Fred. Olsen Energy ASA

Report for the 1st quarter 2018

Figures in USD

FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF USD 32 MILLION IN 1Q 2018

HIGHLIGHTS

- **Revenues were 71 million**
- **EBITDA was 32 million**
- **Operating profit (EBIT) was - 25 million**
- **Profit before tax was - 43 million**
- **Earnings per share were - 0.64**

- **The remaining part of termination fee for Bolette Dolphin was booked in the quarter**

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FINANCIAL INFORMATION (*4th quarter 2017 in brackets)*

Operating revenues in the quarter were 71.4 million (49.5 million), an increase of 21.9 million compared with the previous quarter. Revenues from the offshore drilling division were 63.7 million (45.0 million), an increase of 18.7 million. The increase in revenues within the offshore drilling division is mainly due to booking of the remaining part of the termination fee for Bolette Dolphin of 37 million, a total of 61.7 million in first quarter. This was partly offset by Bideford Dolphin which was in lay-up in first quarter. Revenues within the engineering and fabrication division were 7.7 million (4.5 million).

Operating expenses were 39.6 million (39.2 million). Operating costs within the offshore drilling division decreased by 3.8 million to 30.0 million (33.8 million). Operating costs within the engineering and fabrication division increased by 4.2 million to 9.6 million (5.4 million).

Operating profit before depreciation (EBITDA) was 31.8 million (10.3 million). EBITDA within the offshore drilling division increased by 22.5 million to 33.7 million (11.2 million), and EBITDA within the engineering and fabrication division was - 1.9 million (- 0.9 million).

Depreciation, amortisation and impairment amounted to 56.4 million (55.4 million).

Operating profit after depreciation (EBIT) was - 24.6 million (- 45.1 million).

Net financial items were - 18.2 million (- 11.1 million).

Profit before tax was - 42.8 million (- 56.2 million).

Net profit, including an estimated tax reversal of 0.2 million (- 5.9 million), was - 42.6 million (- 62.1 million).

Earnings per share were - 0.64 (- 0.94).

During the quarter, the company has paid a scheduled repayment of approximately 95.5 million under the bank facility. In addition an instalment of 52 million was paid in connection with the termination of the Bolette Dolphin contract in 2017.

The company has continued the dialogue with its financial creditors in the quarter. The company has appointed a financial advisor, to support the company in the process of establishing a sustainable solution.

Drilling Division

The offshore fleet of Fred. Olsen Energy ASA with subsidiaries (the Group) consists of three ultra-deepwater/deepwater units and four harsh environment mid-water semi-submersible drilling units.

The company has been successful in introducing smart-stacking for up to four of the rigs in order to preserve the units ready for new contracts. Smart-stacked rigs are preserved, maintained, kept warm by regular integrated system testing and Class Renewal Survey (CRS) investments will be postponed. Under the DNVGL regime of prolonged survey intervals the validity of Class and Statutory certificates are extended equal to the smart stacking period.

Norway

Bideford Dolphin, which completed its five-year CRS in 2014, is smart stacked in Flekkefjord, Norway, ready for new contracts.

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 in lay-up in Kvinesdal, Norway. The unit undertook its five-year CRS in 2012.

International

The ultra-deepwater drillship Bolette Dolphin is currently warm-stacked offshore Tenerife, and is marketed for new contract opportunities worldwide.

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

Blackford Dolphin, which completed its five-year CRS in 2014, is smart stacked in Flekkefjord, Norway. A one well contract was secured with BP Exploration Operating Company Ltd., estimated to 60 days, with four options linked to the contract. Two of the options have been exercised. The unit is estimated to commence the contract in May 2018.

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

Engineering and Fabrication

The Harland & Wolff shipyard continued its core activities within engineering, ship repair and shipbuilding. The turnover at the yard has improved in the 1st quarter compared to previous quarter. However, the profitability has been weak in 1st quarter. The yard will continue to explore business opportunities in all markets.

Oslo, 25th April 2018
The Board of Directors
Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	1Q 2018	4Q 2017	1Q 2017	Year 2017
Operating revenues		69,5	47,4	95,5	268,2
Recharged income		1,9	2,1	2,9	10,9
Total revenues	*1,5*	**71,4**	**49,5**	**98,4**	**279,1**
Operating costs		(37,7)	(37,0)	(54,7)	(163,5)
Recharged expenses		(1,9)	(2,2)	(2,9)	(10,7)
Total operating expenses	*1*	**(39,6)**	**(39,2)**	**(57,6)**	**(174,2)**
Operating profit before depreciation, impairment and net financial expenses (EBITDA)		**31,8**	**10,3**	**40,8**	**104,9**
Depreciation and amortisation	*7*	(56,4)	(55,4)	(55,0)	(222,5)
Impairment	*7*	-	-	-	(75,0)
Operating loss before net financial expenses (EBIT)		**(24,6)**	**(45,1)**	**(14,2)**	**(192,6)**
Net financial expenses		(18,2)	(11,1)	(6,6)	(45,4)
Loss before tax		**(42,8)**	**(56,2)**	**(20,8)**	**(238,0)**
Income tax expense		0,2	(5,9)	(5,6)	(19,4)
Loss for the period		**(42,6)**	**(62,1)**	**(26,4)**	**(257,4)**
Attributable to:					
Shareholders		(42,4)	(62,0)	(26,3)	(256,8)
Non-controlling interests		(0,2)	(0,1)	(0,1)	(0,6)
Loss for the period		**(42,6)**	**(62,1)**	**(26,4)**	**(257,4)**
EPS :					
Basic earnings per share		-0,64	-0,94	-0,40	-3,88
Diluted earnings per share		-0,64	-0,94	-0,40	-3,88
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 2018	4Q 2017	1Q 2017	Year 2017
Loss for the period	(42,6)	(62,1)	(26,4)	(257,4)
Actuarial gains on defined benefit pension plans	-	6,0	-	6,0
Income tax relating to components of other comprehensive income	-	(8,6)	-	(8,6)
Exchange differences on translation of foreign operations	1,7	(1,9)	-	0,1
Total comprehensive loss for the period	**(40,9)**	**(66,6)**	**(26,4)**	**(259,9)**
Attributable to:				
Shareholders	(40,6)	(65,7)	(26,3)	(258,9)
Non-controlling interests	(0,3)	(0,9)	(0,1)	(1,0)
Total comprehensive loss for the period	**(40,9)**	**(66,6)**	**(26,4)**	**(259,9)**

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STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)		31 Mar 18	31 Dec 17	31 Mar 17
Property, plant & equipment	7	1 026,8	1 073,4	1 307,3
Other non-current assets		1,5	1,6	17,4
Total non-current assets		**1 028,3**	**1 075,0**	**1 324,7**
Inventories		101,8	103,1	113,7
Trade and other receivables		3,7	14,4	64,0
Other current assets		16,2	13,9	11,7
Cash and cash equivalents		253,5	435,0	333,3
Total current assets		**375,2**	**566,4**	**522,7**
Total assets		**1 403,5**	**1 641,4**	**1 847,4**
Share capital		193,3	193,3	193,3
Other equity		359,1	400,0	633,5
Non-controlling interests		-	-	-
Total Equity		**552,4**	**593,3**	**826,8**
Non-current interest-bearing loans and borrowings	6	546,9	686,2	776,9
Other non-current liabilities		64,3	61,2	92,7
Total non-current liabilities		**611,2**	**747,4**	**869,6**
Current interest-bearing loans and borrowings	6	190,9	190,9	95,5
Other current liabilities	10	49,0	109,8	55,5
Total current liabilities		**239,9**	**300,7**	**151,0**
Total equity and liabilities		**1 403,5**	**1 641,4**	**1 847,4**

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 2017								
Balance at 1 January 2017	193,3	83,5	2,1	(1,2)	575,5	853,2	-	853,2
Loss for the year	-	-	-	-	(257,4)	(257,4)	-	(257,4)
Other comprehensive income/(loss)	-	-	0,1	-	(2,6)	(2,5)	-	(2,5)
Balance at 31 Dec 2017	**193,3**	**83,5**	**2,2**	**(1,2)**	**315,5**	**593,3**	**-**	**593,3**
Jan-Mar 2018								
Loss for the period	-	-	-	-	(42,6)	(42,6)	-	(42,6)
Other comprehensive income	-	-	1,7	-	-	1,7	-	1,7
Balance at 31 Mar 2018	**193,3**	**83,5**	**3,9**	**(1,2)**	**272,9**	**552,4**	**-**	**552,4**

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CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (USD mill)	Note	Jan-Mar 2018	Jan-Mar 2017	Year 2017
Cash flows from operating activities				
Loss before income tax		(42,8)	(20,8)	(238,0)
Adjustment for:				
Depreciation, amortisation and impairment	7	56,4	55,0	297,5
Interest expense		9,4	9,2	39,2
Gain on sale of property, plant and equipment		-	-	(2,9)
Changes in pension plan		-	-	(27,3)
Changes in working capital	10	(51,0)	29,2	140,2
Unrealised loss financial instruments/debt		6,5	0,5	4,7
Cash generated from operations		(21,5)	73,1	213,4
Interest paid		(9,2)	(8,9)	(34,8)
Taxes paid		(0,8)	(3,9)	(10,9)
Net cash from operating activities		**(31,5)**	**60,3**	**167,7**
Cash flows from investing activities				
Net investment in fixed assets		(5,6)	(8,8)	(14,7)
Proceeds from sale of equipment		-	-	4,6
Net cash used to investing activities	7	**(5,6)**	**(8,8)**	**(10,1)**
Cash flows from financing activites				
Proceeds from interest bearing loans		-	-	-
Repayments of interest bearing loans	6	(147,5)	(9,1)	(12,9)
Net cash used in financing activites		**(147,5)**	**(9,1)**	**(12,9)**
Foreign currency		3,1	0,5	(0,1)
Net change in cash and cash equivalents		(184,6)	42,4	144,7
Cash and cash equivalents at the beg. of period		435,0	290,4	290,4
Cash and cash equiv. at the end of period		**253,5**	**333,3**	**435,0**

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Notes

1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
1Q 2018				
Revenues from external customers	63,7	7,7	-	71,4
Inter-segment revenues	-	-	-	-
Total revenues	**63,7**	**7,7**	**-**	**71,4**
Operating costs	(30,0)	(9,6)	-	(39,6)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**33,7**	**(1,9)**	**-**	**31,8**
Depreciation and amortisation	(55,9)	(0,5)	-	(56,4)
Operating (loss)/gain before net financial expenses (EBIT)	**(22,2)**	**(2,4)**	**-**	**(24,6)**
4Q 2017				
Revenues from external customers	45,0	4,5	-	49,5
Inter-segment revenues	-	-	-	-
Total revenues	**45,0**	**4,5**	**-**	**49,5**
Operating costs	(33,8)	(5,4)	-	(39,2)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**11,2**	**(0,9)**	**-**	**10,3**
Depreciation and amortisation	(54,9)	(0,5)	-	(55,4)
Operating (loss)/gain before net financial expenses (EBIT)	**(43,7)**	**(1,4)**	**-**	**(45,1)**
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 (loss)/gain before net financial expenses (EBIT)	**(12,9)**	**(1,3)**	**-**	**(14,2)**
Year 2017				
Revenues from external customers	260,7	18,4	-	279,1
Inter-segment revenues	-	0,6	(0,6)	-
Total revenues	**260,7**	**19,0**	**(0,6)**	**279,1**
Operating costs	(149,5)	(25,3)	0,6	(174,2)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**111,2**	**(6,3)**	**-**	**104,9**
Depreciation and amortisation	(220,6)	(1,9)	-	(222,5)
Impairment	(75,0)	-	-	(75,0)
Operating (loss)/gain before net financial expenses (EBIT)	**(184,4)**	**(8,2)**	**-**	**(192,6)**
31 Mar 18				
Segment assets	1 381,3	26,3	(4,1)	**1 403,5**
Segment liabilities	795,7	59,5	(4,1)	**851,1**
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 Dec 17				
Segment assets	1 619,8	25,1	(3,5)	**1 641,4**
Segment liabilities	997,2	54,4	(3,5)	**1 048,1**

* Includes Fred. Olsen Energy ASA

Condensed Consolidated Financial Statements

2. Introduction

The consolidated interim financial statements for 1st quarter ended 31 March 2018, 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 2017.

The consolidated financial statements of the Group for the year ended 31 December 2017 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 25th April 2018.

3. Significant accounting policies

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the quarter. The other 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 2017.

IFRS 15 – Revenues from contracts with customers
Under IFRS 15, revenue from long-term engineering and fabrication contracts are recognized when the goods or services either over time or at a point in time. Progress for contracts recognized over time are measured using a cost progress method. Costs incurred to fulfil the contract during the project phase are capitalized and amortized over the contract term if they meet the criteria in the standard. Amounts paid up front by the customers will be recognized as a contract liability until services are delivered.

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 2017 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.

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5. Revenues

(USD mill)	1Q 2018	4Q 2017	1Q 2017	Year 2017
Lease revenue	-	2,3	44,2	82,6
Service revenue	-	12,7	45,9	115,6
Other income	63,7	30,0	3,0	62,6
Engineering and fabrication	7,7	4,5	5,3	18,3
Total revenues	**71,4**	**49,5**	**98,4**	**279,1**

Other income includes mainly the amortized termination fee of USD 25 million and the remaining balance of USD 36.7 million in the quarter related to Bolette Dolphin. As per date there are no contract in place exceeding the termination fee dayrate. Furthermore, it is now limited time left of the termination period. Hence the remaining portion is included in 1st quarter 2018.

6. Interest-bearing loans and borrowings

As per March 2018, the Group has repaid USD 147.5 million of the fleet facility.

7. Property, plant and equipment

(USD mill)	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
Cost				
Balance at 1 January 2018	3 576,0	80,6	19,5	3 676,1
Acquisitions	8,8	0,1	0,0	8,9
Disposals	(2,9)	0,0	0,0	(2,9)
Movements in foreign currency	0,0	3,5	0,8	4,3
Balance at 31 Mar 2018	**3 581,9**	**84,2**	**20,3**	**3 686,4**
Depreciation				
Balance at 1 January 2018	2 523,2	69,2	10,3	2 602,7
Depreciation	55,0	1,2	0,2	56,4
Impairment	0,0	0,0	0,0	0,0
Disposals	(2,9)	0,0	0,0	(2,9)
Movements in foreign currency	0,0	3,0	0,4	3,4
Balance at 31 Mar 2018	**2 575,3**	**73,4**	**10,9**	**2 659,6**
Carrying amounts				
At 1 January 2018	1 052,8	11,4	9,2	1 073,4
At 31 Mar 2018	1 006,6	10,8	9,4	1 026,8

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 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 with a percentage likelihood 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 previous quarter.

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 dayrates and timing of new contracts are both significant estimates and highly sensitive in the model.

8. Related parties

In the ordinary course of business, the Group recognizes 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 2017.

9. Financial risk management

The Company has obtained waiver approval from banks and bondholders until 30 June 2018, with the next testing of covenants at 30 June 2018. The Company continues its dialogue with its financial creditors. The Board of Directors has evaluated the possibility of the Group to find a solution with the support of its financial creditors and concluded, based on i.a the improved market balance and the Company's assumptions, that a sustainable solution for the Group should be achievable.

10. Other current liabilities

The Group received termination fee of USD 95.7 million in 3rd quarter 2017 whereof USD 34 million was included as income in 2017. The remaining amount of USD 61.7 million is included as other income in 1st quarter 2018. See also note 5.

11. Definitions of Non-IFRS financial measures

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

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

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

Net debt: Interest-bearing loans and borrowings less cash and cach equivalents

Capital expenditures: Acquisitions of property, plant or equipment