

**Report for the 4th quarter 2016 and preliminary results for 2016**

**Figures in USD**

**FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF 97 MILLION FOR THE 4TH QUARTER 2016 AND EBITDA OF 498 MILLION FOR THE YEAR 2016**

**HIGHLIGHTS FOR THE QUARTER**

- Revenues were 157 million
- EBITDA were 97 million
- Impairment of 11 million
- Operating profit (EBIT) was 22 million
- Profit before tax was 19 million
- Earnings per share were 0.15
  
- Covenant waiver request approved by the banks

**Post quarter event**

- Contract extension for Bideford Dolphin
- Contract extension for Blackford Dolphin
- Waiver request for the bond loan FOE05 approved by the bondholders

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**FINANCIAL INFORMATION (3<sup>rd</sup> quarter 2016 in brackets)**

Operating revenues in the quarter were 156.8 million (213.6 million). Revenues within the offshore drilling division decreased by 58.4 million, mainly due to Byford Dolphin and Borgland Dolphin coming off contract. Revenues within the engineering and fabrication division were 2.8 million.

Operating revenues for the year 2016 were 825.0 million.

Operating costs were 59.6 million (94.5 million), a decrease of 34.9 million compared with previous quarter. Operating costs within the offshore drilling division decreased by 36.9 million. The cost decrease is mainly due to lower cost for Borgland Dolphin, reduction in pension cost and a non-cash cost related to Bollsta Dolphin in third quarter. Operating costs within the engineering and fabrication division were 3.8 million (3.2 million), of which 0.2 million (0.6 million) were related to intra-group activities.

Operating costs for the year were 326.6 million.

Operating profit before depreciation (EBITDA) was 97.2 million (119.1 million). EBITDA for the year were 498.4 million.

Depreciation and impairment amounted to 75.7 million (131.5 million), including a non-cash impairment charge of 10.5 million (61.3 million). For the year 2016 depreciation and impairment amounted to 521.2 million, including a non-cash impairment charge of 230.8 million.

Operating profit after depreciation (EBIT) was 21.5 million (- 12.4 million). Operating profit (EBIT) for the year was - 22.8 million.

Net financial items were - 2.9 million (- 17.3 million). Net financial items for the year were - 56.6 million.

Profit before tax was 18.6 million (-29.7 million). Profit before tax for the year was - 79.4 million.

Net profit, including an estimated tax expense of 8.9 million (4.2 million) was 9.7 million (- 33.9 million). Net profit after tax for the year was - 105.4 million.

Basic earnings per share were 0.15 (-0.51). For the year 2016 basic earnings per share were - 1.58.

**Covenant waiver request approved**

On the 15 December 2016 the bank syndicate approved a waiver request for a temporary waiver of certain financial covenants to 30 June 2018. The bondholders approved the proposal at a bondholder's meeting 26 January 2017.

## **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, estimated to 35 days with completion early March. The unit completed its five-year Class Renewal Survey (CRS) in 2014.

Borgland Dolphin completed the 18 well drilling contract, with a Rig Management Norway AS (RMN) managed consortium of four oil companies, in September 2016. The unit, which completed its five-year CRS in 2015, is preserved and maintained in Lyngdal, Norway, ready for new contracts.

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 unit is currently drilling offshore Colombia. The contract expires in July 2018.

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

Blackford Dolphin continued under a 572 days contract for Chevron, for operations in UK. The contract was expected to expire early February 2017. In January 2017, the contract with Chevron was extended until the end of February 2017. The unit completed its five-year CRS in 2014.

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 preserved and maintained in Lyngdal, Norway, ready for new contracts.

Borgsten Dolphin completed the operations as a Tender Support Vessel (TSV) at the Dunbar platform with Total E&P UK Ltd. during the quarter. Total had exercised its right to terminate the contract from October 2016. The company received a termination fee of totally USD 22.1 million which was booked in 4<sup>th</sup> quarter 2016. The unit is cold stacked off Invergordon, Scotland. 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.

**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 fourth quarter and low for the year 2016 in general. The shipyard has secured a jacket contract as subcontractor to Lamprell for deliveries in 2017/2018. This will be an important contribution for the 2017 revenue. However, it is expected that 2017 will be a challenging year for the shipyard. The yard will continue to explore all business opportunities and maintain focus on reducing cost.

Oslo, 14<sup>th</sup> February 2017  
The Board of Directors  
**Fred. Olsen Energy ASA**

## Condensed Consolidated Financial Statements

### GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	4Q 2016	3Q 2016	4Q 2015	Year 2016	Year 2015
Operating revenues		152,5	210,4	257,9	808,9	1 085,6
Recharged income		4,3	3,2	7,3	16,1	30,8
<b>Total revenues</b>	<b>1</b>	<b>156,8</b>	<b>213,6</b>	<b>265,2</b>	<b>825,0</b>	<b>1 116,4</b>
Operating costs		(55,5)	(91,4)	(116,3)	(311,0)	(449,0)
Recharged expenses		(4,1)	(3,1)	(7,4)	(15,6)	(30,4)
<b>Total operating expenses</b>	<b>1</b>	<b>(59,6)</b>	<b>(94,5)</b>	<b>(123,7)</b>	<b>(326,6)</b>	<b>(479,4)</b>
<b>Operating profit before depreciation, impairment and net financial expenses</b>		<b>97,2</b>	<b>119,1</b>	<b>141,5</b>	<b>498,4</b>	<b>637,0</b>
Depreciation and amortisation	6	(65,2)	(70,2)	(86,2)	(290,4)	(354,1)
Impairment	6,7	(10,5)	(61,3)	(158,0)	(230,8)	(607,9)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>		<b>21,5</b>	<b>(12,4)</b>	<b>(102,7)</b>	<b>(22,8)</b>	<b>(325,0)</b>
Net financial expenses	9	(2,9)	(17,3)	(19,8)	(56,6)	(23,0)
<b>Profit/(loss) before tax</b>		<b>18,6</b>	<b>(29,7)</b>	<b>(122,5)</b>	<b>(79,4)</b>	<b>(348,0)</b>
Income tax expense		(8,9)	(4,2)	8,3	(26,0)	(2,6)
<b>Profit/(loss) for the period</b>		<b>9,7</b>	<b>(33,9)</b>	<b>(114,2)</b>	<b>(105,4)</b>	<b>(350,6)</b>
Attributable to:						
Shareholders		9,8	(33,7)	(114,3)	(104,6)	(350,9)
Non-controlling interests		(0,1)	(0,2)	0,1	(0,8)	0,3
<b>Profit/(loss) for the period</b>		<b>9,7</b>	<b>(33,9)</b>	<b>(114,2)</b>	<b>(105,4)</b>	<b>(350,6)</b>
EPS :						
Basic earnings per share		0,15	-0,51	-1,72	-1,58	-5,30
Diluted earnings per share		0,15	-0,51	-1,72	-1,58	-5,30
<b>Outstanding shares</b>						
Average number of ordinary shares, basic		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

### GROUP STATEMENT OF COMPREHENSIVE INCOME

Unaudited

	4Q 2016	3Q 2016	4Q 2015	Year 2016	Year 2015
Profit/(loss) for the period	9,7	(33,9)	(114,2)	(105,4)	(350,6)
Actuarial (loss)/gains on defined benefit pension plans	(8,2)	-	20,8	(8,2)	20,8
Income tax relating to components of other comprehensive income	0,7	-	(7,2)	0,7	(7,2)
Exchange differences on translation of foreign operations	(2,5)	2,1	(2,5)	0,6	(5,4)
<b>Total comprehensive income/(loss) for the period</b>	<b>(0,3)</b>	<b>(31,8)</b>	<b>(103,1)</b>	<b>(112,3)</b>	<b>(342,4)</b>
Attributable to:					
Shareholders	0,4	(31,8)	(103,4)	(111,0)	(342,8)
Non-controlling interests	(0,7)	-	0,3	(1,3)	0,4
<b>Total comprehensive income/(loss) for the period</b>	<b>(0,3)</b>	<b>(31,8)</b>	<b>(103,1)</b>	<b>(112,3)</b>	<b>(342,4)</b>

## Condensed Consolidated Financial Statements

### STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)

		31 Dec 16	30 Sep 16	31 Dec 15
Intangible assets	7	-	-	11,2
Property, plant & equipment	6	1 361,0	1 435,3	1 862,4
Other non-current assets		17,3	20,2	22,9
<b>Total non-current assets</b>		<b>1 378,3</b>	<b>1 455,5</b>	<b>1 896,5</b>
Inventories		113,1	120,8	120,0
Trade and other receivables		94,6	120,5	135,1
Other current assets		20,1	24,8	207,7
Cash and cash equivalents		290,4	391,0	214,1
<b>Total current assets</b>		<b>518,2</b>	<b>657,1</b>	<b>676,9</b>
<b>Total assets</b>		<b>1 896,5</b>	<b>2 112,6</b>	<b>2 573,4</b>
Share capital		193,3	193,3	193,3
Other equity		659,9	660,2	772,2
Non-controlling interests		-	-	-
<b>Total Equity</b>		<b>853,2</b>	<b>853,5</b>	<b>965,5</b>
Non-current interest-bearing loans and borrowings	5	879,6	887,0	1 002,1
Other non-current liabilities		90,9	101,3	100,3
<b>Total non-current liabilities</b>		<b>970,5</b>	<b>988,3</b>	<b>1 102,4</b>
Current interest-bearing loans and borrowings	5	-	190,9	325,7
Other current liabilities		72,8	79,9	179,8
<b>Total current liabilities</b>		<b>72,8</b>	<b>270,8</b>	<b>505,5</b>
<b>Total equity and liabilities</b>		<b>1 896,5</b>	<b>2 112,6</b>	<b>2 573,4</b>

### 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
<b>Year 2015</b>								
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
<b>Balance at 31 Dec 2015</b>	<b>193,3</b>	<b>83,5</b>	<b>1,5</b>	<b>(1,2)</b>	<b>688,4</b>	<b>965,5</b>	<b>-</b>	<b>965,5</b>
<b>Year 2016</b>								
Loss for the year	-	-	-	-	(105,4)	(105,4)	-	(105,4)
Other comprehensive income	-	-	0,6	-	(7,5)	(6,9)	-	(6,9)
<b>Balance at 31 Dec 2016</b>	<b>193,3</b>	<b>83,5</b>	<b>2,1</b>	<b>(1,2)</b>	<b>575,5</b>	<b>853,2</b>	<b>-</b>	<b>853,2</b>

## Condensed Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (USD mill)	Note	Year 2016	Year 2015
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax		(79,4)	(348,0)
<i>Adjustment for:</i>			
Depreciation, amortisation and impairment	6,7	521,2	962,0
Interest expense		43,0	69,6
Gain/(loss) on sales of fixed assets		-	(0,1)
Changes in working capital		(30,1)	7,3
Unrealised loss/(gain) financial instruments/debt	9	(7,3)	(44,2)
Cash generated from operations		447,4	646,6
Interest paid		(38,0)	(46,9)
Taxes paid		(16,2)	(19,5)
<b>Net cash from operating activities</b>		<b>393,2</b>	<b>580,2</b>
<b>Cash flows from investing activities</b>			
Net investment in fixed assets		(23,9)	(474,3)
Settlement for Bollsta Dolphin Pte. Ltd.		176,4	-
Proceeds from sale of equipment		0,1	0,2
<b>Net cash used to investing activities</b>	6	<b>152,6</b>	<b>(474,1)</b>
<b>Cash flows from financing activities</b>			
Proceeds from interest bearing loans		195,0	130,0
Repayments of interest bearing loans	5	(659,9)	(219,9)
<b>Net cash used in financing activities</b>		<b>(464,9)</b>	<b>(89,9)</b>
Foreign currency		(4,6)	(5,5)
Net change in cash and cash equivalents		80,9	16,2
Cash and cash equivalents at the beg. of period		214,1	203,4
<b>Cash and cash equiv. at the end of period</b>		<b>290,4</b>	<b>214,1</b>

## Condensed Consolidated Financial Statements

### Notes

#### 1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
<b>4Q 2016</b>				
Revenues from external customers	154,2	2,6	-	156,8
Inter-segment revenues	-	0,2	(0,2)	-
<b>Total revenues</b>	<b>154,2</b>	<b>2,8</b>	<b>(0,2)</b>	<b>156,8</b>
Operating costs	(56,0)	(3,8)	0,2	(59,6)
<b>Operating profit before depreciation, impairment and net financial expenses</b>	<b>98,2</b>	<b>(1,0)</b>	<b>-</b>	<b>97,2</b>
Depreciation and amortisation	(64,8)	(0,4)	-	(65,2)
Impairment	(10,5)	-	-	(10,5)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>	<b>22,9</b>	<b>(1,4)</b>	<b>-</b>	<b>21,5</b>
<b>3Q 2016</b>				
Revenues from external customers	212,6	1,0	-	213,6
Inter-segment revenues	-	0,6	(0,6)	-
<b>Total revenues</b>	<b>212,6</b>	<b>1,6</b>	<b>(0,6)</b>	<b>213,6</b>
Operating costs	(91,9)	(3,2)	0,6	(94,5)
<b>Operating profit before depreciation, impairment and net financial expenses</b>	<b>120,7</b>	<b>(1,6)</b>	<b>-</b>	<b>119,1</b>
Depreciation and amortisation	(69,7)	(0,5)	-	(70,2)
Impairment	(61,3)	-	-	(61,3)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>	<b>(10,3)</b>	<b>(2,1)</b>	<b>-</b>	<b>(12,4)</b>
<b>4Q 2015</b>				
Revenues from external customers	260,0	5,2	-	265,2
Inter-segment revenues	-	0,3	(0,3)	-
<b>Total revenues</b>	<b>260,0</b>	<b>5,5</b>	<b>(0,3)</b>	<b>265,2</b>
Operating costs	(121,4)	(2,6)	0,3	(123,7)
<b>Operating profit before depreciation, impairment and net financial expenses</b>	<b>138,6</b>	<b>2,9</b>	<b>-</b>	<b>141,5</b>
Depreciation and amortisation	(84,7)	(1,5)	-	(86,2)
Impairment	(158,0)	-	-	(158,0)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>	<b>(104,1)</b>	<b>1,4</b>	<b>-</b>	<b>(102,7)</b>



## Condensed Consolidated Financial Statements

	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
<b>Year 2016</b>				
Revenues from external customers	815,1	9,9	-	825,0
Inter-segment revenues	-	1,4	(1,4)	-
<b>Total revenues</b>	<b>815,1</b>	<b>11,3</b>	<b>(1,4)</b>	<b>825,0</b>
Operating costs	(308,9)	(19,1)	1,4	(326,6)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>506,2</b>	<b>(7,8)</b>	<b>-</b>	<b>498,4</b>
Depreciation and amortisation	(288,3)	(2,1)	-	(290,4)
Impairment	(230,8)	-	-	(230,8)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>	<b>(12,9)</b>	<b>(9,9)</b>	<b>-</b>	<b>(22,8)</b>
<b>Year 2015</b>				
Revenues from external customers	1 103,8	12,6	-	1 116,4
Inter-segment revenues	-	89,1	(89,1)	-
<b>Total revenues</b>	<b>1 103,8</b>	<b>101,7</b>	<b>(89,1)</b>	<b>1 116,4</b>
Operating costs	(470,2)	(95,4)	86,2	(479,4)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>633,6</b>	<b>6,3</b>	<b>(2,9)</b>	<b>637,0</b>
Depreciation and amortisation	(350,9)	(3,2)	-	(354,1)
Impairment	(607,9)	-	-	(607,9)
<b>Operating profit/(loss) before net financial expenses (EBIT)</b>	<b>(325,2)</b>	<b>3,1</b>	<b>(2,9)</b>	<b>(325,0)</b>

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
<b>31 Dec 16</b>				
Segment assets	1 862,1	35,6	(1,2)	1 896,5
Segment liabilities	992,2	52,3	(1,2)	1 043,3
<b>31 Dec 15</b>				
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

## Revenue split

(USD mill)	4Q 2016	3Q 2016	4Q 2015	Year 2016	Year 2015
Lease revenue	98,9	137,2	136,6	479,4	601,4
Service revenue	48,7	72,2	116,1	317,0	471,5
Other income	6,6	3,2	7,3	18,7	30,9
Engineering and fabrication	2,6	1,0	5,2	9,9	12,6
<b>Total revenues</b>	<b>156,8</b>	<b>213,6</b>	<b>265,2</b>	<b>825,0</b>	<b>1 116,4</b>

## Condensed Consolidated Financial Statements

### 2. Introduction

The consolidated interim financial statements for 4<sup>th</sup> Quarter 2016 ended 31 December 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](http://www.fredolsen-energy.com).

The Board of Directors approved these consolidated interim financial statements on 14<sup>th</sup> February 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 2015.

Fred. Olsen Energy is running 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. During the work with the new standards the Group has found reasons to clarify the application of the principles under existing rules and as a consequence the Group has split revenue into two elements, income from rentals and income from services. The clarification will be implemented and presented in the segment information for 2016 with updated comparable information for 2015. Income from rentals is regulated under IAS 17, while income from services is recognized in accordance with IAS 18. This clarification would technically be deemed as a correction of errors in prior periods. The preliminary assessments show no effect on reported amounts. The principles will be described in the annual report for 2016.

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 1<sup>st</sup> 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 2015 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.

## Condensed Consolidated Financial Statements

As a result of the current market situation and because there are more than normal uncertainty 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 December 2016, the Group has repaid USD 517 million and drawn USD 195 million of the fleet facility during the period. The Group has repaid NOK 1 187 million of its bond loan FOE04 in 2016, whereof NOK 1 003 million was settled in Q2. FOE04 had final maturity in May 2016.

A waiver request for temporarily waiving the minimum market value covenant, the net debt/EBITDA and the EBITDA/net interest expenses covenants was approved by the syndicate banks in December 2016. As a consequence, two installments of USD 95.5 million for 2017 were prepaid in December 2016 and USD 105 million of the undrawn facility was cancelled. The remaining USD 105 million was temporarily suspended during the waiver period. In January 2017, the Bondholders in FOE05 subsequently approved a temporary waiver for the net debt/EBITDA and the EBITDA/net interest expenses covenants. As a consequence, a partial redemption of NOK 75 million took place in February 2017.

### 6. Property, plant and equipment

(USD mill)	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
<b>Cost</b>				
Balance at 1 January 2016	4 128,7	93,0	21,3	4 243,0
Acquisitions	9,2	1,2	0,0	10,4
Disposals	(281,2)	(10,1)	(0,8)	(292,1)
Movements in foreign currency	0,0	(9,8)	(2,2)	(12,0)
<b>Balance at 31 December 2016</b>	<b>3 856,7</b>	<b>74,3</b>	<b>18,3</b>	<b>3 949,3</b>
<b>Depreciation</b>				
Balance at 1 January 2016	2 297,6	72,9	10,1	2 380,6
Depreciation	284,3	5,4	0,7	290,4
Impairment	218,8	0,0	0,0	218,8
Disposals	(280,8)	(10,1)	(0,6)	(291,5)
Movements in foreign currency	0,0	(8,8)	(1,2)	(10,0)
<b>Balance at 31 December 2016</b>	<b>2 519,9</b>	<b>59,4</b>	<b>9,0</b>	<b>2 588,3</b>
<b>Carrying amounts</b>				
At 1 January 2016	1 831,1	20,1	11,2	1 862,4
At 31 December 2016	1 336,8	14,9	9,3	1 361,0

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

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outflows derived from continuing use of each CGU and applying the appropriate discount rate on the future cash flows. A pre-tax discount rate between 10.5% and 10.9% was applied per 31<sup>st</sup> December 2016.

As at 31<sup>st</sup> December 2016, impairment tests of the Group's offshore units were undertaken. As a result, the Group recognised an impairment loss of USD 10.5 million in Q4 2016 (USD 219 million as per 31<sup>st</sup> December). The impairment loss in Q4 was related to Borgsten Dolphin which is written off to zero. The estimated recoverable amount for each CGU was based on the value in use calculation including three scenarios with a percentage likelihood. The Group's estimated recoverable amount includes a number of assumptions such as future performance of the offshore units, future contract opportunities, availabilities and day rates.

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. Intangible assets

The intangible asset balance consisted entirely of goodwill relating to Dolphin Drilling AS, included in the offshore drilling segment. Due to the weak market situation in Norway, changes in existing contracts and increased discount rate it has been recorded an impairment charge of the total recorded goodwill of USD 12 million in Q3 2016.

A post-tax discount rate of 8.8% was applied in determining the recoverable amount of the CGU (pre-tax discount rate of 10.1%).

### 8. 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 2015.

### 9. Financial expenses/income

Unrealized gain on currency contracts amounting to USD 17 million and a realized loss on currency contracts amounting to USD 16 million are included as per 31 December 2016.

A foreign exchange loss of USD 11 million is included as per 31 December 2016 related to the NOK Bond loans, whereof USD 8 million was realised following the bond maturity of FOE 04.

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### 10. 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.

### 11. Subsequent events

On 26 January 2017, the Bondholders in FOE05 approved a request for temporarily waiving the net debt/EBITDA and the EBITDA/net interest expenses covenants. As a consequence, a partial redemption of NOK 75 million took place in February 2017.