
 - Floatel Triumph inshore Singapore, providing housing for healthy foreign workers in the fight against COVID-19.
- Financial update;
 - Second quarter fleet utilization was 53% including yard-stays and transit (57% for the comparable period last year). Total firm contract backlog (excluding options) is USD 48 million as of June 30, 2020 (USD 56 million June 30, 2019).
 - Revenues for the second quarter were USD 23.0 million (38.9 for comparable period in 2019).
 - EBITDA amounted to USD 7.1 million (15.9) and net result was USD -429.8 million (-13.2).
 - Total assets June 30, 2020 amounted to USD 878 million (1,420).
 - Cash and cash equivalents by June 30, 2020 were USD 49.4 million (95.2).
 - The total book equity by June 30, 2020 amounted to USD -5.4 million (542.3).



Summary of business activities during the second quarter of 2020

The Coronavirus pandemic have caused unprecedented impact on the global economy and the oil price, which in turn have material impact on the industry. However, the Coronavirus pandemic has to date had in general limited impact on current contracts and operations, please refer to Market outlook in respect of market activity and new charters.

Main impact is from travel restrictions interfering with crew and site team changes as well as servicemen visits. Situation has so far been managed without material cost impact. Measures have been taken to safeguard the health and safety of clients, guests and workforce.

Floatel Superior

Floatel Superior is idle in Skipavika, west coast of Norway and completed its second Special Periodic Survey (SPS) during the quarter. The vessel is actively marketed for new charters



Floatel Superior completed its second SPS in June 2020.

Floatel Reliance

Floatel Reliance is idle in Tenerife in the Canary Islands awaiting next assignment. The vessel is actively marketed for new charters.



Floatel Reliance idle in Tenerife, Canary Islands.

Floatel Victory

Floatel Victory is idle in Skipavika, Norway awaiting the Ineos charter.

Ineos FPS and Floatel International agreed on April 19, 2020 to suspend the charter at the Unity platform, UK sector, Central North Sea to April 2021 as a consequence of Ineos postponing their project due to COVID-19.



Floatel Victory charter for Ineos suspended to 2021

Floatel Endurance

Floatel Endurance in operation for Equinor at the Martin Linge project during the quarter. Measures have been taken on board to safeguard the health and safety of crew and clients due to COVID-19.

Late April 2020 Equinor extended the charter to end January 2021 with Equinor having the option to extend the charter further.



Floatel Endurance in operations for Equinor at Martin Linge field.

Floatel Triumph

Floatel Triumph inshore Singapore, providing housing for healthy foreign workers in the fight against COVID-19 under an agreement with the Maritime and Port Authority of Singapore. Contracted firm period ends October 2020.



Floatel Triumph providing inshore accommodation service for MPA Singapore.

Financial development

The accounts are prepared on the assumption of a going concern. However, the Company's and the Group's financial situation is unsustainable as liquidity is under pressure. There is a material uncertainty to whether the Company will be able to service its secured financial liabilities and net working capital requirements for the coming 12 months. The long-term viability of the business depends on finding a solution to the financial situation.

The Company has stopped interest and amortization payments and discussions with secured creditors are ongoing, however the outcome of these discussions is uncertain. For further information see note 2.

It was announced on August 16, 2020 that the forbearance agreement with an ad hoc group of 1st Lien Bondholders has been extended to August 31, 2020 and that the payment agreement with Lenders, where certain expenses in respect of Floatel Endurance are covered by proceeds in the blocked accounts, is operational.

The vessels, which are on charter continue to operate as normal and it is business as usual for the Group's operations.

Within the offshore accommodation market, we face prolonged downturn and foresee weaker outlook than estimated before. The Company therefore initiated an Independent Review of its business plan which would include a review and update, if required, of the assumptions made in assessing the valuation-in-use of our vessels as was announced on May 31, 2020 during the quarter.

It was announced on July 30, 2020 that the review was completed and the Company determined in light of the independent review, the Coronavirus pandemic which has caused unprecedented impact on the global economy and the oil price development and the resulting impact on oil and gas companies capital expenditure and maintenance spending to update its business plan, the long-term market outlook and the sustainable steady state profitability of the Group's vessels.

The Company performed as a consequence of the above new impairment assessments of its vessels in accordance with IFRS, which result in aggregate impairment charges of USD 398 million. Book value of vessels after the impairments will be USD 779 million (USD 1,189 million in Q1-2020 and USD 1,257 million in Q2-2019).

Please refer to note 6 for further information and assumptions for the assessment.



If the discussions with the secured creditors are unsuccessful and if there are no other realistic alternatives available to secure the liquidity situation in the Company, going concern can no longer be assumed meaning that the valuation of the assets in the Company will no longer be made under the going concern assumption which involves a risk for significant write-downs of the Group's assets as realizable vessel values may be significantly lower than carrying values assuming value in use.

Revenue and operating result for the second quarter 2020

USD 23.0 million (38.9) in total consolidated revenues and USD -15.8 million (-23.0) in total Operating and administrative expenses before depreciation resulted in an EBITDA for the quarter of USD 7.1 million (15.9).

USD -14.6 million (-15.3) in total Depreciation and– 398.4 (0) impairment charge included in Cost of providing services resulted in an Operating result for the quarter of USD -405.9 million (0.6).

Net financial items were USD -23.1 million (-13.5). The net result for the second quarter was USD -429.8 million (-13.2).

The current backlog based on committed work was at the end of reporting period USD 47 million excluding options (57).

Revenue and operating result year to date 2020

USD 43.5 million (112.4) in Total consolidated revenues. USD -33.9 million (-49.4) in total Operating and administrative expenses before depreciation. EBITDA for the quarter came to USD 9.6 million (62.9).

USD -30.1 million (-30.6) in total Depreciation and USD -398.4 million Impairment charge (0). Net financial items were USD -38.4 million (-28.4). The net income for year to date was USD -459.1 million (-3.3).

Financial position as per June 30, 2020

Total assets were USD 878 million (1,312 as per December 31, 2019). Non-current assets totalled USD 782 million (1,206) whilst Net working capital totalled USD 6.2 million (12.8).

The Group's cash and cash equivalents totaled USD 49.4 million (53.7). The book equity at the end of the period totalled USD -5.4 million (454.8). USD 0.8 million in expenses related to the merger with Prosafe booked directly towards equity during the year.

Total interest-bearing debt totalled USD 838.9 million (813.4). Unpaid due interest of USD 24 million has been added to interest-bearing debt. In the reported total interest-bearing debt, prepaid borrowing expenses of USD 10.7 million are included. The expenses amortize over the life of the facilities. Net interest-bearing debt totalled USD 800.2 million (759.7).

Market outlook

Utilisation for the worldwide semi-submersible accommodation fleet was 44% in Q2 2020 (62% in Q2 2019). In comparison, Floatel International's utilisation in Q2 was 53% and 42% year to date (57% Q2 and 70% year to date), which includes charter periods; yard-stays; mob/demobs periods and paid standby periods.

The overall offshore market was slowly improving from the downturn during 2019 driven by oil price development combined with continued pressure to reduce cost levels for the operators, however COVID-19 stopped the gradual improvement.

The COVID-19 pandemic has caused unprecedented impact on the global economy with reduced energy consumption and OPEC's disagreement on production limits have in 2020 forced the oil price to unprecedented low levels and it has lately been stable in the forties USD per barrel. Almost all industries are or will be affected.

This has resulted in many oil and gas companies announcing cuts in 2020 capital expenditure and creates uncertainties for the near term and may also have a negative impact on the demand for offshore accommodation services in the medium-term pending closure of the pandemic and oil price recovery. Ongoing offshore oil and gas projects have been suspended and several projects planned to be executed in the near term have been postponed to a later date.

Within the offshore accommodation market, we face prolonged downturn which will be even longer due to COVID-19 effects with low fleet utilisation and weaker outlook than estimated before and especially in the North Sea. However, we still believe that the market will recover once the situation stabilise. Tender activity and ongoing commercial discussions indicates that decent activity level is not expected before 2022.

The worldwide operating purpose built semi-submersible accommodation fleet presently comprises 23 vessels following recent announcements by competitors to scrap older vessels plus two vessels yet to be delivered. It is expected that the present market condition will accelerate further scrapping of older vessels which will in the longer perspective improve the supply/demand balance.

Significant event after the end of the reporting period

The Company announced on August 16, 2020 that the forbearance agreement with an ad hoc group of 1st Lien Bondholders has been extended to August 31, 2020 and that the payment agreement with Lenders, where certain expenses in respect of Floatel Endurance are covered by proceeds in the blocked accounts, is operational. The vessels, which are on charter continue to operate as normal and it is business as usual for the Group's operations.

The Company announced on July 30, 2020 that it had completed the independent review which was announced May 31, 2020 and that it has determined in light of the independent review as well as the Coronavirus pandemic and its impact on oil and gas companies capital expenditure and maintenance spending to update its business plan, the long-term market outlook and the sustainable steady state profitability of the Group's vessels.

As a consequence of the above the Company performed new impairment assessments of its vessels in accordance with IFRS, which resulted in aggregate impairment charges of USD 398 million. Book value of vessels after the impairments is USD 779 million (USD 1,189 million in Q1-2020)

Condensed consolidated Income Statement

Figures in USD thousands	Notes	Q2 - 2020	Q2- 2019	YTD 2020	YTD 2019	2019
Revenue	5	22 976	38 887	43 490	112 357	159 112
Cost of providing services *	6	-425 678	-34 600	-456 269	-73 192	-168 300
Gross result		-402 702	4 287	-412 779	39 165	-9 188
Administrative expenses	6	-3 236	-3 697	-6 134	-6 823	-14 018
Operating result	4	-405 938	590	-418 913	32 342	-23 206
Finance income		12	580	185	1 396	2 171
Finance cost		-23 149	-14 113	-38 536	-29 834	-59 728
Finance costs - net		-23 137	-13 533	-38 351	-28 438	-57 557
Result before income taxes		-429 075	-12 943	-457 264	3 904	-80 763
Income tax expense		-743	-272	-1 808	-7 196	-8 095
Result attributable to owners of Floatel International Ltd		-429 818	-13 215	-459 072	-3 292	-88 858
* Includes a impairment charge of USD million -398.4 in Q2 2020 and -30.3 in full year 2019.						
Earnings per share, basic (USD)		-4,02	-0,13	-4,30	-0,04	-0,85
Earnings per share, diluted (USD)		-4,02	-0,13	-4,30	-0,04	-0,85

Condensed consolidated Statement of Comprehensive Income

Figures in USD thousands	Q2 - 2020	Q2- 2019	YTD 2020	YTD 2019	2019
Net result	-429 818	-13 215	-459 072	-3 292	-88 858
Items that are or may be reclassified as profit or loss					
Foreign currency translation - foreign operations	692	-198	-310	-494	-637
Other comprehensive income	692	-198	-310	-494	-637
Total comprehensive income	-429 126	-13 413	-459 382	-3 786	-89 495

Condensed consolidated Statement of Financial Position

Figures in USD thousands	Notes	2020-06-30	2019-06-30	2019-12-31
Assets				
Non-current assets				
Property, plant and equipment	6	781 806	1 260 286	1 205 701
Deferred tax asset		58	45	56
Total non-current assets		781 864	1 260 331	1 205 757
Current assets				
Inventory		23 415	24 114	23 972
Trade receivables		6 807	18 635	6 772
Tax receivables		2 032	2 672	2 335
Other current receivables		14 153	19 455	19 049
Cash and cash equivalents		49 379	95 222	53 733
Total current assets		95 786	160 098	105 861
Total assets		877 650	1 420 429	1 311 618
Equity and liabilities				
Equity				
Share capital		2 144	2 144	2 144
Additional Paid in capital		325 563	325 563	325 563
Other reserves		934	1 387	1 244
Retained earnings incl. Profit of the year		-334 072	213 205	125 806
Total equity		-5 431	542 299	454 757
Liabilities				
Non-current liabilities				
Other long term liabilities		0	426	188
Interest-bearing debt	7	0	796 422	787 385
Total non-current liabilities		0	796 848	787 573
Current liabilities				
Trade payables		5 897	6 694	9 648
Current portion of interest-bearing debt	7	838 901	36 000	26 000
Income tax liabilities		6 010	6 538	6 328
Other current liabilities		32 273	32 050	27 312
Total current liabilities		883 081	81 282	69 288
Total equity and liabilities		877 650	1 420 429	1 311 618

Condensed consolidated Statements of Changes in Equity

Figures in USD thousands	Share capital	Additional paid in capital	Other reserves	Retained earnings incl profit of the year	Total equity
Equity 2019-01-01	2 144	325 563	1 881	217 604	547 192
Total comprehensive income					
Net result for the year	0	0	0	-88 858	-88 858
Other comprehensive income	0	0	-637	0	-637
Total comprehensive income	0	0	-637	-88 858	-89 495
Option proceeds				37	37
Merger expenses	0	0	0	-2 977	-2 977
Equity 2019-12-31	2 144	325 563	1 244	125 806	454 757
Total comprehensive income					
Net result for the year	0	0	0	-459 072	-459 072
Other comprehensive income	0	0	-310	0	-310
Total comprehensive income	0	0	-310	-459 072	-459 382
Merger expenses	0	0	0	-806	-806
Equity 2020-06-30	2 144	325 563	934	-334 072	-5 431

Condensed consolidated Cash Flow Statement

Figures in USD thousands	Q2 - 2020	Q2- 2019	YTD 2020	YTD 2019	2019
Cash flow from operating activities					
Operating result	-405 938	590	-418 913	32 342	-23 206
Interest received	12	580	185	1 396	2 171
Interest paid	-21	-25 012	-1 736	-27 132	-53 860
Income tax paid	200	-3 785	-1 525	-6 533	-7 317
Adjustment for depreciation and impairment	413 068	15 293	428 545	30 585	91 959
Adjustments for other non-cash related items	-152	2 110	-234	1 805	1 979
Total cash flow from operations before changes in working capital	7 169	-10 224	6 322	32 463	11 726
Cash flow from operating activities					
Changes in inventories	-404	-282	557	-532	-390
Changes in trade receivables	1 067	29 410	-35	20 768	16 894
Changes in trade payables	-5 098	-109	-3 751	-4 401	-1 447
Other changes in working capital	10 754	-10 798	7 901	-4 307	7 527
Cash flow from operating activities	13 488	7 997	10 994	43 991	34 310
Cash flow from investing activities					
Payments for property, plant and equipment	-3 223	-1 817	-4 658	-2 115	-9 177
Net cash flow from investing activities	-3 223	-1 817	-4 658	-2 115	-9 177
	10 265	6 180	6 336	41 876	25 133
Cash flow from financing activities					
Repayment of debt	0	-10 250	0	-20 500	-41 000
Other financial items paid	-7 970	-36	-8 643	-1 006	-2 039
Merger Expenses / Proceeds from equity	-29	-1 145	-806	-1 145	-2 940
Net cash flow from financing activities	-7 999	-11 431	-9 449	-22 651	-45 979
Cash flow for the period	2 266	-5 251	-3 113	19 225	-20 846
Cash and cash equivalents, beginning of period	48 515	100 663	53 733	76 512	76 512
Currency effect on cash	-1 402	-190	-1 241	-515	-1 933
Cash and cash equivalents, end of Period	49 379	95 222	49 379	95 222	53 733

Key Financials

	Q2 - 2020	Q2-2019	YTD 2020	YTD 2019	2019
EBITDA	7 130	15 883	9 632	62 927	68 753
EBITDA margin	31,0%	40,8%	22,1%	56,0%	43,2%
Equity ratio	-0,6%	38,2%	-0,6%	38,2%	34,7%
Net working capital *	6 205	23 460	6 205	23 460	12 833
Net interest-bearing debt **	800 174	750 778	800 174	750 778	759 652
Total number of ordinary shares	107 165 289	107 165 289	107 165 289	107 165 289	107 165 289
Average number of ordinary shares	107 165 289	107 165 289	107 165 289	107 165 289	107 165 289
Average number of ordinary shares (diluted)	107 165 289	107 165 289	107 165 289	107 165 289	107 165 289

* Tax liabilities not included in Net working capital. Q2-2019 amount updated from Q2 Report 2019

** Prepaid financial fee not included in Net interest-bearing debt. Q2-2019 amount updated from Q2 Report 2019

1. General information

Floatel International Ltd (“the Company”) is a limited liability company, incorporated 2006 under the laws of Bermuda. Floatel International Ltd and its subsidiaries (“the Group”) provide offshore accommodation and construction support services to the global oil and gas industry. The Group currently operates five semi-submersible accommodation vessels. They were delivered in 2010 (2), 2013, 2015 and 2016 respectively. The Company’s registered office is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

2. Basis of presentation

The accompanying condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), including IAS 34 Interim Financial Reporting.

The accounts are prepared on the assumption of a going concern. However, the Company’s and the Group’s financial situation is unsustainable as liquidity is under pressure and that the Company has stopped payment at present time of amortisation, interest and commitment fees under its credit facilities and bond issuances. There is therefore a material uncertainty to whether the Company will be able to service its secured financial liabilities and net working capital requirements for the coming 12 months which cast significant doubt on the Company’s ability to continue as a going concern.

The long-term viability of the business depends on finding a solution to the financial situation. The Company discussions with its key stakeholders including secured creditors are ongoing, however the outcome of these discussions is uncertain. The going concern assumption is based on the fact that discussions with key stakeholders are ongoing and if successful result in a sustainable financial solution.

If the discussions with the secured creditors are unsuccessful and if there are no other realistic alternatives available to secure the liquidity situation in the Company, going concern can no longer be assumed meaning that the valuation of the assets in the Company will no longer be made under the going concern assumption which involves a risk for significant write-downs of the Group’s assets as realizable vessel values may be significantly lower than carrying values assuming value in use.

The effects of COVID-19, oil price development and other macroeconomic factors have resulted in a dramatic impact on the global economy, oil demand and consequently capital markets and market outlook. This has resulted in many oil and gas companies announcing cuts in 2020 capital expenditure and creates uncertainties for the near term and may also have a negative impact on the demand for offshore accommodation services in the medium-term pending closure of the pandemic and oil price recovery. The Group has so far experienced suspended charters from 2020 to 2021 but has not experienced and do not expect at this time cancellations or being out on standby albeit such actions has been experienced by peers. As a result, there is no additional material uncertainty arising from COVID-19 and, as a result the Company has prepared its financial statements on a going concern basis with the concerns as described above.

These interim financial statements should be read in conjunction with the Company’s financial statements as at 31 December 2019. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements and accompanying notes for the financial year ended 31 December 2019.

Financial instruments at fair value

Derivatives are classified into the category fair value through profit or loss as Floatel's derivatives are mainly used in economic hedges where the changes in fair value are taken directly through profit or loss. The FX forwards and interest rate derivatives are measured based on current exchange rates and forward curves. The derivatives are categorized within level 2 of the fair value hierarchy. All inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

New and updated accounting standards

There are no IFRS or IFRIC interpretations that are not yet effective that is expected to have a material impact on the Group.

4. Operating result

Figures in USD thousands	Q2 - 2020	Q2 - 2019	2020 YTD	2019 YTD	2019
Revenue	22 976	38 887	43 490	112 357	159 112
Operating expenses	-13 042	-19 307	-28 358	-42 607	-77 639
Administrative expenses	<u>-2 804</u>	<u>-3 697</u>	<u>-5 500</u>	-6 823	<u>-12 720</u>
EBITDA	7 130	15 883	9 632	62 927	68 753
Depreciation	-14 640	-15 293	-30 117	-30 585	-61 659
Impairment charge	<u>-398 428</u>	<u>0</u>	<u>-398 428</u>	<u>0</u>	<u>-30 300</u>
Operating result	-405 938	590	-418 913	32 342	-23 206

5. Revenues

Figures in USD thousands	Q2- 2020	Q2- 2019	2020 YTD	2019 YTD	2019
Charter revenues	20 355	31 759	36 974	89 951	124 922
Other revenues	0	0	0	0	1 197
Catering and rechargeable expenses	3 046	6 031	6 175	19 090	28 535
Mobilisation/demobilisation fees	<u>-425</u>	<u>1 097</u>	<u>341</u>	<u>3 316</u>	<u>4 458</u>
	22 976	38 887	43 490	112 357	159 112

The group has no significant seasonal variations.

6. Property, plant and equipment

Figures in USD thousands	2020-06-30	2019-06-30	2019-12-31
Opening balance aquisition cost	1 633 573	1 631 420	1 631 420
Purchases during the year	4 658	2 114	9 177
Disposals	-10 416	0	-6 452
Currency revaluation	<u>-28</u>	<u>-540</u>	<u>-573</u>
Closing aquisition cost	1 627 787	1 632 994	1 633 572
Opening balance depreciation	-363 437	-308 164	-308 164
Depreciation for the period	-30 117	-30 585	-61 659
Disposals	10 416	0	6 192
Currency revaluation	<u>21</u>	<u>177</u>	<u>196</u>
Closing balance depreciation	-383 117	-338 572	-363 435
Opening balance impairment	-64 436	-34 136	-34 136
Impairment loss for the year	<u>-398 428</u>	<u>0</u>	<u>-30 300</u>
Closing balance impairment	-462 864	-34 136	-64 436
Net book value end of period	781 806	1 260 286	1 205 701

Within the offshore accommodation market, we face prolonged downturn and foresee weaker outlook than estimated before. The Company therefore announced on May 31, 2020 that it would conduct an independent review of the Company business plan which would include a review of the assumptions made in assessing the valuation-in-use of our vessels. This was done to take the following into consideration; (i) potential impact from the Coronavirus pandemic which has caused unprecedented impact on the global economy forcing the oil price to unprecedented low levels and (ii) resulting cuts in 2020 capital and project expenditure as announced by many oil and gas companies. The above creates uncertainties for the near term and may also have a negative impact on the demand for offshore accommodation services in the medium-term pending closure of the pandemic and potential oil price recovery.

The review has now been completed and the Company has determined in light of the above to update its business plan, the long-term market outlook and the sustainable steady state profitability of the Group's vessels and the Company has, as consequence of this, performed new impairment assessments of its vessels in accordance with IFRS. Each vessel is considered to be a cash generating unit. The new assessments result in aggregate impairment charges of USD 398 million. Book value of vessels after USD 398 million in impairments will be USD 779 million (USD 1,202 million as of December 31, 2019).

The recoverable amounts have been identified by calculating the valuation-in-use (VIU). Impairments have been made in the accounts for vessels with VIU less than their net book value. The VIU calculations are based on a long-term forecast until the end of each vessel's useful life. The main assumptions used in the computations are charter rates, utilisation, operating expenses and capital expenditures.

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

- The utilisation is estimated to improve over the years to come from current level to 65% from 2025.
- The revenues until 2024 are based on current contracts and estimated new contracts reflecting present market conditions for each vessel and have been updated to reflect estimated consequences from the Coronavirus pandemic and expected oil price development. Assumptions reflect gradual improvement and return to stabilised market conditions from year 2025 and onwards, which in the light of the independent review have been adjusted downward compared with the assessment made for the 2019 financial statements
- Operating expenses reflect present market conditions and capital expenditure is based on special periodic survey plans, current activity plans and expected mid-life upgrade/ refurbishment of each vessel as well as normal maintenance expenditure.
- 9% discount rate (WACC), previously 10.5% and 2% long-term growth rate (inflation).

Sensitivity

- A 0.5% decrease in the discount rate would lead to USD 40 million increase of the carrying values and a 0.5% increase would lead to USD 37 million decrease in carrying values.
- A 10% decrease in the long-term utilization from 65% to 55% would lead to a decrease of the carrying values with USD 167 million whilst a change with approximately 10% of the long-term day rates would lead to a change of the carrying values with approximately USD 130 million.

7. Interest bearing debt

Figures in USD thousands	2020-06-30	2019-06-30	2019-12-31
1 st lien bond *	418 000	400 000	400 000
2 nd lien bond *	79 782	75 000	75 000
Bank vessel facility *	110 271	129 500	109 000
Subordinated shareholder loan	241 500	241 500	241 500
Less prepaid financing fees	<u>-10 652</u>	<u>-13 578</u>	<u>-12 115</u>
	838 901	832 422	813 385
The long-term debt is repayable as follows:			
Within one year	849 553	36 000	26 000
Between one and two years	0	21 000	21 000
Between two and five years	0	547 500	537 000
After five years	<u>0</u>	<u>241 500</u>	<u>241 500</u>
	849 553	846 000	825 500

*Due not paid interest has increased the amounts

A liability is under IFRS repayable on demand if loan conditions have been breached and the waiver does not provide a period of grace ending at least 12 months after the reporting date and the liability should in such case is classified as current.

There are events and/or circumstances that have occurred and is continuing which constitute or may constitute Defaults and/or Events of Default, inter alia since the Group at present times has not paid amortisation, interest and commitment fees due under the bank facilities and the 1L and 2L bond issuances. This provides the lenders and bondholders with the right to repayment on demand subject to existing forbearance and standstill agreements.

8. Legal issues

The Group has currently no material legal issues pending. As a result of the Group's global presence, the individual companies in the Group will from time to time be subject to tax investigations and tax audits from tax authorities as well as disputes and litigations in the ordinary course of business in countries where the Group operates. There are ongoing investigations/legal processes in the Group and the risks have individually been reported as a contingent liability or provision to the extent required but no cases are deemed material to be disclosed separately.

9. Forward-looking statements

This report contains forward-looking statements. These statements are based on various assumptions, including the Company's examination of historical operating trends. Factors that, in the Company's view, could cause actual results to differ materially from the forward-looking statements contained in this report are the following:

- (i) Prolonged impact from the Coronavirus or the emerge of any other pandemic or a force majeure event.
- (ii) The competitive nature of the offshore accommodation service industry.
- (iii) Oil and gas prices.
- (iv) Changes in economic conditions or political events.
- (v) Government regulations.
- (vi) Changes in the spending plans of our clients.
- (vii) Changes in Floatel's operating expenses including crew salaries.
- (viii) Insurance.
- (ix) Repair and maintenance.

10. Related party transactions

During the second quarter 2020 the Group has, in the ordinary course of business on arm's length basis, sold services for USD 0 million and purchased for USD 0 million from the Keppel Group. Keppel Offshore Pte Limited, which is part of the Keppel Group owns 49.9 % of the Company. The Keppel Group has provided a USD 242 million subordinated loan, which stems from the delivery of Floatel Triumph in 2016.



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