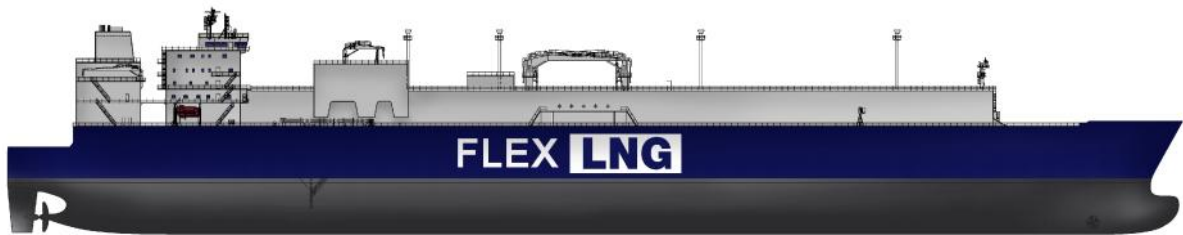


## FLEX LNG GROUP



## Q3 2013

## BOARD REPORT

### Financials, Third Quarter and Year to Date 2013

(Figures in brackets refer to the corresponding period of 2012)

At the end of August 2013 the Company and Samsung Heavy Industries (Samsung) executed a binding and final settlement agreement. As a result, arbitration proceedings have been discontinued and all actual and potential claims and counterclaims arising out of past relationships and contracts between the parties have been settled. As part and parcel of the settlement agreement, two ship building contracts have been entered into between Samsung and the FLEX LNG group for two 174,000 m<sup>3</sup> TFDE LNG Carriers at prices reflecting current market conditions. As a result of the settlement agreement the parties have agreed to redeploy \$210.0m from payments already made to Samsung by the FLEX LNG group, which will be used as the first instalment for the two vessels. The remaining instalment will be due on delivery of the vessels. Deliveries are scheduled for Q1 2017. The parties are in addition investigating the potential use of 2-stroke propulsion engines for the LNG Carriers. The parties have also agreed to market for sale 6 complete offshore LNG loading arms. Samsung will be responsible for the marketing and sales process for these and the parties will share any proceeds remaining after storage and marketing costs have been deducted.

The cash balances at 30 September were \$3.2m (2012: \$7.7m) with \$0.7m net outflow (2012: \$1.8m) in the quarter and \$3.0m (2012: \$7.1m) year to date. In the nine months in 2013 the operating cash outflow was \$3.0m (principally the operating profit after excluding the non cash and working capital movements).

The profit before tax was \$208.9m (2012: loss - \$2.8m) in the quarter and \$206.2m (2012: loss - \$6.7m) year to date. In the current quarter there has been the reinstatement of the \$210.0m initial LNGC instalments, leading to an impairment write-back. In the period there was also a \$0.2m cost on the option and warrant schemes, (2012: \$0.9m - credit).

### Outlook, Financing and Risks

Given the expected costs in 2013 the Company believes that, based upon forecast levels of cash utilisation, it will have sufficient working capital to operate throughout 2013 and into 2014. The Company is currently considering how best to finance the Group's working capital requirements, until the delivery of the two vessels in Q1 2017. The Company is currently working towards securing employment for the LNG Carriers and to manage the construction process. Additionally the Board has announced that it has commenced a process to explore the strategic alternatives that are available to the Company. The outcome of such a process may be, inter alia, FLEX LNG being part of a business combination; a full or partial sale of the Company or its assets; or FLEX LNG entering into a strategic partnership with a third party. The Company expects to have reached a resolution to the strategic process within Q1 2014.

There can of course be no assurance that costs will be as forecast. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all.

The Board believes the going concern position and risks remain both as described in the 2012 statutory accounts and as summarised by this Q3 2013 financial report, including note 2.

## Unaudited Interim Financial Report Condensed Consolidated Income Statement

(Unaudited figures in USD,000)

For the quarter ended 30 September 2013	Unaudited				
	Q3 13	Q3 12	YTD 13	YTD 12	2012
Operating revenues	0	0	0	0	0
<b>Total revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Administrative expenses	1,119	2,703	3,804	6,294	(3,169)
Impairment write (back) / down	(210,000)	0	(210,000)	0	301,372
<b>Operating profit / (loss) before depreciation</b>	<b>208,881</b>	<b>(2,703)</b>	<b>206,196</b>	<b>(6,294)</b>	<b>(298,203)</b>
Depreciation	10	25	32	96	116
<b>Operating profit / (loss)</b>	<b>208,871</b>	<b>(2,728)</b>	<b>206,164</b>	<b>(6,390)</b>	<b>(298,319)</b>
Finance income	0	17	18	64	88
Finance cost	(2)	(128)	(18)	(382)	(510)
<b>Profit / (loss) before tax</b>	<b>208,869</b>	<b>(2,839)</b>	<b>206,164</b>	<b>(6,708)</b>	<b>(298,741)</b>
Income tax expense	5	11	12	33	57
<b>Net profit / (loss)</b>	<b>208,864</b>	<b>(2,850)</b>	<b>206,152</b>	<b>(6,741)</b>	<b>(298,798)</b>
<b>Attributable to:</b>					
Equity holders of the parent	208,864	(2,850)	206,152	(6,741)	(298,798)
<b>Earnings per share:</b>					
Basic and diluted	1.66	(0.02)	1.64	(0.05)	(2.39)

## Condensed Consolidated Statement of Comprehensive Income

(Unaudited figures in USD,000)

For the quarter ended 30 September 2013	Unaudited				
	Q3 13	Q3 12	YTD 13	YTD 12	2012
<b>Profit / (loss) for the period</b>	<b>208,864</b>	<b>(2,850)</b>	<b>206,152</b>	<b>(6,471)</b>	<b>(298,798)</b>
Exchange differences on translation	11	22	(43)	27	43
Total other comprehensive profit / (loss)	11	22	(43)	27	43
<b>Total comprehensive income for the period</b>	<b>208,875</b>	<b>(2,828)</b>	<b>206,109</b>	<b>(6,714)</b>	<b>(298,755)</b>
<b>Attributable to:</b>					
Equity holders of the parent	208,875	(2,828)	206,109	(6,714)	(298,755)



## Condensed Consolidated Statement of Financial Position

(Unaudited figures in USD,000)

For the period ended 30 September 2013		Unaudited		
	Note	YTD 2013	YTD 2012	2012
New building assets and capitalised costs	3	210,000	332,412	0
Plant and equipment		0	88	77
<b>Total non-current assets</b>		<b>210,000</b>	<b>332,500</b>	<b>77</b>
Other current assets		190	725	483
Cash and cash equivalents	4	3,218	7,699	6,246
<b>Total current assets</b>		<b>3,408</b>	<b>8,424</b>	<b>6,729</b>
<b>TOTAL ASSETS</b>		<b>213,408</b>	<b>340,924</b>	<b>6,806</b>
Share capital		1,264	1,254	1,254
Share premium		562,659	562,288	562,288
Other equity		(351,713)	(254,431)	(557,857)
Equity attributable to equity holders of the parent		212,210	309,111	5,685
<b>Total equity</b>		<b>212,210</b>	<b>309,111</b>	<b>5,685</b>
Other financial liabilities		0	29,865	0
<b>Total non-current liabilities</b>		<b>0</b>	<b>29,865</b>	<b>0</b>
Current liabilities		1,198	1,948	1,121
<b>Total current liabilities</b>		<b>1,198</b>	<b>1,948</b>	<b>1,121</b>
<b>Total liabilities</b>		<b>1,198</b>	<b>31,813</b>	<b>1,121</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>213,408</b>	<b>340,924</b>	<b>6,806</b>



## Condensed Consolidated Statement of Changes in Equity

(Unaudited figures in USD,000)

For the period ended 30 September 2013	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders
<b>At 01.01.13</b>	<b>1,254</b>	<b>562,288</b>	<b>(567,673)</b>	<b>(271)</b>	<b>10,087</b>	<b>5,685</b>
Profit for the period			206,152			<b>206,152</b>
Other comprehensive income				(43)		<b>(43)</b>
Total comprehensive income			206,152	(43)		<b>206,109</b>
Shares issued	10	371			(381)	<b>0</b>
Share-based payment (options)					162	<b>162</b>
Share-based payment (shares)					254	<b>254</b>
<b>At 30.09.13</b>	<b>1,264</b>	<b>562,659</b>	<b>(361,521)</b>	<b>(314)</b>	<b>10,122</b>	<b>212,210</b>

For the period ended 30 September 2012	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders
At 01.01.12	1,248	561,946	(268,875)	(314)	22,401	316,406
Loss for the period			(6,741)			(6,741)
Other comprehensive income				27		27
Total comprehensive income			(6,741)	27		(6,714)
Shares issued	6	342			(348)	0
Share-based payment (options / warrants)					(871)	(871)
Share-based payment (shares)					290	290
At 30.09.12	1,254	562,288	(275,616)	(287)	21,472	309,111

## Condensed Consolidated Statement of Cash Flows

(Unaudited figures in USD,000)

For the period ended 30 September 2013	Unaudited		
	YTD 2013	YTD 2012	2012
Profit / (loss) before tax	206,164	(6,708)	(298,741)
Non cash items	(209,583)	82	290,333
Working capital adjustments	470	(406)	(127)
Income tax paid	(71)	(111)	(85)
Interest received	28	71	92
Net cash flow from operating activities	(2,992)	(7,072)	(8,528)
Purchase of plant and equipment	0	(10)	(23)
Proceeds from the sale of fixed assets	7	0	0
Net cash flow used in investing activities	7	(10)	(23)
<b>Net cash flow</b>	<b>(2,985)</b>	<b>(7,082)</b>	<b>(8,551)</b>
Net exchange translation effect	(43)	27	43
Cash balance at beginning of period	6,246	14,754	14,754
<b>Cash balance at end of period</b>	<b>3,218</b>	<b>7,699</b>	<b>6,246</b>

## Notes to the Interim Consolidated Accounts

### Note 1: General information

FLEX LNG Ltd is a limited liability company, incorporated in the British Virgin Islands. The Group includes ten 100% owned subsidiaries. The Group's activities were focused on developing production, transportation and/or storage of liquefied natural gas and related activities, with a particular focus on LNG transportation. The interim condensed consolidated financial statements of the Group for the nine months and quarter ended 30 September 2013 were authorised for issue by the board of Directors on 21 November 2013 for release on 22 November 2013.

### Note 2: Accounting principles

**Basis of preparation** - The interim condensed consolidated financial statements for the quarter ended 30 September 2013 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

The preparation of interim accounts involves the use of appraisals, estimates and assumptions influencing the application of accounting principles and recognised amounts for assets, obligations and costs. Actual results may differ from these estimates. The uncertainties and risks include both those noted in the 2012 accounts and as summarised below. These include: the ability to secure employment contracts on reasonable terms for the two vessels being constructed by Samsung; obtaining finance and working capital on reasonable terms; and the commencement of the strategic review of the alternatives available to the Company. The Group is operating in only one segment with respect to products and services. Segment reporting is thus not relevant.

## **Note 2: Accounting principles (continued)**

**Accounting policies** - The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new Standards and Interpretation in 2013, as noted below:

IFRS 1 - Amendment: Severe hyperinflation and removal of fixed dates for first time adopters; IFRS 1 - Amendment: Government Loans; IFRS 7 - Amendment: New disclosure requirements - Offsetting of Financial Assets and Financial Liabilities; IFRS 13 - Fair Value Measurement; IAS 1 - Amendment: Presentation of Items of Other Comprehensive Income; IAS 12 - Amendment: Deferred tax - Recovery of underlying assets; IAS 19 - Amendment Employee Benefits; IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine; and Improvements to IFRSs (2009-2011) - Amendment to IFRS 1 - Repeated application and Borrowing costs, IAS 1 - Clarification of the requirements for comparative information, IAS 16 - Classification of servicing equipment, IAS 32 - Tax effect of distributions to holders of equity instruments, and IAS 34 - Interim financial reporting and segment information for total assets and liabilities.

The adoption of these has had no material impact on the financial position or performance of the Group.

At the end of Q3 2013, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective:

IFRS 10 - Consolidated Financial Statements; IFRS 11 - Joint Arrangements; IFRS 12 - Disclosure of Interests in Other Entities; IAS 27 Revised Separate Financial Statements; IAS 28 Revised Investments in Associates and Joint Ventures; IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities; IFRS 9 - Financial Instruments; IFRS 10, IFRS 11, IFRS 12 - Amendments - Transition Guidance; IFRS 10, IFRS 12, IAS 27 - Amendments: Investment Entities; IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets; IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting and IFRIC 21 - Levies.

The Group intends to adopt those standards when they become effective. Currently the Group estimates that the implementation will have no impact, or are unable to determine the impact.

## **Note 3: New building assets and capitalised costs**

Following the execution of a settlement agreement the Group entered into two ship building contracts with Samsung for 174,000 m<sup>3</sup> TFDE LNG Carriers. As a result of the settlement agreement the parties have agreed to redeploy \$210m from payments already made to Samsung by the FLEX LNG group, which will be used as the first instalment for the two vessels. In the 2012 statutory accounts, under IAS 37, the advance payments to Samsung were derecognised as contingent assets. Given the settlement with Samsung the resultant asset value has been reinstated to the statement of financial position and an impairment write-back of \$210m has been recognised in the income statement.

## Note 4: Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise the following;

*(Unaudited figures in USD,000)*

	<b>Unaudited</b>		
	<b>YTD 2013</b>	<b>YTD 2012</b>	<b>2012</b>
Cash at bank and in hand	3,218	7,699	6,246

## Note 5: Capital commitments to Samsung

Under the settlement agreement \$210m was redeployed to be used as the first instalment for the two vessels. The remaining instalment will be due on delivery of the vessels, \$192m, prior to any amounts for design change requests and sundry buyers supplies.

## Note 6: Going concern

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

Given the expected costs in 2013 the Company believes, based upon forecast levels of cash utilisation, that the Company will have sufficient working capital to operate throughout 2013 and into 2014. The Company is considering alternative options and the timing for raising additional working capital to enable to the LNGC vessels to be delivered. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all.

Considering the above the Board believes that the going concern assumption currently remains appropriate for the Group, and expects, based upon current levels of cash utilisation, to have sufficient working capital to last through 2013 and into 2014.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed in the report.

## Note 7: Key figures

	<b>YTD 2013</b>	<b>YTD 2012</b>	<b>2012</b>
No. of shares outstanding	126,365,641	125,412,622	125,412,622
No. of shares fully diluted <sup>1</sup>	136,460,996	134,659,977	135,857,977
Average no. of outstanding shares	125,931,351	125,091,142	125,173,030
Share price (NOK)	6.70	3.50	2.69
Market capitalisation (NOK'm)	847	439	337

Note<sup>1</sup>: 8,776,488 options and warrants are not expected to meet their vesting criteria, 1,318,867 options have exercise prices and hurdle rates between NOK 6.5 and 27.



## Shareholders

The 10 main shareholders at 30.09.13 are:

<b>Share holder:</b>	<b>Number of shares:</b>	<b>Ownership interest:</b>
KAWASAKI KISEN KAISHA LTD	17,263,623	13.7%
JP MORGAN CLEARING CORP. <sup>1</sup>	15,942,174	12.6%
STATE STREET BANK AND TRUST CO. <sup>1</sup>	13,486,167	10.7%
DEUTSCHE BANK AG LONDON <sup>1</sup>	11,796,885	9.3%
GEVERAN TRADING CO	9,922,105	7.9%
B SCHULTE INVESTMENT HOLDING	6,272,543	5.0%
JP MORGAN SECURITIES LIMITED	4,989,500	3.9%
INVESCO PERP EUR MELLON SA/NV	4,332,016	3.4%
SIX SIS AG <sup>1</sup>	4,311,105	3.4%
GOLDMAN SACHS & CO <sup>1</sup>	2,965,644	2.4%
OTHER	35,083,879	27.7%
Per VPS register	126,365,641	100.0%

Note<sup>1</sup> - Nominee account.