Fred. Olsen Energy ASA

Report for the 2nd quarter 2016 and the 1st half year 2016

Figures in USD

FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF 143 MILLION FOR THE 2nd QUARTER 2016 AND 282 MILLION FOR THE FIRST HALF YEAR 2016

HIGHLIGHTS FOR THE 2nd QUARTER 2016

- **Revenues were 219 million**
- **EBITDA was 143 million**
- **Impairment of 159 million**
- **Operating profit (EBIT) was negative 96 million**
- **Profit before tax was negative 107 million**
- **Earnings per share were negative 1.7**

- **Repayment of bond loan FOE 04 in May 2016**
- **Statoil suspends Bideford Dolphin for third quarter 2016**

CONTACT PERSONS: **Hjalmar Krogseth Moe/Jannicke Nergaard Berg**
Tel: 22 34 10 00
mailto:hjalmar.krogseth.moe@fredolsen-energy.no
mailto:jannicke.nergaard.berg@fredolsen-energy.no

FINANCIAL INFORMATION (1st quarter 2016 and 1st half year 2015 in brackets)

Operating revenues in the quarter were 219.3 million (235.3 million), a decrease of 16.0 million compared with the previous quarter. The revenues for the offshore drilling division were 218.3 million, compared to 230.0 million previous quarter. The decrease in revenues within the offshore drilling division is mainly due to only two weeks termination fee for Belford Dolphin in second quarter compared to full first quarter, partly offset by higher utilization for Bideford Dolphin due to helicopter deck repair in first quarter. Revenues within the engineering and fabrication division were 1.2 million compared to 5.7 million in first quarter. The decrease is due to lower activity at the yard in the quarter.

Operating costs were 76.5 million (96.0 million), a decrease of 19.5 million compared with previous quarter. Operating costs within the offshore drilling division decreased by 15.8 million. Operating costs within the engineering and fabrication division were 4.1 million compared to 8.0 million in first quarter.

Operating profit before depreciation (EBITDA) was 142.8 million (139.3 million). EBITDA for the half year was 282.1 million (365.9 million).

Depreciation and impairment amounted to 238.6 million (75.4 million), including a non-cash impairment charge of 159.0 million. For the half year, depreciation and impairment amounted to 314.0 million (604.2 million). The impairment charge is due to a continued weak offshore drilling market.

Operating profit after depreciation and impairment (EBIT) was - 95.8 million (63.9 million). EBIT for the half year was - 31.9 million (- 238.3 million).

Net financial items were - 11.1 million (- 25.3 million). Net financial items for the half year were - 36.4 million (- 9.5 million).

Profit before tax was - 106.9 million (38.6 million). Profit before tax for the half year was - 68.3 million (- 247.8 million).

Net profit, including an estimated tax charge of 7.1 million (5.8 million), was - 114.0 million (32.8 million). Net profit for the half year, including an estimated tax charge of 12.9 million (10.0 million), was - 81.2 million (- 257.8 million).

Basic earnings per share were - 1.72 (0.50).

Basic earnings per share for the half year were - 1.22 (- 3.89).

OPERATIONS

Drilling Division

The offshore fleet of Fred. Olsen Energy ASA with subsidiaries (the Group) consists of three ultra-deepwater/deepwater units, five mid-water semi-submersible drilling rigs, one tender support vessel and one accommodation unit. Three of the semi-submersible drilling rigs are located in Norway.

Norway

Bideford Dolphin continued operations under a three-year drilling contract for Statoil ASA. The contract expires in January 2017. The unit completed its five-year Class Renewal Survey (CRS) in 2015. In June 2016, the Company received a notice of suspension from Statoil. The suspension period is for approximately three months, starting in the beginning of July. Compensation during the suspension is 80% of normal dayrate.

Borgland Dolphin continued operations under the 18 well drilling contract with a Rig Management Norway AS (RMN) managed consortium of four oil companies. The unit completed its five-year CRS in 2015. The duration of the drilling program has been significantly reduced by some of the clients and the rig is now estimated to complete the contract in August 2016. Due to the significant deviation between original contract estimate and actual days of operations, the Company will explore its legal rights to recover some of the reduced income.

Bredford Dolphin is currently cold-stacked in Kvinesdal, Norway. The unit undertook its five-year CRS in 2012.

International

The ultra-deepwater drillship Bolette Dolphin continued drilling under its four-year drilling contract with Anadarko Petroleum Corporation. The contract expires in May 2018. The unit is currently drilling offshore Ivory Coast.

Belford Dolphin is preserved and cold-stacked in Labuan, Malaysia. The unit completed its five-year CRS in 2015, and is marketed for new contract possibilities worldwide.

Blackford Dolphin continued under a 572 days contract for Chevron, for operations in UK. The contract expires January 2017. The unit completed its five-year CRS in 2014.

Byford Dolphin continued under a three-year drilling contract with BP. The contract is estimated to expire 3rd quarter 2016. The unit completed its five-year CRS in 2015.

Borgsten Dolphin continued operations under the contract as Tender Support Vessel (TSV) at the Dunbar platform with Total E&P UK Ltd. In June 2015, the contract was amended and revised from October 2015 to January 2018, subject to certain early termination rights from end 2016. The unit completed its five-year CRS and upgrades to a TSV in February 2013.

Borgholm Dolphin is cold stacked at Harland & Wolff shipyard. The unit completed its five-year CRS in March 2013.

Borgny Dolphin is cold stacked at the Harland & Wolff shipyard in Belfast. The Class Renewal Survey was due in September 2014. After all alternative solutions have been evaluated, the Company has decided to decommission the unit. The transaction is estimated to take place in third quarter 2016.

Engineering and Fabrication

The Harland & Wolff shipyard continued its core activities within engineering, ship repair and shipbuilding. The activity at the yard has been limited during the quarter and the outlook for second half of 2016 is challenging. The yard will continue to explore all opportunities and maintain focus on reducing cost.

Material events

There have been no material events since the release of the Annual Report for 2015.

Financials

In May 2016, the Company repaid its bond loan (FOE 04), with an original amount of NOK 1,400 million. There is no material change related to financial risk, including interest rate and currency risks, since the release of the Annual Report for 2015.

Market and prospects

The low tendering and fixture activity has continued through first half of 2016 and has continued to put pressure on day rate and utilization. This has led to an increased number of units being laid up and some scrapping has also taken place.

With still pressure on E&P budget and spending, we expect the demand and supply imbalance to continue through 2016. Some recovery is expected in 2017. The consequences are continued pressure on day-rates, shorter contract durations and increased number of lay-ups and scrapping, in general affecting all market segments.

Oslo, 13th July 2016
The Board of Directors
Fred. Olsen Energy ASA

Sign.	Sign.	Sign.	Sign.	Sign.
Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Agnar Gravdal	Ivar Brandvold
Chairman				CEO

Statement by the Board of Directors and Chief Executive Officer

The Board of Directors and Chief Executive Officer have today considered and approved the condensed consolidated interim report of Fred. Olsen Energy ASA as at 30 June 2016 and for the first half-year 2016 including condensed consolidated comparative figures as at 30 June 2015 and for the first half-year 2015 ("the interim report").

The interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional Norwegian requirements in Securities Trading Act.

We consider the accounting policies applied to be appropriate. Accordingly, the interim report give a true and fair view of the Group's financial position as at 30 June 2016 and as at 30 June 2015 and of the results of the Group's operations and cash flows for the first half-year 2016 and the first half-year 2015.

Oslo, 13 July 2016
Fred. Olsen Energy ASA

Sign.	Sign.	Sign.	Sign.	Sign.
Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Agnar Gravdal	Ivar Brandvold
Chairman				CEO

Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	2Q 2016	1Q 2016	2Q 2015	Jan-June 2016	Jan-June 2015	Year 2015
Operating revenues		215,3	230,7	320,6	446,0	592,6	1 085,6
Recharged income		4,0	4,6	5,3	8,6	17,2	30,8
Total revenues	*1*	**219,3**	**235,3**	**325,9**	**454,6**	**609,8**	**1 116,4**
Operating costs		(72,6)	(91,5)	(112,1)	(164,1)	(227,0)	(449,0)
Recharged expenses		(3,9)	(4,5)	(5,2)	(8,4)	(16,9)	(30,4)
Total operating expenses	*1*	**(76,5)**	**(96,0)**	**(117,3)**	**(172,5)**	**(243,9)**	**(479,4)**
Operating profit before depreciation, impairment and net financial expenses (EBITDA)		**142,8**	**139,3**	**208,6**	**282,1**	**365,9**	**637,0**
Depreciation and amortisation	*6*	(79,6)	(75,4)	(94,2)	(155,0)	(185,3)	(354,1)
Impairment	*6*	(159,0)	-	(418,9)	(159,0)	(418,9)	(607,9)
Operating profit/(loss) before net financial expenses (EBIT)		**(95,8)**	**63,9**	**(304,5)**	**(31,9)**	**(238,3)**	**(325,0)**
Net financial expenses	*8*	(11,1)	(25,3)	(18,2)	(36,4)	(9,5)	(23,0)
Profit/(loss) before tax		**(106,9)**	**38,6**	**(322,7)**	**(68,3)**	**(247,8)**	**(348,0)**
Income tax expense		(7,1)	(5,8)	(4,8)	(12,9)	(10,0)	(2,6)
Profit/(loss) for the period		**(114,0)**	**32,8**	**(327,5)**	**(81,2)**	**(257,8)**	**(350,6)**
Attributable to:							
Shareholders		(113,7)	33,0	(327,6)	(80,7)	(258,0)	(350,9)
Non-controlling interests		(0,3)	(0,2)	0,1	(0,5)	0,2	0,3
Profit/(loss) for the period		**(114,0)**	**32,8**	**(327,5)**	**(81,2)**	**(257,8)**	**(350,6)**
EPS :							
Basic earnings per share		-1,72	0,50	-4,94	-1,22	-3,89	-5,30
Diluted earnings per share		-1,72	0,50	-4,94	-1,22	-3,89	-5,30
Outstanding shares							
Average number of ordinary shares, basic		66,3	66,3	66,3	66,3	66,3	66,3
Average number of ordinary shares, diluted		66,3	66,3	66,3	66,3	66,3	66,3

GROUP STATEMENT OF COMPREHENSIVE INCOME

Unaudited

	2Q 2016	1Q 2016	2Q 2015	Jan-June 2016	Jan-June 2015	Year 2015
Profit/(loss) for the period	(114,0)	32,8	(327,5)	(81,2)	(257,8)	(350,6)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	20,8
Income tax relating to components of other comprehensive income	-	-	-	-	-	(7,2)
Exchange differences on translation of foreign operations	(1,1)	2,1	0,3	1,0	(0,8)	(5,4)
Total comprehensive income/(loss) for the period	**(115,1)**	**34,9**	**(327,2)**	**(80,2)**	**(258,6)**	**(342,4)**
Attributable to:						
Shareholders	(115,2)	35,1	(327,3)	(80,1)	(258,8)	(342,8)
Non-controlling interests	0,1	(0,2)	0,1	(0,1)	0,2	0,4
Total comprehensive income/(loss) for the period	**(115,1)**	**34,9**	**(327,2)**	**(80,2)**	**(258,6)**	**(342,4)**

Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)		**30 Jun 16**	**31 Mar 16**	**30 June 15**	**31 Dec 15**
Intangible assets		11,8	11,9	12,5	11,2
Property, plant & equipment	*6*	1 553,7	1 790,9	2 681,3	1 862,4
Other non-current assets		19,9	20,2	32,0	22,9
Total non-current assets		**1 585,4**	**1 823,0**	**2 725,8**	**1 896,5**
Inventories		120,7	120,7	122,5	120,0
Trade and other receivables		128,5	117,4	187,3	135,1
Other current assets		218,0	218,3	40,0	207,7
Cash and cash equivalents		132,9	197,1	186,0	214,1
Total current assets		**600,1**	**653,5**	**535,8**	**676,9**
Total assets		**2 185,5**	**2 476,5**	**3 261,6**	**2 573,4**
Share capital		193,3	193,3	193,3	193,3
Other equity		692,0	807,1	856,0	772,2
Non-controlling interests		-	-	-	-
Total Equity		**885,3**	**1 000,4**	**1 049,3**	**965,5**
Non-current interest-bearing loans and borrowings	*5*	910,9	916,2	1 070,8	1 002,1
Other non-current liabilities		102,2	103,7	133,8	100,3
Total non-current liabilities		**1 013,1**	**1 019,9**	**1 204,6**	**1 102,4**
Current interest-bearing loans and borrowings	*5*	190,9	312,2	369,1	325,7
Other current liabilities		96,2	144,0	638,6	179,8
Total current liabilities		**287,1**	**456,2**	**1 007,7**	**505,5**
Total equity and liabilities		**2 185,5**	**2 476,5**	**3 261,6**	**2 573,4**

GROUP STATEMENT OF CHANGES IN EQUITY

Unaudited

(USD mill)

	Share capital	**Share premium**	**Translation reserves**	**Reserve for own shares**	**Retained earnings**	**Total**	**Non-contr. interests**	**Total equity**
Year 2015								
Balance at 1 January 2015	193,3	83,5	6,9	(1,2)	1 025,4	1 307,9	-	1 307,9
Loss for the year	-	-	-	-	(350,6)	(350,6)	-	(350,6)
Other comprehensive income/(loss)	-	-	(5,4)	-	13,6	8,2	-	8,2
Balance at 31 Dec 2015	**193,3**	**83,5**	**1,5**	**(1,2)**	**688,4**	**965,5**	**-**	**965,5**
Jan-Jun 2016								
Profit for the year	-	-	-	-	(81,2)	(81,2)	-	(81,2)
Other comprehensive income	-	-	1,0	-	-	1,0	-	1,0
Balance at 30 Jun 2016	**193,3**	**83,5**	**2,5**	**(1,2)**	**607,2**	**885,3**	**-**	**885,3**

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (USD mill)	Note	Jan-Jun 2016	Jan-Jun 2015	Year 2015
Cash flows from operating activities				
Profit/(loss) before income tax		(68,3)	(247,8)	(348,0)
Adjustment for:				
Depreciation, amortisation and impairment	6	314,0	604,2	962,0
Interest expense		23,0	22,5	55,1
Gain/(loss) on sales of fixed assets		-	(0,1)	(0,1)
Changes in working capital		(63,8)	(30,0)	21,8
Unrealised loss/(gain) financial instruments/debt	8	0,9	(22,3)	(44,2)
Cash generated from operations		205,8	326,5	646,6
Interest paid		(21,0)	(23,5)	(46,9)
Taxes paid		(1,8)	(13,5)	(19,5)
Net cash from operating activities		**183,0**	**289,5**	**580,2**
Cash flows from investing activities				
Net investment in fixed assets		(18,7)	(305,7)	(474,3)
Proceeds from sale of equipment		0,1	0,1	0,2
Net cash used to investing activities		**(18,6)**	**(305,6)**	**(474,1)**
Cash flows from financing activites				
Proceeds from interest bearing loans		130,0	-	130,0
Repayments of interest bearing loans	5	(373,5)	-	(219,9)
Net cash used in financing activites		**(243,5)**	**-**	**(89,9)**
Foreign currency		(2,1)	(1,3)	(5,5)
Net change in cash and cash equivalents		(79,1)	(16,1)	16,2
Cash and cash equivalents at the beg. of period		214,1	203,4	203,4
Cash and cash equiv. at the end of period		**132,9**	**186,0**	**214,1**

Notes

1. **Segment information**

Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
2Q 2016				
Revenues from external customers	218,3	1,0	-	219,3
Inter-segment revenues	-	0,2	(0,2)	-
Total revenues	**218,3**	**1,2**	**(0,2)**	**219,3**
Operating costs	(72,6)	(4,1)	0,2	(76,5)
Oper. profit before depr. (EBITDA)	**145,7**	**(2,9)**	**-**	**142,8**
Depreciation and amortisation	(79,0)	(0,6)	-	(79,6)
Impairment	(159,0)	-	-	(159,0)
Operating profit/(loss) (EBIT)	**(92,3)**	**(3,5)**	**-**	**(95,8)**
1Q 2016				
Revenues from external customers	230,0	5,3	-	235,3
Inter-segment revenues	-	0,4	(0,4)	-
Total revenues	**230,0**	**5,7**	**(0,4)**	**235,3**
Operating costs	(88,4)	(8,0)	0,4	(96,0)
Oper. profit before depr. (EBITDA)	**141,6**	**(2,3)**	**-**	**139,3**
Depreciation and amortisation	(74,8)	(0,6)	-	(75,4)
Operating (loss)/profit (EBIT)	**66,8**	**(2,9)**	**-**	**63,9**
2Q 2015				
Revenues from external customers	323,6	2,3	-	325,9
Inter-segment revenues	-	56,2	(56,2)	-
Total revenues	**323,6**	**58,5**	**(56,2)**	**325,9**
Operating costs	(115,8)	(56,2)	54,7	(117,3)
Oper. profit before depr. (EBITDA)	**207,8**	**2,3**	**(1,5)**	**208,6**
Depreciation and amortisation	(93,6)	(0,6)	-	(94,2)
Impairment	(418,9)	-	-	(418,9)
Operating profit/(loss) (EBIT)	**(304,7)**	**1,7**	**(1,5)**	**(304,5)**
Jan-June 2016				
Revenues from external customers	448,3	6,3	-	454,6
Inter-segment revenues	-	0,6	(0,6)	-
Total revenues	**448,3**	**6,9**	**(0,6)**	**454,6**
Operating costs	(161,0)	(12,1)	0,6	(172,5)
Oper. profit before depr. (EBITDA)	**287,3**	**(5,2)**	**-**	**282,1**
Depreciation and amortisation	(153,8)	(1,2)	-	(155,0)
Impairment	(159,0)	-	-	(159,0)
Operating (loss)/profit (EBIT)	**(25,5)**	**(6,4)**	**-**	**(31,9)**
Jan-June 2015				
Revenues from external customers	603,5	6,3	-	609,8
Inter-segment revenues	-	89,9	(89,9)	-
Total revenues	**603,5**	**96,2**	**(89,9)**	**609,8**
Operating costs	(239,3)	(91,6)	87,0	(243,9)
Oper. profit before depr. (EBITDA)	**364,2**	**4,6**	**(2,9)**	**365,9**
Depreciation and amortisation	(184,1)	(1,2)	-	(185,3)
Impairment	(418,9)	-	-	(418,9)
Operating profit/(loss) (EBIT)	**(238,8)**	**3,4**	**(2,9)**	**(238,3)**
Year 2015				
Revenues from external customers	1 103,8	12,6	-	1 116,4
Inter-segment revenues	-	89,1	(89,1)	-
Total revenues	**1 103,8**	**101,7**	**(89,1)**	**1 116,4**
Operating costs	(470,2)	(95,4)	86,2	(479,4)
Oper. profit before depr. (EBITDA)	**633,6**	**6,3**	**(2,9)**	**637,0**
Depreciation and amortisation	(350,9)	(3,2)	-	(354,1)
Impairment	(607,9)	-	-	(607,9)
Operating profit/(loss) (EBIT)	**(325,2)**	**3,1**	**(2,9)**	**(325,0)**

* Includes Fred. Olsen Energy ASA

Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
30 Jun 16				
Segment assets	2 144,4	41,4	(0,3)	2 185,5
Segment liabilities	1 253,0	47,5	(0,3)	1 300,2
30 June 15				
Segment assets	3 169,7	110,2	(18,3)	3 261,6
Segment liabilities	2 118,9	111,7	(18,3)	2 212,3
31 Dec 15				
Segment assets	2 520,2	53,5	(0,3)	2 573,4
Segment liabilities	1 554,4	53,8	(0,3)	1 607,9

* Includes Fred. Olsen Energy ASA

2. Introduction

The consolidated interim financial statements for 2nd Quarter 2016 ended 30 June 2016, comprise Fred. Olsen Energy ASA and its subsidiaries (together referred to as the ”Group”).

The interim accounts have been prepared in accordance with IAS 34 as adopted by EU and the Securities and Trading Act. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

The consolidated financial statements of the Group for the year ended 31 December 2015 are available upon request from the Company’s office in Oslo or at www.fredolsen-energy.com.

The Board of Directors approved these consolidated interim financial statements on 13th July 2016.

3. Significant accounting policies

No significant new accounting principles have been adopted in the quarter. The main accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2015.

The IASB has issued three new standards that are expected to impact the financial reporting of the Group in the future.

IFRS 9 Financial Instruments

Replaces the existing guidance in IAS 39 and is effective for annual reporting on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from contract with customers
Replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programs and is effective for annual reporting on or after 1 January 2017. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases
IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model for lessees that is similar to the current finance lease accounting under IAS 17. The Group is assessing the impact on its consolidated financial statements resulting from the application of IFRS 16.

4. Estimates
The preparations of interim financial statements require use of estimates, judgments and assumptions that may affect the use of accounting principles and recognized assets, liabilities, income and expenses. The resulting accounting estimates may differ from the eventual outcome.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts are the same as described in the annual report for the year 2015.

5. Interest-bearing loans and borrowings
As per June 2016 the Group has repaid USD 230 million and drawn USD 130 million of the fleet facility during the period. Available lines under the long-term fleet facility were USD 275 million as per 30 June 2016. The Group has repaid NOK 1 187 million in its bond loan FOE04 in 2016, whereof NOK 1 003 million was settled in Q2. FOE04 had final maturity in May 2016.

6. Property, plant and equipment

(USD mill)	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
Cost				
Balance at 1 January 2016	4 128,7	93,0	21,3	4 243,0
Acquisitions	5,5	0,8	0,0	6,3
Disposals	(3,2)	(4,7)	0,0	(7,9)
Movements in foreign currency	0,0	(4,7)	(1,0)	(5,7)
Balance at 30 June 2016	**4 131,0**	**84,4**	**20,3**	**4 235,7**
Depreciation				
Balance at 1 January 2016	2 297,6	72,9	10,1	2 380,6
Depreciation	151,8	3,0	0,2	155,0
Impairment	159,0	0,0	0,0	159,0
Disposals	(3,1)	(4,6)	0,0	(7,7)
Movements in foreign currency	0,0	(4,4)	(0,5)	(4,9)
Balance at 30 June 2016	**2 605,3**	**66,9**	**9,8**	**2 682,0**
Carrying amounts				
At 1 January 2016	1 831,1	20,1	11,2	1 862,4
At 30 June 2016	1 525,7	17,5	10,5	1 553,7

On a quarterly basis, the Group assesses whether there is an indication that a Cash Generating Unit (CGU) may be impaired. We consider each individual unit to be a CGU, as defined in IAS 36.6, as each individual unit generates independent cash flows. One indicator of impairment we consider is if the net book value of a CGU is below the average market value provided from two independent brokers. Another indicator of impairment we consider is if the carrying amount of the net assets of the Group exceeds the Group's market capitalisation. The Group estimates the recoverable amount for each CGU based on the value in use calculation by estimating the future expected cash inflows and outflows derived from continuing use of each CGU and applying the appropriate discount rate on the future cash flows.

As at 30th June 2016, impairment tests of the Group's fleet were undertaken. As a result, the Group recognised a total impairment loss of USD 159 million in Q2 2016. The estimated recoverable amount for each CGU was based on the value in use calculation. The Group's estimated recoverable amount includes a number of assumptions such as future performance of the units, future contract opportunities, availabilities and day rates. The negative market development has continued during Q1 and Q2 in 2016, and in Q2, the Group has further reduced the assumptions for day rates and utilisation for the next couple of years.

Management is monitoring the market development closely and if the Group experience changes to any of the assumptions, the Group may be required to recognise additional impairment adjustments or reverse impairment to the assets.

The impairment recognized during the period and the net book values, which represent the estimated recoverable amount, as at 30th June 2016 is as follows:

(USD mill)	**Q2 2016**	**Net book value as at**		**Discount rates**	
		30.06.2016	31.12.2015	Post-tax	Pre-tax
Byford Dolphin	67	92	178	8,99 %	8,99 %
Borgland Dolphin	72	126	221	8,50 %	9,79 %
Bredford Dolphin	20	15	37	8,50 %	9,96 %
Total impairment	**159**				

7. Related parties

In the ordinary course of business, the Group recognises revenues and expenses with related companies. Related parties are (1) Bonheur ASA that is the owner of 51.9% of the Group, (2) its subsidiaries and (3) Fred. Olsen & Co. The Group receives certain administrative, financial, and legal advisory services from Fred. Olsen & Co. There are no material changes since the financial statements for the year ended 31 December 2015.

8. Financial expenses/income

Unrealized gain on currency contracts of USD 14 million and a realized loss on currency contracts of USD 11 million are included in the 1st half year 2016.

A foreign exchange loss of USD 15 million is included in the 1st half year 2016 related to the NOK Bond loans.