

## Dolphin Drilling ASA

### Report for the 4th quarter 2018 and preliminary results for 2018

Figures in USD

**DOLPHIN DRILLING ASA (DDASA) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF - 26 MILLION FOR THE 4TH QUARTER 2018 AND EBITDA OF - 71 MILLION FOR THE YEAR 2018**

#### **HIGHLIGHTS FOR THE QUARTER**

- Revenues were 39 million
- EBITDA were -26 million
- Operating profit (EBIT) was -153 million
- Profit before tax was -154 million
- Earnings per share were -2.31

#### **Post quarter event**

- Entered into LOI for Blackford Dolphin/Borgland Dolphin
- Borgland Dolphin – settlement of 14 million

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**FINANCIAL INFORMATION (3<sup>rd</sup> quarter 2018 in brackets)**

Operating revenues in the quarter were 38.9 million (17.9 million). Revenues within the offshore drilling division decreased by 1.7 million, mainly due to reduced utilization of Blackford Dolphin compared to last quarter. Revenues within the engineering and fabrication division were 28.0 million (5.3 million).

Operating revenues for the year 2018 were 145.5 million.

Operating costs were 65.2 million (43.2 million), an increase of 22.0 million compared with previous quarter. Operating costs within the offshore drilling division increased by 6.7 million, mainly due to impairment of inventory for Byford Dolphin, partly offset by impairment of inventory for Bredford Dolphin in last quarter. Operating costs within the engineering and fabrication division were 28.6 million (13.3 million).

Operating costs for the year were 216.7 million.

Operating profit before depreciation (EBITDA) was - 26.3 million (-25.3 million). EBITDA for the year was - 71.2 million.

Depreciation and impairment amounted to 126.7 million (68.3 million). For the year 2018 depreciation and impairment amounted to 401.5 million, including a non-cash impairment charge of 191.1 million.

Operating profit after depreciation (EBIT) was - 153.0 million (- 93.6 million). Operating profit (EBIT) for the year was - 472.7 million.

Net financial items were - 0.5 million (- 9.2 million). Net financial items for the year 2018 were - 34.1 million.

Profit before tax was - 153.5 million (- 102.8 million). Profit before tax for the year 2018 was - 506.8 million.

Net profit, including an estimated tax of 0.3 million (0.2 million) was - 153.2 million (- 102.6 million). Net profit after tax for the year 2018 was - 505.6 million.

Basic earnings per share were - 2.31 (- 1.54). For the year 2018 basic earnings per share were - 7.61.

**Borgland Dolphin – settlement**

Dolphin Drilling AS, a subsidiary of Dolphin Drilling ASA, has settled a disagreement regarding the use of the drilling rig Borgland Dolphin under the previous RMN consortium contract. Dolphin Drilling AS will be compensated with 14 million, which will be booked in first quarter 2019.

## Financials

At 29 June 2018, the waiver period with the Company's financial creditors expired. The Company and the financial creditors were not able to agree on an extension of the waiver.

On 3 July 2018, the Company resolved to cease its service of interest and amortizations to its financial creditors, in order to preserve the liquidity reserves of Dolphin Drilling Group. As such, the Company did not make the payment of an instalment and interest payable to its secured lenders on such date. The Dolphin Drilling Group's operations would otherwise continue in their ordinary course.

This interim report relies on an underlying going concern assumption based on the Board of Director's view that obtaining a long term solution along the lines set out below should be achievable. It should in this connection however be noted that the board members Anette S. Olsen and Richard O. Aa have not participated in the Board's dealings with possible refinancing alternatives and related procedures since 3 July 2018 due to conflict of interest considerations. These board members have therefore not participated in forming the Board's opinion on the said going concern assumption on which these accounts are based as they have not had access to all required information allowing them to form a view thereon.

Constructive discussions are continuing with the financial creditors and investors 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. Unless a solution is found, to the Company's financial situation, the Company will need to file for bankruptcy.

The board has considered the need to convene an extraordinary general meeting to propose actions to remedy the Company's financial situation pursuant to clause 3-5 of the Norwegian Public Limited Liability Companies Act. A successful restructuring will in any event require notable concessions from the Company's financial creditors. Therefore, it is not considered that a general meeting ought to be convened to address the financial situation of the Company before such concessions have been agreed with the relevant creditors.

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.

## **Drilling Division**

The offshore fleet of Dolphin Drilling ASA with subsidiaries (the Group) consists of two ultra-deepwater/deepwater units and three harsh environment mid-water semi-submersible drilling units.

The company has been successful in introducing smart-stacking for up to five of the units in order to preserve the units ready for new contracts. Smart-stacked units 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.

## **International**

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

Blackford Dolphin completed a three well contract with BP Exploration Operating Company Ltd. in November. In January, Dolphin Drilling entered into a letter of intent with i3 Energy for a three-well appraisal and development-drilling program in UK for the drilling rig Blackford Dolphin or Borgland Dolphin. The unit is currently smart stacked in Flekkefjord, Norway.

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

## **Decommissioning of units**

Bredford Dolphin is in Kvinesdal, Norway and Belford Dolphin is in Labuan, Malaysia. The units are currently being mobilized and prepared for decommission.

## **Engineering and Fabrication**

The Harland & Wolff shipyard continued its core activities within engineering, ship repair and shipbuilding. The financial situation of the yard is challenging. The yard is in a process to find a sustainable solution and continues to explore business opportunities in all markets. The solution could also require changes to the capital structure of Harland & Wolff.

Oslo, 7<sup>th</sup> February 2019  
The Board of Directors

## Condensed Consolidated Financial Statements

### GROUP INCOME STATEMENT

Unaudited

(USD mill)	Note	4Q 2018	3Q 2018	4Q 2017	Year 2018	Year 2017
Operating revenues		38,5	16,8	47,4	142,0	268,2
Recharged income		0,4	1,1	2,1	3,5	10,9
<b>Total revenues</b>	1,5	<b>38,9</b>	<b>17,9</b>	<b>49,5</b>	<b>145,5</b>	<b>279,1</b>
Operating costs		(64,9)	(42,3)	(37,0)	(213,6)	(163,5)
Recharged expenses		(0,3)	(0,9)	(2,2)	(3,1)	(10,7)
<b>Total operating expenses</b>	1,7	<b>(65,2)</b>	<b>(43,2)</b>	<b>(39,2)</b>	<b>(216,7)</b>	<b>(174,2)</b>
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>		<b>(26,3)</b>	<b>(25,3)</b>	<b>10,3</b>	<b>(71,2)</b>	<b>104,9</b>
Depreciation and amortisation	7	(52,0)	(48,6)	(55,4)	(210,4)	(222,5)
Impairment	7	(74,7)	(19,7)	-	(191,1)	(75,0)
<b>Operating loss before net financial expenses (EBIT)</b>		<b>(153,0)</b>	<b>(93,6)</b>	<b>(45,1)</b>	<b>(472,7)</b>	<b>(192,6)</b>
Net financial expenses		(0,5)	(9,2)	(11,1)	(34,1)	(45,4)
<b>Loss before tax</b>		<b>(153,5)</b>	<b>(102,8)</b>	<b>(56,2)</b>	<b>(506,8)</b>	<b>(238,0)</b>
Income tax expense		0,3	0,2	(5,9)	1,2	(19,4)
<b>Loss for the period</b>		<b>(153,2)</b>	<b>(102,6)</b>	<b>(62,1)</b>	<b>(505,6)</b>	<b>(257,4)</b>
Attributable to:						
Shareholders		(153,1)	(101,9)	(62,0)	(504,2)	(256,8)
Non-controlling interests		(0,1)	(0,7)	(0,1)	(1,4)	(0,6)
<b>Loss for the period</b>		<b>(153,2)</b>	<b>(102,6)</b>	<b>(62,1)</b>	<b>(505,6)</b>	<b>(257,4)</b>

EPS:

Basic earnings per share	-2,31	-1,54	-0,94	-7,61	-3,87
Diluted earnings per share	-2,31	-1,54	-0,94	-7,61	-3,87

### 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 2018	3Q 2018	4Q 2017	Year 2018	Year 2017
Loss for the period	(153,2)	(102,6)	(62,1)	(505,6)	(257,4)
Actuarial (loss)/gains on defined benefit pension plans	(17,9)	-	6,0	(17,9)	6,0
Income tax relating to components of other comprehensive income	-	-	(8,6)	-	(8,6)
Exchange differences on translation of foreign operations	(2,5)	-	(1,9)	(1,2)	0,1
<b>Total comprehensive loss for the period</b>	<b>(173,6)</b>	<b>(102,6)</b>	<b>(66,6)</b>	<b>(524,7)</b>	<b>(259,9)</b>
Attributable to:					
Shareholders	(172,5)	(102,0)	(65,7)	(522,4)	(258,9)
Non-controlling interests	(1,1)	(0,6)	(0,9)	(2,3)	(1,0)
<b>Total comprehensive loss for the period</b>	<b>(173,6)</b>	<b>(102,6)</b>	<b>(66,6)</b>	<b>(524,7)</b>	<b>(259,9)</b>

## Condensed Consolidated Financial Statements

### STATEMENT OF FINANCIAL POSITION

Unaudited

(USD mill)		31 Dec 18	30 Sep 18	31 Dec 17
Property, plant & equipment	7	689,8	822,3	1 073,4
Other non-current assets		0,3	1,7	1,6
<b>Total non-current assets</b>		<b>690,1</b>	<b>824,0</b>	<b>1 075,0</b>
Inventories		62,5	73,3	103,1
Trade and other receivables		12,6	21,7	14,4
Other current assets	6,10	43,1	21,7	13,9
Cash and cash equivalents		136,9	153,8	435,0
<b>Total current assets</b>		<b>255,1</b>	<b>270,5</b>	<b>566,4</b>
<b>Total assets</b>		<b>945,2</b>	<b>1 094,5</b>	<b>1 641,4</b>
Share capital		193,3	193,3	193,3
Other equity		(124,7)	48,9	400,0
Non-controlling interests		-	-	-
<b>Total Equity</b>		<b>68,6</b>	<b>242,2</b>	<b>593,3</b>
Non-current interest-bearing loans and borrowings	6	-	-	686,2
Other non-current liabilities		83,4	60,4	61,2
<b>Total non-current liabilities</b>		<b>83,4</b>	<b>60,4</b>	<b>747,4</b>
Current interest-bearing loans and borrowings	6	747,4	745,7	190,9
Other current liabilities	11	45,8	46,2	109,8
<b>Total current liabilities</b>		<b>793,2</b>	<b>791,9</b>	<b>300,7</b>
<b>Total equity and liabilities</b>		<b>945,2</b>	<b>1 094,5</b>	<b>1 641,4</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 2017</b>								
Balance at 1 Jan 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)
<b>Balance at 31 Dec 2017</b>	<b>193,3</b>	<b>83,5</b>	<b>2,2</b>	<b>(1,2)</b>	<b>315,5</b>	<b>593,3</b>	<b>-</b>	<b>593,3</b>
<b>Year 2018</b>								
Loss for the period	-	-	-	-	(505,6)	(505,6)	-	(505,6)
Other comprehensive loss	-	-	(1,2)	-	(17,9)	(19,1)	-	(19,1)
<b>Balance at 31 Dec 2018</b>	<b>193,3</b>	<b>83,5</b>	<b>1,0</b>	<b>(1,2)</b>	<b>(208,0)</b>	<b>68,6</b>	<b>-</b>	<b>68,6</b>

## Condensed Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (USD mill)	Note	Year 2018	Year 2017
<b>Cash flows from operating activities</b>			
Loss before income tax		(506,8)	(238,0)
<i>Adjustment for:</i>			
Depreciation, amortisation and impairment	7	401,5	297,5
Interest expense		39,6	39,2
Gain on sale of property, plant and equipment		-	(2,9)
Changes in pension plan		-	(27,3)
Changes in working capital	10	(18,5)	140,2
Unrealised (gain)/loss financial instruments/debt		(7,6)	4,7
<b>Cash generated from operations</b>		<b>(91,8)</b>	<b>213,4</b>
Interest paid		(17,2)	(34,8)
Taxes paid		(7,6)	(10,9)
<b>Net cash from operating activities</b>		<b>(116,6)</b>	<b>167,7</b>
<b>Cash flows from investing activities</b>			
Net investment in fixed assets		(31,4)	(14,7)
Proceeds from sale of equipment		0,1	4,6
<b>Net cash used to investing activities</b>	7	<b>(31,3)</b>	<b>(10,1)</b>
<b>Cash flows from financing activities</b>			
Proceeds from interest bearing loans		-	-
Repayments of interest bearing loans	6	(147,5)	(12,9)
<b>Net cash used in financing activities</b>		<b>(147,5)</b>	<b>(12,9)</b>
Foreign currency		(2,7)	(0,1)
Net change in cash and cash equivalents		(295,4)	144,7
Cash and cash equivalents at the beg. of period		435,0	290,4
<b>Cash and cash equiv. at the end of period</b>		<b>136,9</b>	<b>435,0</b>

## Condensed Consolidated Financial Statements

### Notes

#### 1. Segment information

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	Dolphin Drilling Group
<b>4Q 2018</b>				
Revenues from external customers	10,9	28,0	-	38,9
Inter-segment revenues	-	-	-	-
<b>Total revenues</b>	<b>10,9</b>	<b>28,0</b>	<b>-</b>	<b>38,9</b>
Operating costs	(36,6)	(28,6)	-	(65,2)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>(25,7)</b>	<b>(0,6)</b>	<b>-</b>	<b>(26,3)</b>
Depreciation and amortisation	(51,6)	(0,4)	-	(52,0)
Impairment	(74,7)	-	-	(74,7)
<b>Operating loss before net financial expenses (EBIT)</b>	<b>(152,0)</b>	<b>(1,0)</b>	<b>-</b>	<b>(153,0)</b>
<b>3Q 2018</b>				
Revenues from external customers	12,6	5,3	-	17,9
Inter-segment revenues	-	-	-	-
<b>Total revenues</b>	<b>12,6</b>	<b>5,3</b>	<b>-</b>	<b>17,9</b>
Operating costs	(29,9)	(13,3)	-	(43,2)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>(17,3)</b>	<b>(8,0)</b>	<b>-</b>	<b>(25,3)</b>
Depreciation and amortisation	(48,2)	(0,4)	-	(48,6)
Impairment	(19,7)	-	-	(19,7)
<b>Operating loss before net financial expenses (EBIT)</b>	<b>(85,2)</b>	<b>(8,4)</b>	<b>-</b>	<b>(93,6)</b>
<b>4Q 2017</b>				
Revenues from external customers	45,0	4,5	-	49,5
Inter-segment revenues	-	-	-	-
<b>Total revenues</b>	<b>45,0</b>	<b>4,5</b>	<b>-</b>	<b>49,5</b>
Operating costs	(33,8)	(5,4)	-	(39,2)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>11,2</b>	<b>(0,9)</b>	<b>-</b>	<b>10,3</b>
Depreciation and amortisation	(54,9)	(0,5)	-	(55,4)
<b>Operating loss before net financial expenses (EBIT)</b>	<b>(43,7)</b>	<b>(1,4)</b>	<b>-</b>	<b>(45,1)</b>

\* Includes Dolphin Drilling ASA



## Condensed Consolidated Financial Statements

(USD mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	Dolphin Drilling Group
<b>Year 2018</b>				
Revenues from external customers	93,1	52,4	-	145,5
Inter-segment revenues	-	-	-	-
<b>Total revenues</b>	<b>93,1</b>	<b>52,4</b>	<b>-</b>	<b>145,5</b>
Operating costs	(148,6)	(68,1)	-	(216,7)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>(55,5)</b>	<b>(15,7)</b>	<b>-</b>	<b>(71,2)</b>
Depreciation and amortisation	(208,7)	(1,7)	-	(210,4)
Impairment	(191,1)	-	-	(191,1)
<b>Operating loss before net financial expenses (EBIT)</b>	<b>(455,3)</b>	<b>(17,4)</b>	<b>-</b>	<b>(472,7)</b>
<b>Year 2017</b>				
Revenues from external customers	260,7	18,4	-	279,1
Inter-segment revenues	-	0,6	(0,6)	-
<b>Total revenues</b>	<b>260,7</b>	<b>19,0</b>	<b>(0,6)</b>	<b>279,1</b>
Operating costs	(149,5)	(25,3)	0,6	(174,2)
<b>Operating profit before depreciation, impairment and net financial expenses (EBITDA)</b>	<b>111,2</b>	<b>(6,3)</b>	<b>-</b>	<b>104,9</b>
Depreciation and amortisation	(220,6)	(1,9)	-	(222,5)
Impairment	(75,0)	-	-	(75,0)
<b>Operating loss before net financial expenses (EBIT)</b>	<b>(184,4)</b>	<b>(8,2)</b>	<b>-</b>	<b>(192,6)</b>
<b>31 Dec 18</b>				
Segment assets	924,0	27,4	(6,2)	<b>945,2</b>
Segment liabilities	792,1	90,7	(6,2)	<b>876,6</b>
<b>31 Dec 17</b>				
Segment assets	1 619,8	25,1	(3,5)	<b>1 641,4</b>
Segment liabilities	997,2	54,4	(3,5)	<b>1 048,1</b>

\* Includes Dolphin Drilling ASA

## 2. Introduction

The consolidated interim financial statements for 4<sup>th</sup> quarter ended 31 December 2018, comprise Dolphin Drilling 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.dolphindrilling.com](http://www.dolphindrilling.com).

The Board of Directors approved these consolidated interim financial statements on 7<sup>th</sup> February 2019.

## Condensed Consolidated Financial Statements

### 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.

### 5. Revenues

(USD mill)	4Q 2018	3Q 2018	4Q 2017	Year 2018	Year 2017
Lease revenue	1,2	2,1	2,3	4,4	82,6
Service revenue	9,2	9,1	12,7	22,7	115,6
Other income	0,5	1,4	30,0	66,0	62,6
Engineering and fabrication	28,0	5,3	4,5	52,4	18,3
<b>Total revenues</b>	<b>38,9</b>	<b>17,9</b>	<b>49,5</b>	<b>145,5</b>	<b>279,1</b>

Other income in 2018 includes mainly the amortized termination fee of USD 62 million related to Bolette Dolphin.

## Condensed Consolidated Financial Statements

### 6. Interest-bearing loans and borrowings

As per December 2018, the Group has repaid USD 147.5 million in 2018 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. 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 Dolphin Drilling Group. As such, the Company did not make payment of an instalment of USD 95.5 million and interest payable to its secured lenders on such date. Unpaid overdue interest to the secured lenders and bondholders amounts to USD 18 million as per December 2018 reported under Current interest-bearing loans and borrowings.

### 7. Property, plant and equipment

(USD mill)	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
<b>Cost</b>				
Balance at 1 January 2018	3 576,0	80,6	19,5	3 676,1
Acquisitions	28,7	0,4	0,0	29,1
Disposals	(192,5)	(8,2)	0,0	(200,7)
Reclassification	(758,3)	0,0	0,0	(758,3)
Movements in foreign currency	0,0	(3,8)	(0,8)	(4,6)
<b>Balance at 31 Dec 2018</b>	<b>2 653,9</b>	<b>69,0</b>	<b>18,7</b>	<b>2 741,6</b>
<b>Depreciation</b>				
Balance at 1 January 2018	2 523,2	69,2	10,3	2 602,7
Depreciation	205,5	4,3	0,6	210,4
Impairment	191,1	0,0	0,0	191,1
Disposals	(192,4)	(8,2)	0,0	(200,6)
Reclassification	(747,9)	0,0	0,0	(747,9)
Movements in foreign currency	0,0	(3,5)	(0,4)	(3,9)
<b>Balance at 31 Dec 2018</b>	<b>1 979,5</b>	<b>61,8</b>	<b>10,5</b>	<b>2 051,8</b>
<b>Carrying amounts</b>				
At 1 January 2018	1 052,8	11,4	9,2	1 073,4
At 31 Dec 2018	674,4	7,2	8,2	689,8

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 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.

## Condensed Consolidated Financial Statements

The following impairments have been recorded:

	4Q 2018	Year 2018
Bolette Dolphin	56,8	69,1
Byford Dolphin *	17,9	17,9
Belford Dolphin	-	95,8
Bredford Dolphin	-	7,6
Other	-	0,7
<b>Total impairment</b>	<b>74,7</b>	<b>191,1</b>

\* In addition an impairment of inventory of USD 11 million was recorded in operating cost in 4<sup>th</sup> Quarter 2018.

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 assets

Refinancing cost of USD 10.8 million is reported under other current assets. Refinancing cost is not reflected within EBITDA. Part of it could either be booked against equity or be part of liabilities carried at amortised cost dependent of the outcome.

Belford Dolphin and Bredford Dolphin have been reclassified from Property, Plant and Equipment to "assets held for sale" reported under other current assets with USD 8 million and USD 1 million respectively.

## Condensed Consolidated Financial Statements

### 11. Other current liabilities

The Group received termination fee of USD 95.7 million in 3<sup>rd</sup> 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 1<sup>st</sup> quarter 2018. See also note 5.

### 12. 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

### 13. 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.