Report for the 1st quarter 2017

Figures in USD

FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF USD 41 MILLION IN 1Q 2017

HIGHLIGHTS

- **Revenues were 98 million**
- **EBITDA was 41 million**
- **Operating profit (EBIT) was - 14 million**
- **Profit before tax was - 21 million**
- **Earnings per share were - 0.40**

- **New 50 days drilling contract for Bideford Dolphin**
- **Borgholm Dolphin to be decommissioned**

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FINANCIAL INFORMATION (*4th quarter 2016 in brackets)*

Operating revenues in the quarter were 98.4 million (156.8 million), a decrease of 58.4 million compared with the previous quarter. Revenues from the offshore drilling division were 93.1 million (154.2 million), a decrease of 61.1 million. The decrease in revenues within the offshore drilling division is mainly due to Borgsten Dolphin and Byford Dolphin coming off contract in October 2016 and reduced dayrate on contract extensions for Bideford Dolphin and Blackford Dolphin in the first quarter. Revenues within the engineering and fabrication division were 5.5 million (2.8 million).

Operating expenses were 57.6 million (59.6 million), a decrease of 2.0 million compared with previous quarter. Operating costs within the offshore drilling division decreased by 4.5 million to 51.5 million (56.0 million). Operating costs within the engineering and fabrication division increased by 2.5 million to 6.3 million (3.8 million).

Operating profit before depreciation (EBITDA) was 40.8 million (97.2 million). EBITDA within the offshore drilling division decreased by 56.6 million to 41.6 million (98.2 million), and EBITDA within the engineering and fabrication division was - 0.8 million (- 1.0 million).

Depreciation, amortisation and impairment amounted to 55.0 million (75.7 million).

Operating profit after depreciation (EBIT) was - 14.2 million (21.5 million including a non-cash impairment charge of 10.5 million).

Net financial items were - 6.6 million (- 2.9 million).

Profit before tax was - 20.8 million (18.6 million).

Net profit, including an estimated tax charge of 5.6 million (8.9 million), was - 26.4 million (9.7 million).

Earnings per share were - 0.40 (0.15).

Drilling Division
The offshore fleet of Fred. Olsen Energy ASA with subsidiaries (the Group) consists of three ultra-deepwater/deepwater units, four harsh environment mid-water semi-submersible drilling rigs, one tender support vessel and one accommodation unit.

Norway
Bideford Dolphin continued operations under a three-year drilling contract for Statoil ASA. The contract expired in early February 2017. In January the contract with Statoil was extended with one well, which was completed late March. In April, the contract with Statoil was extended with one additional well plus an option for a second well. The firm well is estimated to commence before end July with a duration of approximately 50 days. The unit, which completed its five-year Class Renewal Survey (CRS) in 2014, is warm stacked in Flekkefjord and preparing for the upcoming drilling operations for Statoil.

Borgland Dolphin, which completed its five-year CRS in 2015, is smart stacked in Lyngdal, Norway, ready for new contracts.

Bredford Dolphin is currently preserved and maintained 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 unit was drilling offshore Colombia during the quarter. The contract expires in July 2018.

Belford Dolphin is preserved and maintained in Labuan, Malaysia. The unit completed its five-year CRS in 2015.

Blackford Dolphin continued under a contract for Chevron, for operations in UK. In January 2017 the contract with Chevron was extended. The extended contract was completed end April. The unit, which completed its five-year CRS in 2014, is smart stacked in Flekkefjord, Norway, ready for new contracts.

Byford Dolphin continued under a three-year drilling contract with BP, which expired in October 2016. The unit, which completed its five-year CRS in 2015, is smart stacked in Lyngdal, Norway, ready for new contracts.

Borgsten Dolphin is currently cold-stacked in Invergordon, Scotland. The unit undertook its five-year CRS in 2013.

The accommodation unit Borgholm Dolphin is cold stacked at Harland & Wolff shipyard. The unit completed its five-year CRS in March 2013. After all alternative solutions have been evaluated, the Company has decided to decommission the unit. The transaction is estimated to take place in second/third quarter 2017.

Engineering and Fabrication

The Harland & Wolff shipyard continued its core activities within engineering, ship repair and shipbuilding. The activity at the yard has been low during the first quarter 2017. The shipyard has secured a jacket contract as subcontractor to Lamprell for deliveries in 2017/2018. In addition a contract has been entered into with ST3 Offshore, for supply of suction buckets for Dong Energy's Borkum Riffgrund 2, an offshore windfarm being built off the German cost. These two projects will represent a significant contribution to the 2017 revenues. However, it is expected that the market conditions in 2017 will be challenging for the shipyard. The yard will continue to explore all business opportunities and maintain focus on reducing cost.

Oslo, 3rd May 2017
The Board of Directors
Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	1Q 2017	4Q 2016	1Q 2016	Year 2016
Operating revenues		95,5	152,5	230,7	808,9
Recharged income		2,9	4,3	4,6	16,1
Total revenues	*1*	**98,4**	**156,8**	**235,3**	**825,0**
Operating costs		(54,7)	(55,5)	(91,5)	(311,0)
Recharged expenses		(2,9)	(4,1)	(4,5)	(15,6)
Total operating expenses	*1*	**(57,6)**	**(59,6)**	**(96,0)**	**(326,6)**
Operating profit before depreciation, impairment and net financial expenses (EBITDA)		**40,8**	**97,2**	**139,3**	**498,4**
Depreciation and amortisation	*6*	(55,0)	(65,2)	(75,4)	(290,4)
Impairment	*6*	-	(10,5)	-	(230,8)
Operating profit/(loss) before net financial expenses (EBIT)		**(14,2)**	**21,5**	**63,9**	**(22,8)**
Net financial expenses	*8*	(6,6)	(2,9)	(25,3)	(56,6)
Profit/(loss) before tax		**(20,8)**	**18,6**	**38,6**	**(79,4)**
Income tax expense		(5,6)	(8,9)	(5,8)	(26,0)
Profit/(loss) for the period		**(26,4)**	**9,7**	**32,8**	**(105,4)**
Attributable to:					
Shareholders		(26,3)	9,8	33,0	(104,6)
Non-controlling interests		(0,1)	(0,1)	(0,2)	(0,8)
Profit/(loss) for the period		**(26,4)**	**9,7**	**32,8**	**(105,4)**
EPS :					
Basic earnings per share		-0,40	0,15	0,50	-1,58
Diluted earnings per share		-0,40	0,15	0,50	-1,58
Outstanding shares					
Average number of ordinary shares, basic		66,3	66,3	66,3	66,3
Average number of ordinary shares, diluted		66,3	66,3	66,3	66,3

GROUP STATEMENT OF COMPREHENSIVE INCOME

Unaudited

	1Q 2017	4Q 2016	1Q 2016	Year 2016
Profit/(loss) for the period	(26,4)	9,7	32,8	(105,4)
Actuarial (loss)/gains on defined benefit pension plans	-	(8,2)	-	(8,2)
Income tax relating to components of other comprehensive income	-	0,7	-	0,7
Exchange differences on translation of foreign operations	-	(2,5)	2,1	0,6
Total comprehensive income/(loss) for the period	**(26,4)**	**(0,3)**	**34,9**	**(112,3)**
Attributable to:				
Shareholders	(26,3)	0,4	35,1	(111,0)
Non-controlling interests	(0,1)	(0,7)	(0,2)	(1,3)
Total comprehensive income/(loss) for the period	**(26,4)**	**(0,3)**	**34,9**	**(112,3)**

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STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)		31 Mar 17	31 Dec 16	31 Mar 16
Intangible assets		-	-	11,9
Property, plant & equipment	*6*	1 307,3	1 361,0	1 790,9
Other non-current assets		17,4	17,3	20,2
Total non-current assets		**1 324,7**	**1 378,3**	**1 823,0**
Inventories		113,7	113,1	120,7
Trade and other receivables		64,0	94,6	117,4
Other current assets		11,7	13,6	218,3
Cash and cash equivalents		333,3	290,4	197,1
Total current assets		**522,7**	**511,7**	**653,5**
Total assets		**1 847,4**	**1 890,0**	**2 476,5**
Share capital		193,3	193,3	193,3
Other equity		633,5	659,9	807,1
Non-controlling interests		-	-	-
Total Equity		**826,8**	**853,2**	**1 000,4**
Non-current interest-bearing loans and borrowings	*5*	776,9	879,6	916,2
Other non-current liabilities		92,7	90,9	103,7
Total non-current liabilities		**869,6**	**970,5**	**1 019,9**
Current interest-bearing loans and borrowings	*5*	95,5	-	312,2
Other current liabilities		55,5	66,3	144,0
Total current liabilities		**151,0**	**66,3**	**456,2**
Total equity and liabilities		**1 847,4**	**1 890,0**	**2 476,5**

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 2016								
Balance at 1 January 2016	193,3	83,5	1,5	(1,2)	688,4	965,5	-	965,5
Loss for the year	-	-	-	-	(105,4)	(105,4)	-	(105,4)
Other comprehensive income/(loss)	-	-	0,6	-	(7,5)	(6,9)	-	(6,9)
Balance at 31 Dec 2016	**193,3**	**83,5**	**2,1**	**(1,2)**	**575,5**	**853,2**	**-**	**853,2**
Jan-Mar 2017								
Loss for the year	-	-	-	-	(26,4)	(26,4)	-	(26,4)
Balance at 31 Mar 2017	**193,3**	**83,5**	**2,1**	**(1,2)**	**549,1**	**826,8**	**-**	**826,8**

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited **(USD mill)**	**Note**	**Jan-Mar 2017**	**Jan-Mar 2016**	**Year 2016**
Cash flows from operating activities				
Profit/(loss) before income tax		(20,8)	38,6	(79,4)
Adjustment for:				
Depreciation, amortisation and impairment	6	55,0	75,4	521,2
Interest expense		9,2	11,9	43,0
Changes in working capital		29,2	(21,5)	(30,1)
Unrealised loss/(gain) financial instruments/debt	8	0,5	11,2	(7,3)
Cash generated from operations		73,1	115,6	447,4
Interest paid		(8,9)	(10,5)	(38,0)
Taxes paid		(3,9)	6,2	(16,2)
Net cash from operating activities		**60,3**	**111,3**	**393,2**
Cash flows from investing activities				
Net investment in fixed assets		(8,8)	(12,7)	(23,9)
Settlement for Bollsta Dolphin Pte. Ltd.		-	-	176,4
Proceeds from sale of equipment		-	0,1	0,1
Net cash used to investing activities	6	**(8,8)**	**(12,6)**	**152,6**
Cash flows from financing activites				
Proceeds from interest bearing loans		-	40,0	195,0
Repayments of interest bearing loans	5	(9,1)	(156,4)	(659,9)
Net cash used in financing activites		**(9,1)**	**(116,4)**	**(464,9)**
Foreign currency		0,5	0,7	(4,6)
Net change in cash and cash equivalents		42,4	(17,7)	80,9
Cash and cash equivalents at the beg. of period		290,4	214,1	214,1
Cash and cash equiv. at the end of period		**333,3**	**197,1**	**290,4**

Condensed Consolidated Financial Statements

Notes

1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
1Q 2017				
Revenues from external customers	93,1	5,3	-	98,4
Inter-segment revenues	-	0,2	(0,2)	-
Total revenues	**93,1**	**5,5**	**(0,2)**	**98,4**
Operating costs	(51,5)	(6,3)	0,2	(57,6)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**41,6**	**(0,8)**	**-**	**40,8**
Depreciation and amortisation	(54,5)	(0,5)	-	(55,0)
Operating profit/(loss) before net financial expenses (EBIT)	**(12,9)**	**(1,3)**	**-**	**(14,2)**
4Q 2016				
Revenues from external customers	154,2	2,6	-	156,8
Inter-segment revenues	-	0,2	(0,2)	-
Total revenues	**154,2**	**2,8**	**(0,2)**	**156,8**
Operating costs	(56,0)	(3,8)	0,2	(59,6)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**98,2**	**(1,0)**	**-**	**97,2**
Depreciation and amortisation	(64,8)	(0,4)	-	(65,2)
Impairment	(10,5)	-	-	(10,5)
Operating profit/(loss) before net financial expenses (EBIT)	**22,9**	**(1,4)**	**-**	**21,5**
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)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**141,6**	**(2,3)**	**-**	**139,3**
Depreciation and amortisation	(74,8)	(0,6)	-	(75,4)
Operating profit/(loss) before net financial expenses (EBIT)	**66,8**	**(2,9)**	**-**	**63,9**

	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
Year 2016				
Revenues from external customers	815,1	9,9	-	825,0
Inter-segment revenues	-	1,4	(1,4)	-
Total revenues	**815,1**	**11,3**	**(1,4)**	**825,0**
Operating costs	(308,9)	(19,1)	1,4	(326,6)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**506,2**	**(7,8)**	**-**	**498,4**
Depreciation and amortisation	(288,3)	(2,1)	-	(290,4)
Impairment	(230,8)	-	-	(230,8)
Operating profit/(loss) before net financial expenses (EBIT)	**(12,9)**	**(9,9)**	**-**	**(22,8)**

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
31 Mar 17				
Segment assets	1 813,1	36,1	(1,8)	1 847,4
Segment liabilities	968,0	54,4	(1,8)	1 020,6
31 Mar 16				
Segment assets	2 427,5	49,2	(0,2)	2 476,5
Segment liabilities	1 424,1	52,2	(0,2)	1 476,1

* Includes Fred. Olsen Energy ASA

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Revenue split

(USD mill)	1Q 2017	4Q 2016	1Q 2016	Year 2016
Lease revenue	44,2	86,5	123,7	479,4
Service revenue	45,9	61,1	101,6	317,0
Other income	3,0	6,6	4,7	18,7
Engineering and fabrication	5,3	2,6	5,3	9,9
Total revenues	**98,4**	**156,8**	**235,3**	**825,0**

2. Introduction

The consolidated interim financial statements for 1st quarter 2017 ended 31 March 2017, 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 2016.

The consolidated financial statements of the Group for the year ended 31 December 2016 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 3rd May 2017.

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 2016.

Fred. Olsen Energy is currently undertaking a Group wide project to analyze the effects of the new released IFRS standards, mainly IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

The Group's preliminary assessment of the implementation of IFRS 9, IFRS 15 and IFRS 16 is that the financial impact is not material. Leased assets will be recognized as a “right to use” asset and the new standards will increase the scope of disclosures. Based on the assessments made to date, the Group plans to adopt IFRS 16 simultaneously with IFRS 9 and IFRS 15 on 1st January 2018 without changing the comparable numbers.

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 2016 whereof the estimates of fair values of the offshore units are the most significant.

Estimating the fair value is a complex process involving a number of key judgements and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs.

As a result of the current market situation and because the uncertainty is higher than usual for when new contracts will be entered into and the related future dayrate levels, fair value of the offshore units is exposed to high estimation uncertainty.

5. Interest-bearing loans and borrowings

As per March 2017, the Group has repaid NOK 75 million of its bond loan FOE05 in 1st quarter 2017.

6. Property, plant and equipment

(USD mill)	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
Cost				
Balance at 1 January 2017	3 856,7	74,3	18,3	3 949,3
Acquisitions	1,2	0,0	0,0	1,2
Movements in foreign currency	0,0	0,8	0,2	1,0
Balance at 31 December 2017	**3 857,9**	**75,1**	**18,5**	**3 951,5**
Depreciation				
Balance at 1 January 2017	2 519,9	59,4	9,0	2 588,3
Depreciation	53,6	1,3	0,1	55,0
Movements in foreign currency	0,0	0,8	0,1	0,9
Balance at 31 December 2017	**2 573,5**	**61,5**	**9,2**	**2 644,2**
Carrying amounts				
At 1 January 2017	1 336,8	14,9	9,3	1 361,0
At 31 March 2017	1 284,4	13,6	9,3	1 307,3

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 offshore unit to be a CGU, as defined in IAS 36.6, as each individual offshore 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 three scenarios per unit for 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.

There is no material changes to the assumptions used in the annual report and no impairment was recorded in the 1st quarter 2017. 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 market situation makes the valuations uncertain and volatile. The charter rates and timing of new contracts are both significant estimates and highly sensitive in the model.

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) Bonheurs 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 2016.

8. Financial expenses/income

The Group received an interest income of USD 4 million in the 1st quarter 2017 from a customer related to an outstanding legal dispute.

9. Definitions of Non-IFRS financial measures

EBITDA: Profit or loss before income tax, net financial items, depreciation and impairment

EBIT: Profit or loss before net financial items and income tax

Net financial expenses: Interest income and expenses, exchange gain or losses, gain or losses on financial instruments and other financial expenses

Capital expenditures: Acquisitions of property, plant or equipment