



Fred. Olsen Energy ASA

Report for the 2nd quarter 2018 and the 1st half year 2018

Figures in USD

FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF - 51 MILLION FOR THE 2nd QUARTER 2018 AND - 20 MILLION FOR THE 1st HALF YEAR 2018

HIGHLIGHTS FOR THE 2nd QUARTER 2018

- Revenues were 17 million
- EBITDA was negative 51 million
- Impairment of 97 million
- Operating profit (EBIT) was negative 202 million
- Profit before tax was negative 208 million
- Earnings per share were negative 3.12

- Blackford Dolphin commenced contract in May
- The waiver with financial creditors expired end June

- **Post quarter event:**
 - The Company stops its service of interest and amortizations to its financial creditors to preserve liquidity

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FINANCIAL INFORMATION (1st quarter 2018 and 1st half year 2017 in brackets)

Operating revenues in the quarter were 17.3 million (71.4 million), a decrease of 54.1 million compared with the previous quarter. The revenues for the offshore drilling division were 5.9 million, compared to 63.7 million previous quarter. The decrease in revenues within the offshore drilling division is mainly due to Q1 booking of the remaining part of the termination fee received for Bolette Dolphin, partly offset by commencement of contract for Blackford Dolphin. Revenues within the engineering and fabrication division were 11.4 million compared to 7.7 million in first quarter. The increase in revenue is due to higher activity at the yard.

Operating costs were 68.7 million (39.6 million), an increase of 29.1 million compared with previous quarter. Operating costs within the offshore drilling division increased by 22.1 million. The main reason for the increase was a write down of inventories for Belford Dolphin of 20.9 million and reactivation of Blackford Dolphin. Operating costs within the engineering and fabrication division were 16.6 million compared to 9.6 million in first quarter.

Operating profit before depreciation (EBITDA) was - 51.4 million (31.8 million). EBITDA for the half year was - 19.6 million (69.3 million).

Depreciation and impairment amounted to - 150.1 million (- 56.4 million), including a non-cash impairment charge of 96.7 million related to Belford Dolphin. For the half year, depreciation and impairment amounted to 206.5 million (187.1 million).

Operating profit after depreciation and impairment (EBIT) was - 201.5 million (- 24.6 million). EBIT for the half year was - 226.1 million (- 117.8 million).

Net financial items were - 6.2 million (- 18.2 million). Net financial items for the half year were - 24.4 million (- 18.8 million).

Profit before tax was - 207.7 million (-42.8 million). Profit before tax for the half year was - 250.5 million (- 136.6 million).

Net profit, including an estimated tax gain of 0.5 million (0.2 million), was - 207.2 million (- 42.6 million). Net profit for the half year, including an estimated tax gain of 0.7 million (charge of 13.0 million), was - 249.8 million (- 81.2 million).

Basic earnings per share were - 3.12 (- 0.64).

Basic earnings per share for the half year were - 3.76 (- 2.25).

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, and 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, commenced a three well contract with BP Exploration Operating Company Ltd., with additional two options linked to the contract. The unit commenced the contract 17 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 increased in the 2nd quarter compared to previous quarter. However, the profitability is still weak in 2nd quarter. The yard will continue to explore business opportunities in all markets.

Material events

There has been no material events since the release of the Annual Report for 2017, other than the below.

Financials

At 29 June, the waiver period with the Company's financial creditors expired. The Company and the financial creditors was not able to agree on an extension of the waiver.

At 3 July, the Company resolved to stop its service of interest and amortizations to its financial creditors, in order to preserve the liquidity reserves of Fred. Olsen Energy Group. As such, the Company did not make payment of an instalment and interest payable to its secured lenders on such date.

The Fred. Olsen Energy Group's operations will otherwise continue in their ordinary course. All suppliers and trade creditors will be paid in the ordinary course of business.

Constructive discussions are ongoing with the financial creditors in order to solve the Company's financial situation. It is expected that a long term solution will require new equity and amendments to the Company's bank and bond facilities, including impairments of debt, in order to secure a viable financial foundation for the purpose of safeguarding the Company's position in the market. The going concern assumption underlying this interim report is based on the Board of Director's view that obtaining such a long term solution should be achievable.

Save for the risk resulting from the Company's non-service of its financial debt, there is no other material change related to financial risk, including interest rate and currency risks, since the release of the Annual Report for 2017.

According to IFRS a liability that is repayable on demand because loan conditions have been breached is classified as current. As a consequence the Group has reclassified all of the loans to current interest-bearing loans and borrowings.

Market and prospects

Supported by a strengthening of the oil price, a turnaround in offshore Exploration & Production spending has been seen through the first half of 2018, which again has materialized in new contract awards. This trend is continuing with increased tendering and requests for information activities mainly targeting 2019 and 2020 work. The emerging recovery has been seen in the Norwegian market, as well as the UK market particularly as to potential new contracts in 2019. During the quarter, there has also been an increase in number of tenders in the international market particularly targeting Ultra Deepwater projects. A majority of these tenders are in support of new projects in 2019, of which some are for work scopes of 1-2 years duration.

With the increased E&P spending, we expect the demand and active supply imbalance to improve in the North Sea through 2019, whereas the international Ultra Deepwater imbalance will still prevail through 2019.

Oslo, 10th July 2018
The Board of Directors
Fred. Olsen Energy ASA

Sign.	Sign.	Sign.	Sign.	Sign.	Sign.
Anette S. Olsen Chairman	Jan Peter Valheim	Cecilie B. Heuch	Aksel O. Hillestad	Richard Olav Aa	Ivar Brandvold 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 2018 and for the first half-year 2018 including condensed consolidated comparative figures as at 30 June 2017 and for the first half-year 2017 (“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.

To the best of our knowledge we consider the implemented accounting policies to be appropriate and in accordance with applicable accounting standards. Accordingly, it is our view that the interim report gives a true and fair view of the Group’s assets, liabilities and financial position as at 30 June 2018 and as at 30 June 2017 and of the results of the Group’s operations and cash flows for the first half-year 2018 and the first half-year 2017.

Oslo, 10 July 2018
Fred. Olsen Energy ASA

Sign.	Sign.	Sign.	Sign.	Sign.	Sign.
Anette S. Olsen Chairman	Jan Peter Valheim	Cecilie B. Heuch	Aksle O. Hillestad	Richard Olav Aa Ivar	Brandvold CEO

Condensed Consolidated Financial Statements

GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	2Q 2018	1Q 2018	2Q 2017	Jan-June 2018	Jan-June 2017	Year 2017
Operating revenues		17,2	69,5	53,0	86,7	148,5	268,2
Recharged income		0,1	1,9	1,9	2,0	4,8	10,9
Total revenues	1,5	17,3	71,4	54,9	88,7	153,3	279,1
Operating costs		(68,7)	(37,7)	(24,6)	(106,4)	(79,3)	(163,5)
Recharged expenses		-	(1,9)	(1,8)	(1,9)	(4,7)	(10,7)
Total operating expenses	1,7	(68,7)	(39,6)	(26,4)	(108,3)	(84,0)	(174,2)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)		(51,4)	31,8	28,5	(19,6)	69,3	104,9
Depreciation and amortisation	7	(53,4)	(56,4)	(57,1)	(109,8)	(112,1)	(222,5)
Impairment	7	(96,7)	-	(75,0)	(96,7)	(75,0)	(75,0)
Operating loss before net financial expenses (EBIT)		(201,5)	(24,6)	(103,6)	(226,1)	(117,8)	(192,6)
Net financial expenses		(6,2)	(18,2)	(12,2)	(24,4)	(18,8)	(45,4)
Loss before tax		(207,7)	(42,8)	(115,8)	(250,5)	(136,6)	(238,0)
Income tax expense		0,5	0,2	(7,4)	0,7	(13,0)	(19,4)
Loss for the period		(207,2)	(42,6)	(123,2)	(249,8)	(149,6)	(257,4)
Attributable to:							
Shareholders		(206,6)	(42,4)	(123,1)	(249,0)	(149,4)	(256,8)
Non-controlling interests		(0,6)	(0,2)	(0,1)	(0,8)	(0,2)	(0,6)
Loss for the period		(207,2)	(42,6)	(123,2)	(249,8)	(149,6)	(257,4)
EPS :							
Basic earnings per share		-3,12	-0,64	-1,86	-3,76	-2,25	-3,87
Diluted earnings per share		-3,12	-0,64	-1,86	-3,76	-2,25	-3,87

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 2018	1Q 2018	2Q 2017	Jan-June 2018	Jan-June 2017	Year 2017
Loss for the period	(207,2)	(42,6)	(123,2)	(249,8)	(149,6)	(257,4)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	6,0
Income tax relating to components of other comprehensive income	-	-	-	-	-	(8,6)
Exchange differences on translation of foreign operations	(0,4)	1,7	-	1,3	-	0,1
Total comprehensive loss for the period	(207,6)	(40,9)	(123,2)	(248,5)	(149,6)	(259,9)
Attributable to:						
Shareholders	(207,0)	(40,6)	(123,0)	(247,6)	(149,4)	(258,9)
Non-controlling interests	(0,6)	(0,3)	(0,2)	(0,9)	(0,2)	(1,0)
Total comprehensive loss for the period	(207,6)	(40,9)	(123,2)	(248,5)	(149,6)	(259,9)

Condensed Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)

		30 Jun 18	31 Mar 18	30 Jun 17	31 Dec 17
Property, plant & equipment	7	886,1	1 026,8	1 177,7	1 073,4
Other non-current assets		1,6	1,5	11,1	1,6
Total non-current assets		887,7	1 028,3	1 188,8	1 075,0
Inventories		77,2	101,8	111,9	103,1
Trade and other receivables		8,9	3,7	36,1	14,4
Other current assets		20,8	16,2	12,4	13,9
Cash and cash equivalents		192,6	253,5	351,9	435,0
Total current assets		299,5	375,2	512,3	566,4
Total assets		1 187,2	1 403,5	1 701,1	1 641,4
Share capital		193,3	193,3	193,3	193,3
Other equity		151,5	359,1	510,3	400,0
Non-controlling interests		-	-	-	-
Total Equity		344,8	552,4	703,6	593,3
Non-current interest-bearing loans and borrowings	6	-	546,9	780,8	686,2
Other non-current liabilities		60,5	64,3	71,2	61,2
Total non-current liabilities		60,5	611,2	852,0	747,4
Current interest-bearing loans and borrowings	6	737,0	190,9	95,5	190,9
Other current liabilities	10	44,9	49,0	50,0	109,8
Total current liabilities		781,9	239,9	145,5	300,7
Total equity and liabilities		1 187,2	1 403,5	1 701,1	1 641,4

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-Jun 2018								
Loss for the period	-	-	-	-	(249,8)	(249,8)	-	(249,8)
Other comprehensive income	-	-	1,3	-	-	1,3	-	1,3
Balance at 30 June 2018	193,3	83,5	3,5	(1,2)	65,7	344,8	-	344,8

Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (USD mill)	Note	Jan-Jun 2018	Jan-Jun 2017	Year 2017
Cash flows from operating activities				
Loss before income tax		(250,5)	(136,6)	(238,0)
<i>Adjustment for:</i>				
Depreciation, amortisation and impairment	7	206,5	187,1	297,5
Interest expense		19,8	19,0	39,2
Gain on sale of property, plant and equipment		-	-	(2,9)
Changes in pension plan		-	(23,7)	(27,3)
Changes in working capital	10	(24,2)	58,8	140,2
Unrealised loss financial instruments/debt		0,1	3,0	4,7
Cash generated from operations		(48,3)	107,6	213,4
Interest paid		(17,2)	(17,6)	(34,8)
Taxes paid		(7,5)	(9,0)	(10,9)
Net cash from operating activities		(73,0)	81,0	167,7
Cash flows from investing activities				
Net investment in fixed assets		(21,8)	(10,5)	(14,7)
Proceeds from sale of equipment		-	-	4,6
Net cash used to investing activities	7	(21,8)	(10,5)	(10,1)
Cash flows from financing activities				
Proceeds from interest bearing loans		-	-	-
Repayments of interest bearing loans	6	(147,5)	(9,1)	(12,9)
Net cash used in financing activities		(147,5)	(9,1)	(12,9)
Foreign currency		(0,1)	0,1	(0,1)
Net change in cash and cash equivalents		(242,3)	61,4	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		192,6	351,9	435,0

Condensed Consolidated Financial Statements

Notes

1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
2Q 2018				
Revenues from external customers	5,9	11,4	-	17,3
Inter-segment revenues	-	-	-	-
Total revenues	5,9	11,4	-	17,3
Operating costs	(52,1)	(16,6)	-	(68,7)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	(46,2)	(5,2)	-	(51,4)
Depreciation and amortisation	(53,0)	(0,4)	-	(53,4)
Impairment	(96,7)	-	-	(96,7)
Operating loss before net financial expenses (EBIT)	(195,9)	(5,6)	-	(201,5)
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 before net financial expenses (EBIT)	(22,2)	(2,4)	-	(24,6)
2Q 2017				
Revenues from external customers	51,6	3,3	-	54,9
Inter-segment revenues	-	0,5	(0,5)	-
Total revenues	51,6	3,8	(0,5)	54,9
Operating costs	(21,5)	(5,4)	0,5	(26,4)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	30,1	(1,6)	-	28,5
Depreciation and amortisation	(56,6)	(0,5)	-	(57,1)
Impairment	(75,0)	-	-	(75,0)
Operating loss before net financial expenses (EBIT)	(101,5)	(2,1)	-	(103,6)

* Includes Fred. Olsen Energy ASA

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(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
Jan-Jun 2018				
Revenues from external customers	69,6	19,1	-	88,7
Inter-segment revenues	-	-	-	-
Total revenues	69,6	19,1	-	88,7
Operating costs	(82,1)	(26,2)	-	(108,3)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	(12,5)	(7,1)	-	(19,6)
Depreciation and amortisation	(108,9)	(0,9)	-	(109,8)
Impairment	(96,7)	-	-	(96,7)
Operating loss before net financial expenses (EBIT)	(218,1)	(8,0)	-	(226,1)
Jan-Jun 2017				
Revenues from external customers	144,7	8,6	-	153,3
Inter-segment revenues	-	0,7	(0,7)	-
Total revenues	144,7	9,3	(0,7)	153,3
Operating costs	(73,0)	(11,7)	0,7	(84,0)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	71,7	(2,4)	-	69,3
Depreciation and amortisation	(111,1)	(1,0)	-	(112,1)
Impairment	(75,0)	-	-	(75,0)
Operating loss before net financial expenses (EBIT)	(114,4)	(3,4)	-	(117,8)
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 before net financial expenses (EBIT)	(184,4)	(8,2)	-	(192,6)
30 Jun 18				
Segment assets	1 164,0	28,6	(5,4)	1 187,2
Segment liabilities	782,9	64,9	(5,4)	842,4
30 Jun 17				
Segment assets	1 664,0	39,7	(2,6)	1 701,1
Segment liabilities	939,3	60,8	(2,6)	997,5
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 2nd quarter ended 30 June 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 10th July 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)	2Q 2018	1Q 2018	2Q 2017	Jan-June 2018	Jan-June 2017	Year 2017
Lease revenue	1,1	-	20,9	1,1	65,1	82,6
Service revenue	4,4	-	28,6	4,4	74,5	115,6
Other income	0,4	63,7	2,1	64,1	5,1	62,6
Engineering and fabrication	11,4	7,7	3,3	19,1	8,6	18,3
Total revenues	17,3	71,4	54,9	88,7	153,3	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 1st quarter 2018 related to Bolette Dolphin.

6. Interest-bearing loans and borrowings

As per June 2018, the Group has repaid USD 147.5 million of the fleet facility. At 29 June, the waiver period with the Company's financial creditors expired. As a consequence the Group has reclassified all of the loans to current interest-bearing loans and borrowings and expensed all amortized loan costs.

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	20,4	0,4	0,0	20,8
Disposals	(9,0)	0,0	0,0	(9,0)
Reclassification	(11,7)	0,0	0,0	(11,7)
Movements in foreign currency	0,0	(1,4)	(0,3)	(1,7)
Balance at 30 June 2018	3 575,7	79,6	19,2	3 674,5
Depreciation				
Balance at 1 January 2018	2 523,2	69,2	10,3	2 602,7
Depreciation	107,1	2,4	0,3	109,8
Impairment	96,7	0,0	0,0	96,7
Disposals	(8,9)	0,0	0,0	(8,9)
Reclassification	(10,4)	0,0	0,0	(10,4)
Movements in foreign currency	0,0	(1,3)	(0,2)	(1,5)
Balance at 30 June 2018	2 707,7	70,3	10,4	2 788,4
Carrying amounts				
At 1 January 2018	1 052,8	11,4	9,2	1 073,4
At 30 June 2018	868,0	9,3	8,8	886,1

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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 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 except for Belford Dolphin where the Group consider it unlikely that the drillship will be reactivated. An impairment loss of USD 97 million was recorded in 2nd Quarter 2018, in addition to an impairment of inventory of USD 20.9 million included in operating cost.

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

Constructive discussions are ongoing with the financial creditors in order to solve the Company's financial situation. It is expected that a long term solution will require new equity and amendments to the Company's bank and bond facilities, potentially implying impairments of debt, in order to secure a viable financial foundation for the purpose of safeguarding the Company's position in the market. The going concern assumption underlying this interim report is based on the Board of Director's view that obtaining such a long term solution 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.

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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 cash equivalents

Capital expenditures: Acquisitions of property, plant or equipment

12. Contingencies

The Group has a dispute in UK with the HMRC regarding classification of a rig and its operation. The disputed tax amount is USD 14 million plus interest and legal fees. The dispute is expected to be settled mid-2019. The Group has not made any provision for the dispute.

13. Subsequent event

At 3 July, the Company resolved to stop its service of interest and amortizations to its financial creditors, in order to preserve the liquidity reserves of Fred. Olsen Energy Group. As such, the Company did not make payment of an instalment and interest payable to its secured lenders on such date.

The Fred. Olsen Energy group's operations will otherwise continue in their ordinary course. All suppliers and trade creditors will be paid in the ordinary course of business.