Report for the 4th quarter 2017 and preliminary results for 2017

Figures in USD

FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF 10 MILLION FOR THE 4TH QUARTER 2017 AND EBITDA OF 105 MILLION FOR THE YEAR 2017

HIGHLIGHTS FOR THE QUARTER

- **Revenues were 50 million**
- **EBITDA were 10 million**
- **Operating profit (EBIT) was -45 million**
- **Profit before tax was -56 million**
- **Earnings per share were -0.94**

Post quarter event
- **New contract for Blackford Dolphin**

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FINANCIAL INFORMATION (*3rd quarter 2017 in brackets)*

Operating revenues in the quarter were 49.5 million (76.3 million). Revenues within the offshore drilling division decreased by 26.1 million, mainly due to a received settlement for Bredford Dolphin in 3rd quarter and Bolette Dolphin receiving termination fee in 4th quarter vs. partly on contract in third quarter. Revenues within the engineering and fabrication division were 4.5 million.

Operating revenues for the year 2017 were 279.1 million.

Operating costs were 39.2 million (51.0 million), a decrease of 11.8 million compared with previous quarter. Operating costs within the offshore drilling division decreased by 9.0 million, of which 4.5 million is a reduction in pension cost. Operating costs within the engineering and fabrication division were 5.4 million (8.2 million).

Operating costs for the year were 174.2 million.

Operating profit before depreciation (EBITDA) was 10.3 million (25.3 million). EBITDA for the year were 104.9 million.

Depreciation and impairment amounted to 55.4 million (55.0 million). For the year 2017 depreciation and impairment amounted to 297.5 million, including a non-cash impairment charge of 75.0 million.

Operating profit after depreciation (EBIT) was - 45.1 million (- 29.7 million). Operating profit (EBIT) for the year was - 192.6 million.

Net financial items were - 11.1 million (- 15.5 million). Net financial items for the year 2017 were - 45.4 million.

Profit before tax was – 56.2 million (- 45.2 million). Profit before tax for the year 2017 was - 238.0 million.

Net profit, including an estimated tax expense of 5.9 million (0.5 million) was - 62.1 million (- 45.7 million). Net profit after tax for the year 2017 was - 257.4 million.

Basic earnings per share were - 0.94 (- 0.69). For the year 2017 basic earnings per share were - 3.88.

Financial position

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

The Company is in discussions with its financial creditors, and is targeting to find a solution within the waiver period.

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 DNV GL regime of prolonged survey intervals the validity of Class and Statutory certificates are extended equal to the smart stacking period.

Norway

Bideford Dolphin continued operations under a drilling contract for Statoil ASA until completion of the contract end of December 2017. The unit completed its five-year CRS in 2014, and 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 outside 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 profitability at the yard has improved in the 4th quarter compared to previous quarter. However, the activities have in general been low through 2017, as previously indicated. An increase in activity is expected through 2018. The yard will continue to explore business opportunities in all markets.

Oslo, 8th February 2018
The Board of Directors

Condensed Consolidated Financial Statements

GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	4Q 2017	3Q 2017	4Q 2016	Year 2017	Year 2016
Operating revenues		47,4	72,3	152,5	268,2	808,9
Recharged income		2,1	4,0	4,3	10,9	16,1
Total revenues	*1*	**49,5**	**76,3**	**156,8**	**279,1**	**825,0**
Operating costs		(37,0)	(47,2)	(55,5)	(163,5)	(311,0)
Recharged expenses		(2,2)	(3,8)	(4,1)	(10,7)	(15,6)
Total operating expenses	*1*	**(39,2)**	**(51,0)**	**(59,6)**	**(174,2)**	**(326,6)**
Operating profit before depreciation, impairment and net financial expenses (EBITDA)		**10,3**	**25,3**	**97,2**	**104,9**	**498,4**
Depreciation and amortisation	*6*	(55,4)	(55,0)	(65,2)	(222,5)	(290,4)
Impairment	*6*	-	-	(10,5)	(75,0)	(230,8)
Operating (loss)/gain before net financial expenses (EBIT)		**(45,1)**	**(29,7)**	**21,5**	**(192,6)**	**(22,8)**
Net financial expenses	*8*	(11,1)	(15,5)	(2,9)	(45,4)	(56,6)
Profit/(loss) before tax		**(56,2)**	**(45,2)**	**18,6**	**(238,0)**	**(79,4)**
Income tax expense		(5,9)	(0,5)	(8,9)	(19,4)	(26,0)
(Loss)/gain for the period		**(62,1)**	**(45,7)**	**9,7**	**(257,4)**	**(105,4)**
Attributable to:						
Shareholders		(62,0)	(45,4)	9,8	(256,8)	(104,6)
Non-controlling interests		(0,1)	(0,3)	(0,1)	(0,6)	(0,8)
(Loss)/gain for the period		**(62,1)**	**(45,7)**	**9,7**	**(257,4)**	**(105,4)**
EPS :						
Basic earnings per share		-0,94	-0,69	0,15	-3,88	-1,58
Diluted earnings per share		-0,94	-0,69	0,15	-3,88	-1,58
Outstanding shares						
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 2017	3Q 2017	4Q 2016	Year 2017	Year 2016
(Loss)/gain for the period	(62,1)	(45,7)	9,7	(257,4)	(105,4)
Actuarial (loss)/gains on defined benefit pension plans	6,0	-	(8,2)	6,0	(8,2)
Income tax relating to components of other comprehensive income	(8,6)	-	0,7	(8,6)	0,7
Exchange differences on translation of foreign operations	(1,9)	2,4	(2,5)	0,1	0,6
Total comprehensive loss for the period	**(66,6)**	**(43,3)**	**(0,3)**	**(259,9)**	**(112,3)**
Attributable to:					
Shareholders	(65,7)	(43,5)	0,4	(258,9)	(111,0)
Non-controlling interests	(0,9)	0,2	(0,7)	(1,0)	(1,3)
Total comprehensive loss for the period	**(66,6)**	**(43,3)**	**(0,3)**	**(259,9)**	**(112,3)**

Condensed Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)		31 Dec 17	30 Sep 17	31 Dec 16
Property, plant & equipment	*6*	1 073,4	1 124,0	1 361,0
Other non-current assets		1,7	11,1	17,3
Total non-current assets		**1 075,1**	**1 135,1**	**1 378,3**
Inventories		103,1	113,1	113,1
Trade and other receivables		14,4	30,5	94,6
Other current assets		13,9	16,3	13,6
Cash and cash equivalents		435,0	451,9	290,4
Total current assets		**566,4**	**611,8**	**511,7**
Total assets		**1 641,5**	**1 746,9**	**1 890,0**
Share capital		193,3	193,3	193,3
Other equity		400,0	467,0	659,9
Non-controlling interests		-	-	-
Total Equity		**593,3**	**660,3**	**853,2**
Non-current interest-bearing loans and borrowings	*5*	686,2	688,9	879,6
Other non-current liabilities		61,2	70,0	90,9
Total non-current liabilities		**747,4**	**758,9**	**970,5**
Current interest-bearing loans and borrowings	*5*	190,9	190,9	-
Other current liabilities	*9*	109,9	136,8	66,3
Total current liabilities		**300,8**	**327,7**	**66,3**
Total equity and liabilities		**1 641,5**	**1 746,9**	**1 890,0**

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**
Year 2017								
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**

Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited **(USD mill)**	**Note**	**Year 2017**	**Year 2016**
Cash flows from operating activities			
Profit/(loss) before income tax		(238,0)	(79,4)
Adjustment for:			
Depreciation, amortisation and impairment	6	297,5	521,2
Interest expense		39,2	43,0
Gain on sale of property, plant and equipment		(2,9)	-
Changes in pension plan		(27,3)	-
Changes in working capital	9	140,2	(30,1)
Unrealised loss/(gain) financial instruments/debt	8	4,7	(7,3)
Cash generated from operations		213,4	447,4
Interest paid		(34,8)	(38,0)
Taxes paid		(10,9)	(16,2)
Net cash from operating activities		**167,7**	**393,2**
Cash flows from investing activities			
Net investment in fixed assets		(14,7)	(23,9)
Settlement for Bollsta Dolphin Pte. Ltd.		-	176,4
Proceeds from sale of equipment		4,6	0,1
Net cash used to investing activities	6	**(10,1)**	**152,6**
Cash flows from financing activites			
Proceeds from interest bearing loans		-	195,0
Repayments of interest bearing loans	5	(12,9)	(659,9)
Net cash used in financing activites		**(12,9)**	**(464,9)**
Foreign currency		(0,1)	(4,6)
Net change in cash and cash equivalents		144,7	80,9
Cash and cash equivalents at the beg. of period		290,4	214,1
Cash and cash equiv. at the end of period		**435,0**	**290,4**

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Notes

1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
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)**
3Q 2017				
Revenues from external customers	71,1	5,2	-	76,3
Inter-segment revenues	-	-	-	-
Total revenues	**71,1**	**5,2**	**-**	**76,3**
Operating costs	(42,8)	(8,2)	-	(51,0)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**28,3**	**(3,0)**	**-**	**25,3**
Depreciation and amortisation	(54,5)	(0,5)	-	(55,0)
Operating (loss)/gain before net financial expenses (EBIT)	**(26,2)**	**(3,5)**	**-**	**(29,7)**
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 (loss)/gain before net financial expenses (EBIT)	**22,9**	**(1,4)**	**-**	**21,5**
Year 2017				
Revenues from external customers	260,8	18,3	-	279,1
Inter-segment revenues	-	0,7	(0,7)	-
Total revenues	**260,8**	**19,0**	**(0,7)**	**279,1**
Operating costs	(149,6)	(25,3)	0,7	(174,2)
Operating profit before depreciation, impairment and net financial expenses (EBITDA)	**111,2**	**(6,3)**	**-**	**104,9**
Depreciation and amortisation	(220,5)	(2,0)	-	(222,5)
Impairment	(75,0)	-	-	(75,0)
Operating (loss)/gain before net financial expenses (EBIT)	**(184,3)**	**(8,3)**	**-**	**(192,6)**
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 (loss)/gain before net financial expenses (EBIT)	**(12,9)**	**(9,9)**	**-**	**(22,8)**
31 Dec 17				
Segment assets	1 619,8	25,2	(3,5)	1 641,5
Segment liabilities	997,3	54,4	(3,5)	1 048,2
31 Dec 16				
Segment assets	1 855,7	35,6	(1,3)	1 890,0
Segment liabilities	985,8	52,3	(1,3)	1 036,8

* Includes Fred. Olsen Energy ASA

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Revenue split

(USD mill)	4Q 2017	3Q 2017	4Q 2016	Year 2017	Year 2016
Lease revenue	2,3	15,2	86,5	82,6	479,4
Service revenue	12,7	28,4	61,0	115,6	317,0
Other income	30,0	27,5	6,7	62,6	18,7
Engineering and fabrication	4,5	5,2	2,6	18,3	9,9
Total revenues	**49,5**	**76,3**	**156,8**	**279,1**	**825,0**

Other income includes mainly settlement of USD 2.2 million in the quarter (USD 14.6 million for 2017) related to the Bredford Dolphin contract, amortized termination fee of USD 25.3 million in the quarter (USD 34 million for 2017) related to Bolette Dolphin and recharges to client.

Condensed Consolidated Financial Statements

2. Introduction

The consolidated interim financial statements for 4th quarter ended 31 December 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 8th February 2018.

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 project is not finalized and descriptions below may change as the project progresses.

IFRS 15 – Revenues from contracts with customers
No significant impact of IFRS 15 for the Group is expected when the standard is implemented 1 January 2018. The implementation will not have any impact on the underlying cash flows. The Group will transition to IFRS 15 on 1 January 2018 without changing comparatives, i.e. applying the modified retrospective approach.

IFRS 16 – Leases
The Group has compiled leasing contracts to be able to estimate the effect for the contracts where Group entities act as a lessee. For contracts where entities act as a lessor, and in addition provide services, the Group continues to analyze potential effects of the interaction between IFRS 15 and IFRS 16. The implementation of IFRS 16 will have no impact on the underlying cash flow.

Based on information gathered to date, and based on the assumptions taken, the group expects the lessee effect as of 31 December 2017 to be in in the range of USD 20 million to USD 30 million as an increased Right of Use assets and increased leasing liability for the Group. The effect on EBITDA is expected to be an increase of approximately USD 0.3 million.

The Group plan to transition to IFRS 16 on 1 January 2019 without changing comparatives, i.e. applying the modified retrospective approach.

IFRS 9 – Financial instruments
The Group expects no significant effect of the transition to IFRS 9. The Group will transition on 1 January 2018 without changing comparatives.

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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 December 2017, the Group has repaid NOK 75 million of its bond loan FOE05 in 1st quarter 2017 and USD 3.9 million of the fleet facility in 3rd 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	9,3	1,0	0,0	10,3
Disposals	(290,0)	(0,3)	0,0	(290,3)
Movements in foreign currency	0,0	5,6	1,2	6,8
Balance at 31 Dec 2017	**3 576,0**	**80,6**	**19,5**	**3 676,1**
Depreciation				
Balance at 1 January 2017	2 519,9	59,4	9,0	2 588,3
Depreciation	216,8	5,1	0,6	222,5
Impairment	75,0	0,0	0,0	75,0
Disposals	(288,5)	(0,1)	0,0	(288,6)
Movements in foreign currency	0,0	4,8	0,7	5,5
Balance at 31 Dec 2017	**2 523,2**	**69,2**	**10,3**	**2 602,7**
Carrying amounts				
At 1 January 2017	1 336,8	14,9	9,3	1 361,0
At 31 Dec 2017	1 052,8	11,4	9,2	1 073,4

Condensed Consolidated Financial Statements
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.

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 1.6 million in 3rd quarter 2017 related to the settlement of the Bredford Dolphin contract and USD 4 million in 1st quarter 2017 from a customer related to an outstanding legal dispute.

9. Other current liabilities

The Group received termination fee of USD 95.7 million in 3rd quarter 2017 whereof USD 34 million is included as income while USD 61.7 million is included in other current liabilities per 31 December 2017. The revenues will be amortized until August 2018.

10. 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