Awilco Drilling PLC

Report and Financial Statements

31 December 2017

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Henrik Fougner
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Strategic report

Corporate Strategy and business model

Awilco Drilling PLC ('the Company')'s strategy is to create shareholder value through the provision of a quality, reliable and customer focused service to the mobile drilling rig market. The management team shall safely, efficiently and effectively deliver a high quality service to customers, with a view to securing the most lucrative day rate contracts in conjunction with the highest achievable rig utilisation. The Company shall evaluate growth opportunities which best complement its financial and operational aspirations.

The Company owns and operates two semi-submersible drilling rigs, the WilPhoenix and WilHunter, both standardised rigs used in the drilling of oil and gas wells in the UK sector of the North Sea, although they can be used in other geographical locations.

Principal activity

The principal activity of the Company and its subsidiaries ('the Group') is to operate the drilling rigs as noted above. During the year, the WilPhoenix was in continued drilling operations for its clients, TAQA Bratani Ltd and Apache North Sea Ltd. The WilHunter is cold stacked and moored in Invergordon.

Business review and future developments

While contract opportunities over the winter of 2018 into 2019 remain limited, a large number of enquiries in the quarter has matured into strong demand over the summer of 2018, with almost full utilisation of the UK marketed fleet forecast. Some operators will be forced to delay drilling plans and as a consequence, the start-up of programmes will be pushed into 2019, with demand in 2019 seeming to be stronger than 2018. During March 2018, the Group signed a contract with Keppel FELS shipyard in Singapore for the building of one new CS 60 ECO MW semi-submersible drilling rig. Delivery is planned for late Q1 2021. In connection with entering into the contract for such new building, the Group has also negotiated options to build up to three additional rigs of similar design, such options to be independent of each other. A private placement equity issue of US$ 65million has been completed, with a further amount of approximately US$ 5million to be raised through a subsequent offering, which has primarily been used to fund the initial 10% deposit on the first rig. The rigs will be purpose built premium harsh environment for North Sea operations, with high operating efficiency incorporating the latest drilling design and technology.

Performance

The Group's financial performance during the year was as follows:

	2017 *US$000*	*2016* *US$000*
Revenue	131,731	72,472
Operating profit	34,119	11,072
Profit for the year attributable to equity shareholders	28,167	2,311
Operating profit %	26%	15%
Number of employees and contractors at year end	141	141

The total revenue for the year relates to contract income received from drilling operations. The increase is due to a full year of operations compared with the prior year when the WilPhoenix was in the shipyard for an extended period. The Group had rig operating expenses of US$27.8 million (2016: US$36.7 million) relating to rig operating costs, and general and administration expenses of US$8.8 million (2016: US$8.9 million). There was an impairment expense of US$45 million (2016: nil), relating to the WilPhoenix and WilHunter rigs, due to the erosion of the contract backlog and continued weakness of the UK and global drilling market.

The key performance indicators (KPIs) set out below are reviewed on a regular basis by management and performance against them subsequently reported to the Board of Directors. Targets for the KPIs are set and, if performance falls short, the appropriate corrective action is implemented by management.

Strategic report

Business review and future developments (continued)

The Company's main financial KPIs are:

Revenue efficiency

Revenue efficiency is actual revenue for the period compared with the maximum contract revenue multiplied by the number of available days in the contracted period. For the year ended 31 December 2017, the revenue efficiency was 93.7% (2016: 98.4%). This was lower due to operational downtime during the year compared with the prior year.

Operating margin

Operating margin is total revenue less operating costs. For the year ended 31 December 2017, operating margin was 25.9% (2016: 15.4%). The increased margin is due to the increase in revenue during the year, offset in part by the impairment charge incurred in the year. The Company also has a number of operational KPIs that are used to manage the business on a day to day basis, some of which are detailed below:

Quality, Health, Safety and Environment (QHSE)	
Total recordable incident rate (TRIR)	Number of incidents (lost time incident, restricted work case, medical treatment only) x 200,000 / Total number of man hours in the review period. Measured on a rolling 12 month basis.
Unplanned discharges	Items that have been discharged to sea not covered under PON 15 which relate to allowable items. Some examples are BOP control fluid and hydraulic oil that are reportable under PON 1. (PON - Petroleum Operations Notices)
Operations	
Uptime	Total hours the rigs are working i.e. not on unplanned downtime / on contract time for the period.
Human Resources (HR)	
Personnel turnover	Employee initiated leavers in the period as a percentage of total headcount (onshore and offshore) on a rolling 12 month basis.

Principal risks and uncertainties

The Company's primary risks are those that impact utilisation rates for each of the rigs, QHSE issues associated with operations and exposure to liquidity and credit risk.

Utilisation rates for the rigs

The Company has a small fleet of only two rigs, one currently in operation and the other cold stacked, implying that downtime, failure or idle periods will have a relatively higher impact than if the Company had a larger and more diverse fleet. The risk to utilisation rates may arise through deferred commencement of drilling contracts either through delays incurred on shipyard project work or delays encountered by operators not able to commence drilling in accordance with plan. There is also the possibility of gaps and idle periods during the year due to the unpredictable nature of contract drilling operations and prevailing market conditions. Additionally there is a utilisation risk associated with the possibility of mechanical and weather down time. The Group mitigates this risk through its operating, marketing and pricing strategies.

***QHSE* (Quality, Health, Safety, Environment)**

To mitigate any risk with regards to QHSE the Group has in place a QHSE management plan which seeks to ensure that all operations are conducted within normal industry standards and procedures. The Company also seeks to ensure safe and efficient operations, with no accidents, injuries, environmental incidents or damage to assets.

Strategic report

Business review and future developments (continued)

Liquidity

As described in Note 26 to the financial statements, the Group's objective is to maintain sufficient liquidity in order to support the needs of the business and meet debt repayments and other liabilities as they fall due. The Group has met all debt repayment obligations and has an appropriate level of cash on hand.

Credit

Management assess the credit rating of new and existing clients and determines if any action is required to secure payment in respect of work to be performed.

Tax risks

The Company has subsidiaries in other countries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, the Company is subject to changing tax laws, treaties and regulations in and between countries in which it operates. The Company's tax expense is based upon its interpretation of the tax laws in effect in these countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations or in the interpretation thereof, which is beyond the Company's control, could result in a materially higher tax expense or a higher effective tax rate on the Company's earnings.

For 2017, the effective tax rate ("ETR") for the Company was 2.23% (2016: 47.6% credit). The prior year was negative due to an adjustment for an amount over provided in the prior year. The current year is also low due to the utilisation of unrecognised deferred tax assets, including available tax losses brought forward and an adjustment for deferred tax asset underprovided in the prior year. There was also a decrease in the UK corporation tax rate from 20% to 19%.

In future years, it is expected that the ETR is likely to be more in line with the then current UK rate of corporation tax.

Volatility of the share price

The trading price of the Company's shares could fluctuate significantly in responses to quarterly variations in operating results, adverse business developments, interest rates, changes in financial estimates by securities analysts, matters announced in respect of major customers or competitors, changes to the regulatory environment in which the Company operates, or a variety of other factors outside the control of the Company.

Industry risk

The offshore contract drilling industry is cyclical and volatile. The Company's business depends on the level of activity of oil exploration, development and production in the North Sea and internationally. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development, political concerns and regulatory requirements all affect customers' levels of activity and drilling campaigns. Demand for the Company's services may be adversely affected by declines in exploration, development and production activity associated with depressed oil prices. Even the perceived risk of depressed oil prices and changes in the UK North Sea tax regime often causes exploration and production companies to reduce their spending.

Commodity prices

The profitability and cash flow of the Company's operations will be dependent upon the market price of oil and gas, as the Company's customers are mainly oil companies. The price of oil and gas is known to fluctuate. Oil and gas prices are affected by numerous factors beyond the Company's control, including economic and political conditions, levels of supply and demand, the policies of the Organization of Petroleum Exporting Countries (OPEC), the level of production in non-OPEC countries, the cost of exploring for, developing, producing and delivering oil and gas, currency exchange rates and the availability of alternate energy sources and political and military conflicts in oil-producing and other countries. If the price of oil and gas products should drop significantly, this could have a material adverse effect on the Company.

Strategic report

Corporate Social Responsibility

The Company recognises its duty to stakeholders to operate the business in an ethical and responsible manner. It is committed to developing its Corporate Social Responsibility (CSR) agenda, recognising that it can play a major part in its operations. This report does not contain information about any policies of the Company in relation to social community and human rights issues since it is not considered necessary for an understanding of the development, performance or position of the Company's business activities.

Core Values

Simple is Best – Our systems and procedures shall be clear, concise and effective, ensuring we deliver on our promises.

Engagement – We will be a company of choice, valuing our work force, listening and responding to employees, clients and partners.

Efficiency – We will consistently meet our clients' expectations by providing competent people, reliable equipment and smart systems.

Flexibility – We will encourage challenge and creativity in order to deliver optimised performance and continuous improvement.

Performance – We will get it right first time; consistently delivering success.

Anti-bribery and corruption

The Company requires its employees to observe the highest standards of business and personal ethics in the conduct of their duties and responsibilities. The Company has a specific Anti-Bribery and Corruption procedure to ensure compliance with all applicable anti-bribery and corruption regulations and to ensure the Company's business is conducted in a socially responsible manner. An annual due-diligence and risk assessment is undertaken by the senior members of the Company.

Policy

The Company's employment policies and procedures are described in detail in the Staff Handbook, which is available to all employees via the Business Management System (BMS). The Company's Code of Conduct – Values and Ethics document sets out the basic principles to guide all employees and officers of the Company on how they must conduct themselves to seek to avoid even the appearance of improper behaviour. To help ensure compliance, the Company requires that employees, officers and directors review the policy and acknowledge their understanding and adherence in writing on an annual basis.

Equal opportunities

The Company is committed to equal opportunities and treats all employees with respect and dignity and ensures that decisions are taken without reference to irrelevant or discriminatory criteria. The Company does not tolerate any form of unlawful discrimination and is committed to promoting equality of opportunity and will address any unlawful discrimination in every aspect of its operations.

As at 31 December 2017 the number of employees was as follows:

	Male	Female
Directors	5	1
Senior Managers	3	-
Other staff – onshore	10	10
Other staff – offshore	116	1

Strategic report

Corporate Social Responsibility (continued)

Health and Wellbeing
It is important to the Company that it supports its employees in their health and wellbeing. The Company operates a flexible benefit scheme that is available to all members of staff and includes benefits such as leisure club membership, private medical and dental insurance, a health screening service and an Employee Assistance Programme. The Company has also been awarded the Silver Healthy Working Lives.

Health, Safety and Environment
The Company recognises that it is has a corporate responsibility to carry out its operations whilst minimising its impact on the environment. As a result of this, the Company has gone through a rigorous audit process and has been awarded ISO14001 certification. ISO14001 is an internationally recognised environmental management system (EMS) standard, providing a model for companies to follow to create and achieve their policy. Focusing on the issues that really matter, it is designed to help companies achieve consistent environmental regulatory compliance whilst embedding the concept of continuous improvements in environmental performance. ISO14001 is a widespread benchmark for thousands of organisations around the world that want to communicate to the public and stakeholders that they are environmentally responsible. Additionally, the Company has been awarded BS OHSAS 18001 certification. This is an internationally applied British Standard for occupational health and safety management systems. It exists to help organisations put in place demonstrably sound best practices by providing a framework for procedures and controls needed by the Company to achieve the best possible working conditions and workplace health and safety.

By order of the Board of Directors

Sigurd Thorvildsen
19 April 2018

Directors' report

Registered No. 7114196

The Directors present their report and financial statements for the year ended 31 December 2017. These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

Results and dividends

The profit after taxation for the year amounted to US$ 28.2 million (2016: US$ 2.3 million).
There was a total dividend of US$ 24.0 million (2016: US$ 19.5 million) paid during the year representing US$ 0.80 per share (2016: US$ 0.65).

Future developments

See Strategic Report pages 2-6.

Directors

The directors who served the Company during the year were as follows:

Sigurd Thorvildsen
Henrik Fougner
Daniel Gold
John Simpson
Synne Syrrist
Jon Bryce

Financial instruments

The Group's financial risk management objectives and policies are discussed further in Note 26 on pages 60-63 of the financial statements.

Directors liability

The Company insures its directors and officers against liability in respect of proceedings brought by third parties, subject to the conditions set out in the UK Companies Act 2006.

Directors and their interests

None of the directors listed above had any interest in the Company's shares, with the exception of Jon Bryce in connection with the Company's long term incentive plan. Details are given in the directors' remuneration report.

Major interest in shares

The Company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 19 April 2018.

	No of shares	*Percentage holding*
Awilhelmsen Offshore AS	17,919,938	37.62%
UBS Securities LLC	7,319,712	15.37%
Akastor AS	2,700,000	5.67%
Citibank N.A.	1,887,210	3.96%
Euroclear Bank S.A	1,721,619	3.61%

QVT Financial LP with affiliated and related parties owned 4,087,044 shares at 19 April 2018, a total of 8.58% of the Company's share capital.

FVP Master Fund LP with affiliated and related parties owned 8,448,962 shares at 19 April 2018 a total of 17.74% of the Company's share capital and has not notified the Company of any changes of ownership up to the date of signing the report and financial statements.

Directors' report

Corporate governance

The information given in the corporate governance statement is set out on pages 11-17.

Going concern

Management has prepared cash flow forecasts for a period of 12 months from the balance sheet date. These demonstrate the ability of the Group to pay its debts as they fall due for at least the next 12 months. The Group has access to sufficient working capital.

On this basis, the directors have concluded that the Group will remain a going concern for at least 12 months from the day of approval of the financial statements and have therefore prepared the financial statements on a going concern basis.

Asset impairment consideration

Management has performed an impairment test which resulted in an impairment of US$ 45 million at year end for the WilPhoenix and WilHunter semi-submerisble rigs, due to the erosion of the contract backlog and continued weakness of the UK and global drilling market. The impairment test was based on management's best estimate of forecast future industry conditions and operations, future expected utilisation, contract rates, operating expenses and capital requirements of the rigs. A post-tax discount rate of 10.6% has been applied.

Greenhouse gas emissions

Under the DEFRA guidance on Environmental Reporting Guidelines, Companies are required to report on greenhouse gas emissions under two categories: direct emissions (from rig power generation) and loss of refrigerants. The Company has no financial or operational control over the use of diesel as it is paid for by the client and operationally burned in accordance with the needs of the clients' drilling programme. As a result, the emission figures are reported to the regulator directly by the client. Loss of refrigerants are also reported directly to the regulator by the client, although responsibility will fall to the Company in 2018 due to a change in legislation.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Responsibility statement

Each of the directors listed on page 1 confirms that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and

The strategic report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties faced.

Subsequent events

During February 2018, the Group raised new equity of US$ 65million through the subscription of 17,600,000 new shares at a subscription price of NOK 29 per share. The completion of the private placement was approved at the EGM which was held on 23 March 2018.

During March 2018, the Group signed a contract with Keppel FELS shipyard in Singapore for the building of one new CS 60 ECO MW semi-submersible drilling rig. The cost for the rig delivered from the yard in Singapore is approximately USD 425 million. Delivery is planned for late Q1 2021. In connection with entering into the contract for such newbuilding, the Group has also negotiated options to build up to three additional rigs of similar design, such options to be independent of each other.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board of Directors

Sigurd Thorvildsen
19 April 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom company law and those International Financial Reporting Standards (IFRSs) adopted by the European Union.

Under UK Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and Company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and the Company's financial position and financial performance;
- state that the Company and Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the UK Companies Act 2006 and Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

Awilco Drilling PLC is committed to maintaining high standards of corporate governance.

The Company is listed on the Oslo Axess stock exchange and has adopted the Norwegian Code of Practice for Corporate Governance of 30 October 2014 ('the Code'). A copy of the code can be found at www.nues.no

Adherence to the Code is based on a "comply or explain" principle, whereby companies are expected to comply with the recommendations or explain why they have chosen an alternative approach. Below is a summary of the departures from the Code with an explanation of how the Company's actual practices contribute to good corporate governance.

Code of Practice Compliance

The Company is required to state how it has applied the principles set out in Section 1 of the Code and which relate to its directors, remuneration, accountability and audit and relations with shareholders.

As of the date of this report, the Company is in compliance with the Code, except in relation to the following matters:

- Business – the Company's Articles of Association do not specifically define the Company's business. The Company is incorporated in England & Wales and this is in line with standard practice for a UK registered company. An overview of the Company's business can be found in this report.
- Equity and dividends – the authorisation given to undertake share capital increases has not been restricted to defined purposes, due to the scope of the Company's business. This is normal practice for a UK registered company.
- Board composition – the Chief Executive Officer ('CEO') of the Company is also a member of the Board of Directors. It is standard UK practice for public limited companies to have both executive and non-executive directors.
- Auditor – the Auditor is not present during the Board meeting that deals with the annual accounts; but the Auditor attends Audit Committee meetings to discuss the Annual Report and financial statements.
- Corporate Assembly – the Company does not have a Corporate Assembly.

Business

The Company's principal business is to own offshore drilling rigs for use in offshore drilling operations, and to provide drilling services for oil and gas companies using these rigs. This is an intricate business which involves complex assets and high value equipment, and which requires specialised and trained personnel to operate them efficiently and safely.

The Company's vision is to be a partner of choice, consistently "delivering the difference" to its customers.

Further information about the Company's vision, mission and strategy statements is available in the Strategic Report.

Equity and dividends

Full details of the shares issued are detailed in Note 24. The Company considers its equity to be at a level appropriate to the Company's objectives, strategies, cash flow projections and risk profile.

The Company's intention is to pay dividends in support of its main objective to maximise returns to shareholders. All of the Company's free cash flow is intended to be distributed subject to maintaining a robust cash buffer to support operational working capital requirements and planned capital expenditure. Consideration is also given to future market prospects.

Equal treatment of shareholders

All issued shares of the Company are vested with equal shareholder rights in all respects. There is only one class of shares. The Articles of Association place no restrictions on voting rights. Each share represents one vote at the Company's General Meetings.

Corporate governance

Transactions with close associates

The Company has entered into the agreements listed below with the following parties:

- A management agreement with Awilhelmsen Management AS (AWM) for corporate services;
- Management-for-hire contracts for personnel from the Awilhelmsen Group.

Awilhelmsen Offshore AS owns 37.6% of the ordinary shares in Awilco Drilling PLC.

Freely negotiable shares

The shares of the Company are freely negotiable.

Going concern

The Board regularly review the Company's financial projections to ensure resources are available to meet operational requirements, and take appropriate action if judged necessary.

General Meetings

All shareholders of the Company are entitled to attend the general meetings of the Company. The Annual General Meeting (AGM) is to be held no later than 30 June each year. Notification for meetings are sent out at least 21 days in advance. The notice includes a reference to the Company's website where the notice for the General Meeting and other supporting documents required to allow shareholders to form a view on all matters to be considered at the meeting are made available. The deadline for registration is normally set three working days before the General Meeting, to ensure shareholders have as much time as possible to register. If a shareholder cannot attend a meeting in person it is possible to vote through proxy.

The minutes from the General Meetings are published on the Company's website www.awilcodrilling.com

The next AGM is scheduled for 6 June 2018.

Corporate governance

The Board of Directors

The Board considers that it is vital to ensure that there is an appropriate range of skills, knowledge and experience among its members, and that the objectivity and integrity of members should be exemplary. The Board consists of six directors; one executive Director (the Chief Executive Officer or 'CEO') and five non-executive Directors including the Chairman. The Board believes that the structure and size of the Board is appropriate and that no single individual or group dominates the decision making process. The names, skills, experience and expertise of each Director are shown in the Board of Directors section of the Company's website at www.awilcodrilling.com

The roles of the Chairman and CEO are separate and the division of their responsibilities has been clearly established and agreed by the Board.

The main responsibilities of the Board include but are not limited to:

- providing strategic direction for the Company;
- overseeing the Company's systems of internal control, governance and risk management;
- evaluating the performance of executive management; and
- monitoring and facilitating the activities of the Audit and Compensation Committees.

Management is delegated the task of the detailed planning and implementation of the Company's strategy.

Directors receive timely, regular and appropriate management information to enable them to fulfil their duties and have access to the advice of the Company Secretary. The Board has agreed guidelines for Directors to obtain independent professional advice, if they seek it, at the Company's expense.

The Company has in place directors' and officers' liability insurance.

The Board includes two independent non-executive directors (John Simpson and Synne Syrrist) and three non-independent non-executive directors (Sigurd Thorvildsen, Henrik Fougner and Daniel Gold). All the non-executive Board members are viewed as being free from any relationship with the executive management which could result in any conflict or affect their judgement. None of the non-executive directors participates in the share option schemes or long-term incentive plan operated by the Company and none are dependent on the fees received from the Company as their primary source of income.

Board Performance

The Board completes an annual process to evaluate the effectiveness of Board Committees and individual directors and has confirmed that it is satisfied that it and its Committees are operating effectively.

The performance of the executive director is reviewed annually by the Compensation Committee in conjunction with his annual pay review and the payment of bonuses.

Directors are elected by shareholders at the first annual general meeting after their appointment and, after that, offer themselves for re-election by a vote of shareholders at least once every two years.

Corporate governance

The Board of Directors (continued)

Meetings and attendance

Board meetings are scheduled to be held at least five times a year, linked to key events in the Company's corporate reporting calendar. Additional ad-hoc meetings may be held.

It is expected that all directors attend Board and relevant committee meetings, unless they are prevented from doing so by prior commitments. If directors are unable to attend meetings they are given the opportunity to be consulted and comment in advance of the meeting. The Chairman holds regular informal meetings with the non-executive directors without the executive director being present.

Board Committees

The Board has established an Audit Committee, Compensation Committee and Nomination Committee. The Audit Committee and Nomination Committee have formal terms of reference governing their method of operation which reflect the provisions of the Code and which have been approved by the Board.

Audit Committee

The Audit Committee was chaired during the year by John Simpson and the other member of the Committee is Henrik Fougner. Only John Simpson is considered to be independent by the Board, which is acknowledged in the terms of reference of the Audit Committee. The Board is satisfied that John Simpson has recent and relevant financial experience, as the former CEO of Den norske Bank (now DNB Bank) in London and Regional Director for DNB's Asia-Pacific operations. Mr Simpson is also classed as an approved person by the UK FCA and has chaired audit committees of UK listed companies and public bodies since 1996.

The role of the Audit Committee is to ensure the integrity of the financial statements of the Company, including its annual and quarterly reports, preliminary results' announcements and any other formal announcements relating to its financial performance. It is responsible for reviewing the Company's internal financial control and risk management systems, advising the Board on the appointment of external auditors, overseeing the relationship with external auditors, reviewing the Company's whistleblowing procedures and considering the need for an internal audit function.

The Audit Committee monitors the relationship with the Company's external auditors relating to the provision of non-audit services to ensure auditor objectivity and independence is safe-guarded. The Company will award non-audit work to the firm which provides the best commercial solution for the work in question taking into account the skills and experience of the firm involved and the fees payable for the work. In considering whether to award such work to the external auditors, attention is paid to the level of fees for non-audit services relative to the amounts of the audit fee and whether there are safeguards in place to mitigate to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of such services.

There is an opportunity at each meeting for the Audit Committee to discuss matters privately with the external auditors without any members of the executive management team present. In addition, the Chairman of the Committee is in regular contact with the external audit partner to discuss matters relevant to the Company.

Compensation Committee

The Compensation Committee was chaired during the year by Sigurd Thorvildsen and the other members of the Committee are Daniel Gold and Henrik Fougner.

The role of the Compensation Committee is to establish and develop the remuneration policy for the Company's executives and key management and to determine a specific remuneration package for the CEO. No director or employee is involved in deciding their own remuneration. The Committee also approves all employee pay review proposals.

Details of the Company's policy on remuneration, service contracts and compensation payments are set out in the remuneration report.

Corporate governance

The Board of Directors (continued)

Nomination Committee

The members of the Nomination Committee are Henrik Christensen and Tom Furulund.

The role of the Nomination Committee is to present a recommendation to the general meetings concerning directors to be elected by shareholders and the level of directors' fees. The Nomination Committee shall also present recommendations to the general meetings regarding nomination of members to the Nomination Committee and concerning fees for the members of the Nomination Committee.

The table below shows the frequency and attendance of directors and other members at Board and Committee meetings during 2017.

No of meetings in year	*Board Meetings*	*Compensation Committee*	*Audit Committee*	*Nomination Committee*
Sigurd Thorvildsen	5	4	-	-
Henrik Fougner	5	4	3	-
Daniel Gold	5	4	-	-
John Simpson	5	-	3	-
Synne Syrrist	5	-	-	-
Jon Bryce	5	-	-	-
Henrik Christensen (1)	-	-	-	1
Tom Furulund (1)	-	-	-	1

(1) Not members of the Board but members of the Nomination Committee only

Internal controls and risk management

The Board acknowledges its responsibility for establishing and maintaining adequate internal controls and risk management systems to safeguard shareholders' investments and the Company's assets and performs an annual review of these areas. Such systems can only be designed to manage, and not to eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance that the Company's assets are safeguarded and that the financial information used within the business for external reporting is reliable.

Operational and business activity risks

The Company's operational and business activity risks are controlled and mitigated by the implementation and use of its Business Management System (BMS). The Company's offshore activity risk is further controlled by the implementation and use of its Safety and Environmental Management System which is incorporated in the BMS.

Information and financial reporting systems

The Company's comprehensive planning and financial reporting procedures include annual detailed operational budgets which are reviewed and approved by the Board. Performance against budget is monitored throughout the year, through monthly reporting of management accounts and key performance indicators. The Board receives updated cash flow statements on a monthly basis and at each Board meeting and has close follow up discussions with the management between meetings as required.

Corporate governance

Internal controls and risk management (continued)

With a centralised financial reporting system, transactions and balances are recognised and measured in accordance with prescribed accounting policies, and all relevant information is appropriately reviewed and reconciled as part of the reporting process.

Investment appraisal

There are clearly defined evaluation and approval processes for acquisitions and disposals, capital items and major expenditure. These include escalating levels of authority and post-completion reviews of all major projects to compare the actual outcome with the original plan. Certain transactions are reserved for approval by the Board and limits of delegated responsibility and areas of authority have been identified for employees.

External audit

The Audit Committee reports to the Board on matters discussed with the auditors during the course of the statutory audit.

Takeovers

The Company has adopted guidelines in relation to take-over bids. The guiding principles of the Board in a take-over situation will be to seek the best value for and the equal treatment of all shareholders. The Board recognises that the decision whether to accept or reject an offer lies with the shareholders, and will refrain from any actions which may deny shareholders this choice. The Board will seek to provide shareholders with a recommendation as to whether shareholders should or should not accept an offer. This includes seeking external advice on valuation when appropriate. Any transaction that is in effect a disposal of the Company's activities will be submitted to a General Meeting for its approval. As the Company is incorporated in England and Wales, any take-over bid for the Company would be governed by aspects of both Norwegian Law and English law and regulations in accordance with the EU Take-over directive.

Communication with shareholders

The Company is committed to maintain the highest of standards of disclosure ensuring that all investors and potential investors have the same access to high quality, relevant information in an accessible and timely manner to assist them in making informed decisions. The Investor Relations Department manages the flow of information to all investors and potential investors and regular presentations take place at the time of the quarterly results as well as during the rest of the year.

Any concerns raised by a shareholder in relation to the Company and its affairs are communicated to the Board.

The Company maintains a website which provides up-to-date, detailed information on the Company's operations, which includes a dedicated investor relations section. All Company announcements are available on the website, as are copies of slides used for presentations to investment analysts.

Shareholders will have the opportunity at the forthcoming AGM to put questions to the Board, including the Chairmen of the various Committees.

Remuneration of the Board of Directors

The Company operates in a highly competitive market and must attract, motivate and retain high quality directors capable of achieving the Company's objectives and thereby enhancing shareholder value.

The non-executive Board members receive annual remuneration, based on the Board's responsibilities, expertise, time invested and the complexity of the business. Their remuneration is not linked to the Company's performance.

The remuneration of the Board is disclosed in the Director's Remuneration Report on pages 18-27 of this report. None of the Board members have had any additional assignments for the Company and none of the non-executives participate in any incentive or share option programme.

Corporate governance

Remuneration of executive personnel

The Compensation Committee reviews and advises on proposals made by the CEO with regard to the remuneration payable to executive personnel, and presents them to the Board. The remuneration payable to executive personnel is determined on the basis of competence, experience and achieved results.

The Board decides the salary and other compensation for the CEO in a meeting. The remuneration and other compensation to the CEO and other executive employees are disclosed in the notes to the financial statements.

Auditor

In line with standard practice for a UK company, the auditor is not present during the Board meeting that deals with the annual accounts.

The auditor attends all meetings of the Audit Committee and presents to the Committee reviews of the Company's accounting principles, risk areas, internal control procedures, including identified weaknesses and proposals for improvement.

The auditor has a private meeting with the Audit Committee at the end of each of its meetings at which neither the CEO nor any other member from the management team is present.

By order of the Board of Directors

Sigurd Thorvildsen
19 April 2018

Directors' remuneration report

Information not subject to audit

Chairman of the Compensation Committee's Annual Statement

Dear Shareholders,

I am pleased to present the directors' remuneration report for the financial year ended 31 December 2017, prepared in accordance with the Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

This report explains the Company's remuneration policy and provides details of the remuneration paid to executive and non-executive directors for services to the Company during the year. There have been no significant changes to the remuneration policy this year.

In determining remuneration levels, the Committee has taken account of market conditions, the performance of the Company, responsibility to shareholders and good corporate governance.

Due to the fluctuation in the exchange rate between GBP and USD, for the purpose of comparison the directors' remuneration figures have been shown in GBP as this is the currency in which remuneration is paid.

A resolution to approve the Directors remuneration report will be proposed at the AGM which is scheduled to be held on 6 June 2018.

Sigurd Thorvildsen
Chairman, Compensation Committee
19 April 2018

Directors' remuneration report

Remuneration policy

The Company operates in a highly competitive market and must attract, motivate and retain high quality directors and senior executives capable of achieving the Company's objectives and thereby enhancing shareholder value.

No director makes a decision relating to his own remuneration. Individual directors leave the meeting when their own remuneration is being discussed. A significant proportion of the potential remuneration of the executive director and senior executives is performance-related with appropriately stretching targets, thus aligning their interests with those of shareholders and encouraging performance at the highest levels.

The Committee has considered whether there are any aspects of the remuneration policy which could inadvertently encourage the executives to take inappropriate risk and has concluded that the policy remains appropriate in this regard.

How the views of employees are taken into account

The Company, in line with current market practice, does not actively consult with employees on executive remuneration. The Committee is made aware of overall pay and employment conditions in the wider work force when it sets the executive remuneration policy.

How the views of shareholders are taken into account

The Committee takes into account the view of the shareholders through open and transparent communication with shareholders. If there are significant changes proposed to the remuneration policy, the Committee will consult with major shareholders.

The table below summarises the remuneration policy, by component for the executive director. Details of the remuneration policy for non-executive directors are included on page 22.

Element	Purpose	Operation	Opportunity	Performance Measure
Annual Salary	To attract and retain key individuals and reflect their responsibilities, market value and expected performance level	Reviewed annually or when a change in responsibility occurs	There is no maximum salary opportunity	Not applicable
Benefits	To provide a market competitive reward package to the employee	The Company typically provides ➢ Car allowance ➢ Private health care ➢ Private dental care	Car allowance is a fixed annual amount. There is no maximum for health/dental insurance as it will depend on the value of premiums paid in the year	Not applicable
Performance related bonus	To incentivise the employee	Bonus payments are determined by the Compensation Committee and awarded where justified by performance	The amount of bonus increases with the level of performance achieved, up to a maximum of 100% of salary	Specified targets for the financial year – please see page 24 for full details

Directors' remuneration report

Element	Purpose	Operation	Opportunity	Performance Measure
Pension	To provide a market competitive long-term retirement benefit	Eligibility to participate in a Defined Contribution scheme which has a maximum employer contribution of 9%	Up to 9% of salary	Not applicable
Long term incentive plan	To motivate and incentivise executives	All awards are of synthetic shares which are cash settled. 2014 Plan: The plan "vests" after three years and the exercise period is five years subject to the employee remaining employed by the Company. 2015 Plan: Same vesting period as the 2014 plan. 2016 Plan: The plan "vests" after four years and the exercise period is five years subject to the employee remaining employed by the Company.	Award of up to 100% of salary each calendar year	No performance conditions are associated with the scheme; the awards are made at the discretion of the Board of Directors and are not guaranteed to be awarded each year.

Approach to recruitment and promotions

The remuneration package for a new executive director would be in accordance with the Company's approved remuneration policy as set out above. In addition, the Committee may offer additional benefits as necessary to secure an appointment and to take into account the elements of remuneration forfeited when leaving a previous employment. Relocation expenses or allowance may be paid as necessary. For an internal appointment, any existing contractual agreements in respect of prior employment may be honoured.

Directors' remuneration report

Service contracts

The service and employment contract of the executive director is not of a fixed duration and therefore has no unexpired terms, but continuation in office as a director is subject to re-election by shareholders.
The notice period of the current executive director's contract of employment is three months with the same notice period for the Company. The contract may be terminated without notice for certain events such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs. In the event that notice was served by either party, the director can continue to receive basic salary, benefits and pension contributions for the duration of the notice period. The Company may pay salary, benefits and pension in lieu of notice and will observe the other contractual entitlements of a director. There is no entitlement to bonus paid following notice of termination and any outstanding awards under the LTIP scheme will be forfeited. In respect of any new appointments, the policy would be based on terms that are consistent with these provisions.

The non-executive directors do not have service contracts but instead have letters of appointment.

Reward Scenarios

The graph below shows how the total pay opportunities for the Executive Director vary under three performance scenarios. These have been prepared on the assumptions detailed below.

Below target = fixed pay only (base salary, benefits and pension)
On target = 50% payable of annual bonus, 0% LTIP award
Maximum = 100% payable of annual bonus, 100% LTIP award

The chart illustrates the potential rewards available under the remuneration policy for the financial year 2017. The values assume a constant share price and do not take into account dividend adjustments that may be received on the share awards. The potential awards available for "on-target" performance under the annual bonus and LTIP are provided for illustration only and do not reflect formal policy decisions that these amounts will be received.

The salary level (on which the bonus and LTIP elements of the package are calculated) are based on current salary level of GBP 265,000.

Directors' remuneration report

Remuneration policy table – non-executive directors

The remuneration policy for non-executive directors is set out in the table below. No non-executive directors participate in the Company's incentive arrangements or pension plan.

Component	Purpose	Operation
Fees	The basic fee is a fixed annual fee agreed after taking external advice and making market comparisons, and relate to the service of the directors in connection with the Company's business. The additional fees payable to the Chairman and members of the Board Committees reflects the additional time commitment in preparing and attending additional meetings.	The fees for non-executive directors (including the Chairman) are reviewed annually and approved in aggregate at the annual general meeting. The current level of fees is detailed below.

New appointments

The same principles as described above will be applied in setting the remuneration of a new non-executive director. Remuneration will comprise fees only and be paid in accordance with the prevailing rate at the time of the appointment. No variable remuneration will be paid and there will be no compensation for any loss of remuneration in a previous employment.

Fees for non-executive directors

The current level of fees paid for 2016 and those proposed for 2017 are as follows:

	2017	*2016*
	GBP	*GBP*
Chairman	46,375	46,375
Basic Fee	33,125	33,125
Chair of Audit Committee	5,000	5,000
Member of Audit, Compensation or Nomination Committee	3,000	3,000

Fees to be paid in respect of 2017 will be decided at the next AGM which is scheduled for 6 June 2018.

Retirement and re-election of directors

All directors are required, under the Articles of Association of the Company, to retire at the first AGM. At each subsequent AGM, any directors who have been appointed by ordinary resolution or by the directors since the last AGM or who were not appointed or reappointed at one of the preceding two AGMs must retire from office and may offer themselves for reappointment by the members. After recommendation by the Nomination Committee, all directors were re-appointed at the AGM on 7th June 2017.

Directors' remuneration report

Audited information

Directors' remuneration

Single total figure of remuneration table

2017	*Basic Salary and Fees* *GBP*	*Benefits (1)* *GBP*	*Performance Related Bonus* *GBP*	*Pension-related benefits(2)* *GBP*	*Other(3)* *GBP*	*Total* *GBP*
Executive Director:						
J O S Bryce	265,000	11,212	50,000	23,850	-	350,062
Non-executive Directors:						
S E Thorvildsen	49,375	-	-	-	-	49,375
H Fougner	39,125	-	-	-	-	39,125
D A Gold	36,125	-	-	-	-	36,125
J N Simpson	38,125	-	-	-	-	38,125
S Syrrist	33,125	-	-	-	-	33,125
	460,875	11,212	50,000	23,850		545,937

(1) Includes non-cash benefits comprising car allowance and private health and dental care
(2) Contributions made during the year to the defined contribution scheme
(3) Cash settled value of synthetic share options exercised during the year

2016	*Basic Salary and Fees* *GBP*	*Benefits (1)* *GBP*	*Performance Related Bonus* *GBP*	*Pension-related benefits(2)* *GBP*	*Other(3)* *GBP*	*Total* *GBP*
Executive Director:						
J O S Bryce	265,000	11,212	78,440	23,850	269,248	647,750
Non-executive Directors:						
S E Thorvildsen	49,375	-	-	-	-	49,375
H Fougner	39,125	-	-	-	-	39,125
D A Gold	36,125	-	-	-	-	36,125
J N Simpson	38,125	-	-	-	-	38,125
S Syrrist	33,125	-	-	-	-	33,125
	460,875	11,212	78,440	23,850	269,248	843,625

(1) Includes non-cash benefits comprising car allowance and private health and dental care
(2) Contributions made during the year to the defined contribution scheme
(3) Cash settled value of synthetic share options exercised during the year

Directors' remuneration report

Analysis of taxable benefits received

The Chief Executive Officer ('the Executive Director') received the following taxable benefits:

	2017	*2016*
	GBP	*GBP*
J O S Bryce		
Car allowance	10,000	10,000
Private health insurance	1,212	1,212
Total	11,212	11,212

Annual bonus 2017

For the year under review, the Executive Director's bonus was awarded subject to challenging strategic targets. The precise weightings are considered by the Company to be commercially sensitive so are not specified in detail. The areas that have been considered were company performance and also performance improvement from the prior year, measured against the Company's financial and operational KPIs whilst also taking into account the current market conditions.

Annual bonus 2018

The criteria for the 2018 bonus has yet to be finalised by the Compensation Committee but is expected to follow a similar format to the current year metrics.

Long Term Incentive Plan

A long term incentive plan for the Executive Director and other key management personnel, with a total limit of up to 4% of the Company's issued share capital was approved at the Annual General Meeting on 26 June 2013. The awards for the years 2010 and 2012 are now fully exercised. There are still outstanding amounts under the 2014, 2015 and 2016 plans.

The plan "vests" after three years and the exercise period is five years subject to the employee remaining employed by the Company with the exception of the 2016 plan which "vests" after four years.

	Shares At 1 January 2017 No.	*Shares Granted in the year No.*	*Shares Exercised in the year No.*	*Shares At 31 December 2017 No.*	*Expiry date*	*Market price on date of award NOK*	*Interest vested in 2017 No.*	*Market price on vesting date NOK*
J Bryce (2014)	56,044	12,647	-	68,691	11 Nov 2019	98.50	68,691	38.30
J Bryce (2015)	-	79,422	-	79,422	18 Nov 2020	36.70	-	-
J Bryce (2016)	-	63,748	-	63,748	16 Nov 2021	28.20	-	-

There are no specific performance conditions associated with the award of synthetic shares.

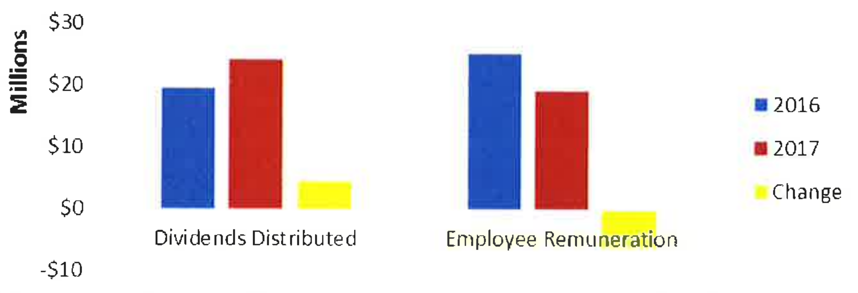
There are no other directors who have any interests in shares.

Directors' remuneration report

Information not subject to audit:

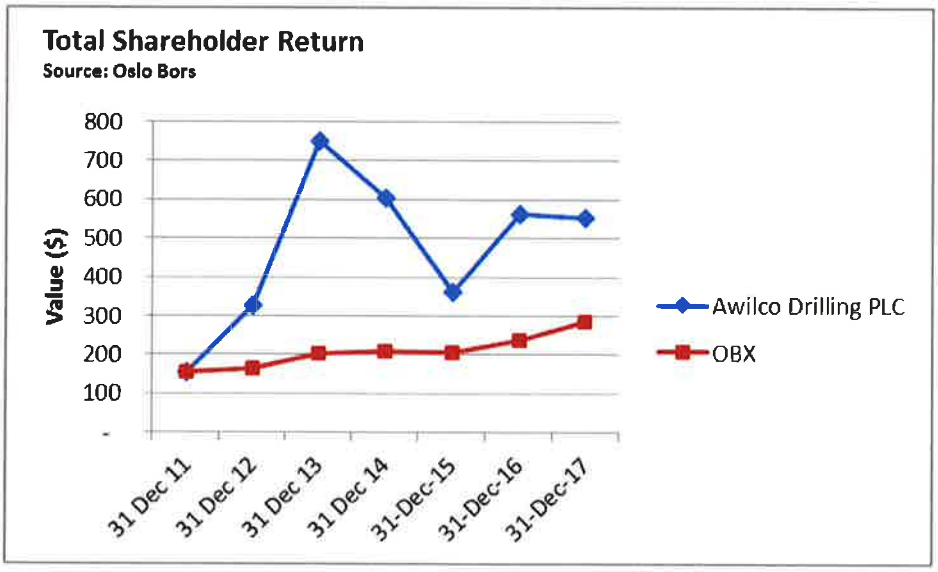
Relative importance of the spend on pay

The graph below shows the relative importance of the spend on pay (for all employees) compared with the returns distributed to shareholders:



Total shareholder return performance graph

The graph below shows the total shareholder return in terms of change in value of an initial investment of £100 on 10 June 2011 (and assuming dividends are re-invested) in a holding of the Company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the OBX (an index on the Oslo Bors stock exchange). This was selected as it represents a broad equity market index in which the Company is a constituent member. The graph is a reporting requirement; however the LTIP awards that are made to the Executive Director are not based on share performance.



Directors' remuneration report

Chief Executive Officer ('CEO') remuneration

Five year comparison

The table below summarises the Chief Executive Officer (the Executive Director)'s single total figure of remuneration, annual and long-term variable performance-related remuneration (and the percentage of the maximum opportunity that these represent) in relation to the past five years.

Year	Chief Executive Officer	Single total figure of remuneration	Annual variable element (actual award versus opportunity)	
		GBP	*GBP*	*%*
2017	J O S Bryce	350,062	50,000	19%
2016	J O S Bryce	647,750	78,440	30%
2015	J O S Bryce	370,022	69,960	26%
2014	J O S Bryce	2,196,775	159,000	60%
2013	J O S Bryce	964,483	180,751	75%

Comparison of CEO remuneration to employee remuneration

	2017	*2016*	*Change %*	*Employee remuneration change*
	GBP	*GBP*		
Salary and fees	265,000	265,000	0%	0%
Taxable benefits	11,212	11,212	0%	0%
Annual variable performance related remuneration	50,000	78,440	(36%)	19%
Total	326,212	354,652	%	
Single total figure of remuneration	350,062	647,750	%	

The above table shows the movement in remuneration for the Chief Executive Officer between the current and previous financial year compared with movement of the average remuneration (per head) for all Company employees.

Implementation of remuneration policy for following financial year

Base salaries

Following review of the Executive Director's base salary and considering current market conditions, the Committee decided there would be no change to the Executive Directors' salary effective from 1 April 2018.

Pension and benefits

The Executive Director participates in a defined contribution arrangement which the Company contributes a maximum of 9% of base salary. Additional benefits include private medical and dental insurance and company car allowance.

Directors' remuneration report

Implementation of remuneration policy for following financial year (continued)

Annual performance related remuneration

The maximum bonus opportunity for the Executive Director will remain unchanged at 100% of base salary. The bonus opportunity will be set by the Committee with targets aligned with creating shareholder value.

Statement of shareholder voting

The table below sets out the voting by the Company's shareholders on the resolution to approve the Directors' remuneration report at the AGM held on 7 June 2017.

	Total number of votes	% of votes cast
For	20,729,950	100.0%
Total votes cast	20,729,950	100.0%

The Compensation Committee is pleased to note that 100% of shareholders approved the 2016 Directors' remuneration report.

By order of the Board of Directors

Sigurd Thorvildsen
19 April 2018

Independent auditors' report

to the members of Awilco Drilling PLC

Opinion

In our opinion:

- Awilco Drilling plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Awilco Drilling plc which comprise:

Group	Parent company
Group statement of comprehensive income for the year ended 31 December 2017	Company Statement of financial position for the year ended 31 December 2017
Group statement of financial position for the year ended 31 December 2017	Company statement of changes in equity for the year ended 31 December 2017
Group statement of changes in equity for the year ended 31 December 2017	Company statement of cash flows for the year ended 31 December 2017
Group statement of cash flows for the year ended 31 December 2017	Notes 1 to 29 to the financial statements including a summary of significant accounting policies
Notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and; as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditors' report

to the members of Awilco Drilling PLC

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Impairment of drilling rigs
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further two components. • The components where we performed full or specific audit procedures accounted for 100% of adjusted profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of $3.6m which represents 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Key audit matter:	Impairment of drilling rigs
Description of key audit matter	The Group hold in their Statement of financial position two semi – submersible drilling rigs; WilHunter and WilPhoenix, with a carrying value of $167m following impairment of $20m and $25m respectively, as disclosed in note 15. Under IAS 36, the group is required to assess annually whether any impairment indicators exist at the year-end and if such conditions exist, an impairment assessment is required. Any resulting impairments will be reflected in the Statement of comprehensive income in the relevant period. The market conditions of the oil and gas sector, along with the fact that one semi-submersible drilling rig; WilHunter, which is currently in coldstack, are considered indicators of a likely impairment. Given the estimates and judgements involved in this assessment, there is a risk of improper valuation of the semi-submersible drilling rigs.
Our response	Our audit procedures over the valuation of the semi-submersible drilling rigs included: In addition to confirming the mathematical accuracy of the impairment model, we corroborated management's impairment assessment by verifying the methodology and assumptions, along with the value in use and suitability of sensitivities considered by management within, specifically: • Future contract day rates - we have reviewed historic day rates and industry trends, and noted that the day rates assumed are reflective of the current market outlook; • Long term growth rate – we compared the rates applied by management to available external rates; • Discount rates – we involved our valuations specialists in our evaluation of the discount rate to consider the appropriateness of the rates used; • Operating costs – we reviewed operating costs, which are in line with current and prior year expenditure. • Cash Generating Units (CGU) - we discussed with management the appropriateness of the interchangeability of the drilling rigs. determined that it was appropriate to assess each rig as a separate CGU; and • We have verified that the appropriate disclosures have been made in the consolidated financial statements.
Key observations to those charged with governance	The assessment is impacted by a number of factors and is sensitive to both future operating activities and discount rates. In our view the price and discount rate assumptions used by management are within reasonable ranges. Following the $45m impairment charge, we consider the carrying value of the semi-submersible drilling rigs to be reasonable and that appropriate disclosures are made in the financial statements.

Independent auditors' report

to the members of Awilco Drilling PLC

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group, changes in the business environment and other internal factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we selected four components (2016: six), which represent the principal business units within the Group.

Of the four components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining two components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's adjusted profit before tax, 100% (2016: 100%) of the Group's Revenue and 100% (2016: 100%) of the Group's Total assets.

	Full scope components		Specific scope components	
Financial year	2017	2016	2017	2016
% of Group's adjusted profit before tax	107%	1096%	-7%	-996%
% of Group's Revenue	100%	100%	0%	0%
% of Group's Total Assets	79%	73%	21%	27%

The audit scope of specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant testing for the Group.

Involvement with component teams

All work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

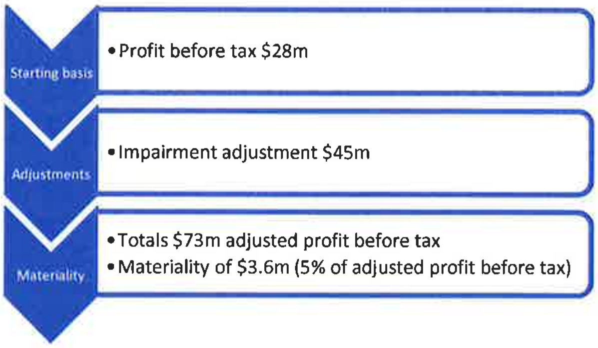
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Independent auditors' report

to the members of Awilco Drilling PLC

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined Group materiality to be based upon profit before tax and impairment charges.



We determined materiality for the Group to be $3.6 million (2016: $4.5 million), which is 5% of adjusted profit before tax (2016: 2% of Equity). We believe that adjusted profit before tax provides a measurement basis consistent with the underlying activities of the group which is deemed significant to the users of the financial statements.

We determined materiality for the Parent Company to be $2.8 million (2016: $3.1million), which is 2% (2016: 2%) of Equity.

During the course of our audit, we reassessed initial materiality and there has been no significant change in final materiality from our original assessment at planning.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be 75% (2016: 75%) of our planning materiality, namely $2.7m (2016: $3.4m). We have set performance materiality at this percentage based on the history of past misstatements and lack thereof, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $540k to $2.7m (2016: $14k to $2.3m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $180k (2016: $227k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent auditors' report

to the members of Awilco Drilling PLC

Other information

The other information comprises the information included in the annual report set out on pages 2 to 27, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Independent auditors' report

to the members of Awilco Drilling PLC

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and The Norwegian Code of Practice for Corporate Governance) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the Oslo Axess Stock Exchange, and those laws and regulations relating to health and safety and employee matters.
- We understood how Awilco Drilling Plc is complying with those frameworks by making enquiries of management. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee. We obtained the Code of Business conduct and employee handbook updated as at June 2017 which is provided to all onshore employees and those charged with governance which indicates a culture of honesty and ethical behaviour.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from the business to understand where it considered there was susceptibility to fraud. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; and enquiry of group management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company in 2010 to audit the financial statements for the period ending 31 December 2010 and subsequent financial periods. *We were appointed as auditors by the directors and signed an engagement letter on 3 November 2010.*

  The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ending 31 December 2010 to 31 December 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee

Ernst & Young LLP

Jamie Dixon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Aberdeen
19 April 2018

Notes:

1. The maintenance and integrity of the Awilco Drilling PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 US$000	2016 US$000
Revenue	5	131,731	72,472
Cost of sales		(43,794)	(52,492)
Impairment		(45,000)	-
Gross Profit		42,937	19,980
General and administrative expenses		(8,818)	(8,908)
Operating Profit	6	34,119	11,072
Finance income	9	792	631
Finance expense	10	(6,919)	(7,658)
Foreign exchange gain/(loss), net	11	941	(1,437)
Loss on forward contracts at fair value through profit and loss	28	(123)	(1,042)
Profit before taxation		28,810	1,566
Income tax (expense)/benefit	12	(643)	745
Profit for the year attributable to equity shareholders		28,167	2,311

There is no comprehensive income other than the results for the year.

Basic and diluted earnings per share (US$ per share)	13	0.94	0.08

Total comprehensive income for the year is attributable to the owners of the Company, as there is no minority interest.

Group statement of financial position

as at 31 December 2017

	Notes	2017 US$000	2016 US$000
Non-current assets			
Property, plant and equipment	15	178,808	238,868
Deferred tax	12	1,372	3,058
		180,180	241,926
Current assets			
Inventory		4,808	4,844
Trade and other receivables	18	24,073	24,482
Current tax		3,551	22,078
Cash and cash equivalents	19	119,286	70,070
		151,718	121,474
Total assets		331,898	363,400
Current liabilities			
Trade and other payables	20	10,441	11,281
Current tax payable		-	23,923
Borrowing	21	10,000	10,000
		20,441	45,204
Non-current liabilities			
Deferred tax	12	-	1,129
Borrowing	21	80,000	90,000
Other liabilities	20	248	-
		80,248	91,129
Total liabilities		100,689	136,333
Net Assets		231,209	227,067
Equity			
Called up share capital	24	304	304
Share premium account	24	129,837	129,837
Retained earnings		101,068	96,926
Total Shareholders' funds		231,209	227,067

Signed on behalf of the Board of Directors

Sigurd Thorvildsen
Director

Company statement of financial position

as at 31 December 2017

	Notes	2017 US$000	2016 US$000
Non-current assets			
Property, plant and equipment	15	534	601
Investment in subsidiaries	17	204	204
Amount due from subsidiary undertakings	25	106,417	172,354
Deferred tax		504	476
		107,659	173,635
Current assets			
Trade and other receivables	18	17,949	18,254
Cash and cash equivalents	19	118,990	69,651
		136,939	87,905
Total assets		244,598	261,540
Current liabilities			
Trade and other payables	20	6,988	6,357
Borrowing	21	10,000	10,000
		16,988	16,357
Non-current liabilities			
Other liabilities	20	248	-
Borrowing	21	80,000	90,000
		80,248	90,000
Total liabilities		97,236	106,357
Net assets		147,362	155,183
Equity			
Called up share capital	24	304	304
Share premium account	24	129,837	129,837
Retained earnings		17,221	25,042
Total Shareholders' funds		147,362	155,183

The profit recorded by the Company for the year was US$16.2 million (2016: US$37.9 million).

Signed on behalf of the Board of Directors

Sigurd Thorvildsen
Director

Group statement of changes in equity

for the year ended 31 December 2017

	Share Capital US$000	*Share premium US$000*	*Retained earnings US$000*	*Total equity US$000*
At 1 January 2016	304	129,837	114,135	244,276
Total comprehensive profit for the year	-	-	2,311	2,311
Dividends paid	-	-	(19,520)	(19,520)
At 31 December 2016	304	129,837	96,926	227,067
Total comprehensive profit for the year	-	-	28,167	28,167
Dividends paid	-	-	(24,025)	(24,025)
At 31 December 2017	304	129,837	101,068	231,209

Company statement of changes in equity

for the year ended 31 December 2017

	Share capital US$000	*Share premium US$000*	*Retained Earnings US$000*	*Total equity US$000*
At 1 January 2016	304	129,837	6,638	136,779
Total comprehensive profit for the year	-	-	37,924	37,924
Dividends paid	-	-	(19,520)	(19,520)
At 31 December 2016	304	129,837	25,042	155,183
Total comprehensive profit for the year	-	-	16,204	16,204
Dividends paid	-	-	(24,025)	(24,025)
At 31 December 2017	304	129,837	17,221	147,362

Group statement of cash flows

for the year ended 31 December 2017

	Notes	2017 US$000	2016 US$000
Operating activities			
Profit before tax		28,810	1,566
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation		15,686	15,579
Impairment		45,000	-
Net interest		6,126	7,027
Share based payment		301	32
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		101	(9,917)
Decrease/(increase) in inventory		36	171
Decrease/(increase) in prepayments and accrued revenue		307	(4,532)
(Decrease)/increase in trade and other payables		(714)	(12,302)
Interest paid		(7,097)	(7,798)
Interest received		792	631
Taxation paid		(5,481)	(6,013)
Net cash flow from operating activities		83,867	(15,556)
Investing activities			
Purchase of property, plant and equipment		(626)	(20,111)
Net cash flow used in investing activities		(626)	(20,111)
Financing activities			
Payment of dividends		(24,025)	(19,520)
Repayment of loans and bonds	22	(10,000)	(10,000)
Net cash flow used in financing activities		(34,025)	(29,520)
Net increase/(decrease) in cash and cash equivalents		49,216	(65,187)
Cash and cash equivalents at beginning of year		70,070	135,257
Cash and cash equivalents at end of year	19	119,286	70,070

Company statement of cash flows

for the year ended 31 December 2017

	Notes	2016 US$000	2016 US$000
Operating activities			
(Loss)/profit before tax		(5,676)	(10,172)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation		67	81
Net interest		6,126	7,027
Share based payment		301	32
Working capital adjustments:			
Decrease/(increase) in prepayments		205	1,218
Decrease/(increase) in trade receivables		87,890	(21,528)
Increase/(decrease) in trade and other payables		757	(5,505)
Interest paid		(7,098)	(7,798)
Interest received		792	631
Net cash flows (used in)/from/ in operating activities		83,364	(36,014)
Investing activities			
Purchase of property, plant and equipment		-	-
Net cash flows used in investing activities		-	-
Financing activities			
Dividends paid		(24,025)	(19,520)
Repayment of bonds	22	(10,000)	(10,000)
Net cash flows used in financing activities		(34,025)	(29,520)
Net increase/(decrease) in cash and cash equivalents		49,339	(65,534)
Cash and cash equivalents at beginning of year		69,651	135,185
Cash and cash equivalents at end of year	19	118,990	69,651

Notes to the financial statements

At 31 December 2017

1. General information

The Group and Company financial statements of Awilco Drilling PLC for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 19 April 2018. The Company is incorporated in the United Kingdom under the Companies Act 2006 and listed on the Oslo Axess stock exchange on 10 June 2011. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic report.

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2017 and applied in accordance with the provisions of the Companies Act 2006.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Going concern

Management has prepared cash flow forecasts for a period of 12 months from the balance sheet date. This demonstrates the ability of the Group to pay its debts as they fall due for at least the next 12 months. The Group has positive net assets in the Group statement of financial position.

On this basis, management has concluded that the Group will remain a going concern for at least 12 months from the day of approval of the financial statements and have therefore prepared the financial statements on a going concern basis.

3. Significant accounting estimates and assumptions

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are discussed below.

Useful economic lives

The Group's drilling rigs are being depreciated over their estimated useful lives of 20 years which commenced July 2011 on a straight line basis and assuming a US$15 million residual value each. These estimates and associated assumptions have been assessed as reasonable by management against industry standards following the refurbishment work performed on the drilling rigs.

Impairment

The carrying amount of the Group's rigs are reviewed at each balance sheet date to determine whether there is any indication of impairment, or more frequently if events or changes in circumstances indicate they might be impaired. The impairment test is based on management's best estimate of forecast future industry conditions and operations, future expected utilisation, contract rates, operating expenses and capital requirements of the rigs.

Notes to the financial statements

At 31 December 2017

4. Accounting policies

New standards and interpretations

The following standards and amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting period beginning on or after 1 January 2018 or later periods, but the Group has not early adopted them:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

It is not anticipated that the application of these standards and amendments will have any material impact on the Group's financial statements. In particular, the Group has evaluated the impact of IFRS 15 and has concluded this will not result in a significant change in the revenue recognised compared with the current standard.

The Group has also evaluated the impact of IFRS 16 and will finalise the assessment of the impact of adoption during 2018. The Group has commitments under operating leases in respect of land and buildings which will require to be recognised on the balance sheet. The Group plans to adopt the amendments to these standards when they become effective.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents are as defined above and net of outstanding bank overdrafts.

Notes to the financial statements

At 31 December 2017

4. Accounting policies (continued)

Property, plant and equipment

Rigs and equipment are stated at cost less depreciation and impairment losses. The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to its working condition. When it can be clearly demonstrated that subsequent expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of the assets beyond their originally assessed standard of performance, the expenditure is capitalised as an additional cost of the asset. A component of an asset with a cost that is significant in relation to the total cost of the asset is depreciated separately. Components with a similar depreciation method and useful life are grouped together.

Depreciation is calculated using the straight-line method for each asset, after taking into account the estimated residual value, over its expected useful lives as follows:

Semi-submersible rigs	–	20 years
Special periodical surveys	–	5 years
Other fixtures and equipment	–	3-5 years

Special periodical surveys are a five yearly thorough inspection and recertification of the hull and main machinery components of the rig, which also include class and flag state renewal and verification. The carrying values of plant and equipment are reviewed for impairment if carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Revenue recognition

Revenue derived from charter-hire contracts or other service contracts is recognized in the period that services are rendered at rates established in the relevant contracts. Certain contracts include mobilization fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognised as revenue over the firm contract period whereas the investment is depreciated over the remaining lifetime of the asset. In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fees are recognized as revenue over the firm contract period.

Cost of sales

Cost of sales includes rig operating costs and the depreciation cost for the two rigs.

Taxation

Current income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Deferred income tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exception:

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

At 31 December 2017

4. Accounting policies (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using United States Dollars (US$) "the functional currency". The Group financial statements are presented in US$, which is the Company's functional currency and presentation currency and all values are rounded to the nearest thousand dollars (US$000) except when otherwise indicated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the income statement. The principal foreign currencies used by the Group are Pounds Sterling (£ or GBP), Euro (€) and Norwegian Kroner (NOK).

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Leases

Leases, where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial asset not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but had transferred control of the asset, or
- The Company has transferred substantially all the risks and rewards of the asset.

Notes to the financial statements

At 31 December 2017

4. Accounting policies (continued)

Derecognition of financial assets (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

Inventories

Inventories of drilling equipment and spares for future integrated drilling service wells are stated at the lower of cost incurred and net realisable value. These inventory items include spare parts and supplies relating to the operation of the semi-submersible drilling rigs.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Loans

Loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Loans are subsequently measured at their amortised cost applying the effective interest rate method.

Finance charges on the loans are recognised as finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to the financial statements

At 31 December 2017

4. Accounting policies (continued)

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, to hedge certain foreign currency risks. The derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group does not designate any derivative financial instruments as hedges nor apply hedge accounting. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement.

Share based payment

The cost of cash settled transactions is measured initially at fair value at the grant date using a Black-Scholes model; further details are given in Note 27. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in profit or loss for the period.

Pension

The pension plan in place is a defined contribution plan. Pension contributions are charged to the income statement as an expense in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

5. Revenue

Revenue represents the invoiced amount of services provided after the deduction of rebates and retrospective discounts. All items are stated net of value added tax.

The Group only has one segment – providing drilling services in the UK. As a result no further segmental information has been provided.

Information about major customer

Annual revenue from one customer amounted to US$ 80 million arising from the provision of drilling services. (2016: US$ 72 million)

6. Operating profit

This is stated after charging/ (crediting)

	2017	*2016*
	US$000	*US$000*
Depreciation (Note 15)	15,686	15,579
Impairment (Note 15, 16)	45,000	-
Operating lease expense on land and buildings	321	356

Notes to the financial statements

At 31 December 2017

7. Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group.

	2017	*2016*
	US$000	*US$000*
Audit of the financial statements	98	93
Local statutory audits of subsidiaries	53	53
Tax services – compliance	36	23
Tax services - advisory	35	17
	222	186

8. Staff costs

	2017	*2017*	*2016*	*2016*
	Group US$000	*Company US$000*	*Group US$000*	*Company US$000*
Wages and salaries	14,893	3,195	19,879	3,513
Pension costs	788	115	1,004	273
Social security costs	2,177	646	2,634	743
Long term incentive plan	1,140	1,237	1,637	1,091
	18,998	5,193	25,154	5,620

The above excludes directors' remuneration. The Company makes contributions to a defined contribution scheme for all eligible employees up to a maximum of 9% of salary. Contributions are charged to the income statement as incurred.

The average monthly number of employees during the year was made up as follows:

	2017	*2016*
	No.	*No.*
Onshore, including management (Company)	24	27
Offshore	117	141
	141	168

9. Finance income

	2017	*2016*
	US$000	*US$000*
Bank interest	792	631
	792	631

Notes to the financial statements

At 31 December 2017

10. Finance expense

	2017 US$000	2016 US$000
Interest on loans and bonds	6,919	7,658
	6,919	7,658

11. Foreign exchange

	2017 US$000	2016 US$000
Gain on foreign exchange transactions	1,116	6
(Loss) on foreign exchange transactions	(175)	(1,443)
Net (loss)/gain on foreign exchange transactions	941	(1,437)

12. Income tax

(a) Income tax on profit on ordinary activities

	2017 US$000	2016 US$000
UK corporation tax on the profit for the year	-	-
Foreign tax on the profit for the year	80	127
Total current income tax	80	127
Amounts under/(over) provided in previous years	6	(945)
Total current income tax	86	(818)
Deferred income tax:		
Origination and reversal of temporary differences	3,371	73
Amounts under/(over) provided in previous years	(2,417)	-
Impact of changes in tax rates	(397)	-
Total deferred income tax credit	557	73
Income tax charge/(benefit) in the Group statement of comprehensive income	643	(745)

(b) Reconciliation of the total income tax charge

	2017 US$000	2016 US$000
Profit from continuing operations	28,810	1,566
Tax calculated at UK standard rate of corporation tax	5,546	313
Expenses not deductible for tax purposes	48	7
Effect of lower taxes on overseas earnings	80	124
Tax losses not realised	-	2,374
Utilisation of unrecognised deferred tax asset	(2,217)	-
Prior year adjustments	(2,417)	(945)
Changes in tax laws and rate	(397)	(2,448)
Other	-	(170)
Income tax charge in the Group statement of comprehensive income	643	(745)

Notes to the financial statements

At 31 December 2017

12. Income tax (continued)

The income tax expense above is computed at profit before taxation multiplied by the effective rate of corporation tax in the UK of 19.25% (2016: 20%)

(c) Deferred income tax

The deferred income tax included in the statement of financial position is as follows:

	2017 *US$000*	*2016* *US$000*
Deferred tax liability		
As at 1 January	(1,129)	-
Temporary differences relating to property plant and equipment	1,129	(1,129)
As at 31 December	-	(1,129)
Deferred tax asset		
As at 1 January	3,058	2,002
Temporary differences relating to property plant and equipment	(1,714)	-
Postponement of capital allowances	-	1,044
Share-based payment	28	12
As at 31 December	1,372	3,058
Net deferred tax asset	1,372	1,929

(d) Unrecognised tax losses

The Group has tax losses of US$14.3 million which arose in the UK (2016: US$ 15.1 million) that are available for offset against future taxable profits that are not part of the bareboat charter ring-fence arrangements. There are further taxable temporary differences relating to fixed assets of US$ 16 million. Deferred tax assets have not been recognised in respect of these losses or differences due to the uncertainty of future profits.

13. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017 *US$000*	*2016* *US$000*
Profit for the year attributable to equity share holders	28,167	2,311

	2017 *No.000*	*2016* *No.000*
Weighted average number of ordinary shares for basic earnings per share	30,032	30,032

Total earnings and weighted average number of shares outstanding during the year is the same as for diluted earnings per share.

Notes to the financial statements

At 31 December 2017

14. Dividends paid and proposed

	2017	*2016*
	US$000	*US$000*
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Total dividends per share for 2017 : US$ 0.80 (2016: US$ 0.65)	24,025	19,520
Dividends paid	24,025	19,520

15. Property, plant and equipment

Group	*Semi submersible drilling rigs*	*Special purpose surveys*	*Other fixtures and equipment*	*Total*
	US$000	*US$000*	*US$000*	*US$000*
Cost:				
At 1 January 2016	322,585	37,890	1,899	362,374
Additions	11,387	8,724	-	20,111
Disposals	-	(30,500)	-	(30,500)
At 31 December 2016	333,972	16,114	1,899	351,985
Additions	578	49	-	627
At 31 December 2017	334,550	16,163	1,899	352,612
Depreciation:				
At 1 January 2016	(99,371)	(27,450)	(1,217)	(128,038)
Provided	(10,890)	(4,608)	(81)	(15,579)
Disposals	-	30,500	-	30,500
At 31 December 2016	(110,261)	(1,558)	(1,298)	(113,117)
Provided	(12,502)	(3,117)	(67)	(15,686)
Impairment	(45,000)	-	-	(45,000)
At 31 December 2017	(167,763)	(4,675)	(1,365)	(173,803)
Net book value:				
At 31 December 2017	166,787	11,488	534	178,808
At 31 December 2016	223,711	14,556	601	238,868

Notes to the financial statements

At 31 December 2017

15. Property, plant and equipment (continued)

Company	*Office Equipment US$000*	*Other fixtures and equipment US$000*	*Total US$000*
Cost:			
At 1 January 2016	1,207	691	1,898
Additions	-	-	-
At 31 December 2016	1,207	691	1,898
Additions	-	-	-
Transfer	(64)	52	(12)
At 31 December 2017	1,143	743	1,886
Depreciation:			
At 1 January 2016	(566)	(650)	(1,216)
Provided	(44)	(37)	(81)
At 31 December 2016	(610)	(687)	(1,297)
Provided	(44)	(23)	(67)
Transfer	33	(21)	12
At 31 December 2017	(620)	(732)	(1,352)
Net book value:			
At 31 December 2017	523	11	534
At 31 December 2016	597	4	601

16. Impairment

The Group has recognised US$ 45 million (2016 : nil) as an impairment loss.

A value in use assessment has been performed which resulted in a recoverable amount of US$ 209.1 million for both rigs. Due to the erosion of the contract backlog and the continued weakness of the UK and global drilling market an impairment adjustment was required. This calculation was based on management's best estimate of forecast future industry conditions and operations, future expected utilisation, contract rates, opex and capital requirements of the rigs.

The analysis has been prepared on both rigs separately, as due to the cold stack status of the WilHunter, the cash inflows are forecast as being generated independently of each other. The post-tax discount rate used is 10.6%.

The assumptions used are subject to significant judgement and there is a certain amount of uncertainty to the outcome of these assumptions. Due to this uncertainty, the Group has performed a sensitivity analysis of the main assumptions for the rigs as follows:

An increase/decrease in the post-tax discount rate of 1% would reduce/increase the value in use by US$ 10.9 million and US$ 11.9 million respectively

An increase/decrease of 5% in revenue would increase/reduce the value in use by US$ 22.6 million.

An increase/decrease of 2% in utilisation would increase/reduce the value in use by US$ 9.7 million.

An increase/decrease of 6% and 10% in opex costs would decrease/increase the value in use by US$ 15.5 million and US$ 25.9 million respectively.

Notes to the financial statements

At 31 December 2017

17. Investments

	Company
	US$000
Company shares in subsidiary undertakings	
At incorporation	204
At 31 December 2016 and 2017	204

At incorporation, the Company acquired WilPhoenix (UK) Ltd and WilHunter (UK) Ltd as newly incorporated companies. During 2011 the Company acquired WilPhoenix (Malta) Limited, WilHunter (Malta) Limited, both incorporated in Malta. The registered address is 3 Macerata Street, Malta. The Company also acquired Awilco Drilling Pte. Ltd. incorporated in Singapore. The registered address is 8 Wilkie Road, Singapore. All were acquired as newly incorporated companies for a total of US$5.

18. Trade and other receivables

	Group 2017 US$000	*Company 2017 US$000*	*Group 2016 US$000*	*Company 2016 US$000*
Trade receivables	17,168	17,168	17,269	17,269
Prepayments and other receivables	1,570	637	1,109	854
Accrued revenue	5,191	-	5,971	-
VAT receivable	144	144	133	131
	24,073	17,949	24,482	18,254

As at 31 December, the analysis of ageing of trade receivables is as follows:

Group

		Neither past due nor impaired	*Past due but not impaired*	
	Total	*<30 days*	*30-60 days*	*60-90 days*
	US$000	*US$000*	*US$000*	*US$000*
2017	17,168	6,531	10,638	(1)
2016	17,269	17,275	(5)	(1)

Notes to the financial statements

At 31 December 2017

18. Trade and other receivables (continued)

Company

	Total	Neither past due nor impaired	Past due but not impaired	
		<30 days	30-60 days	60-90 days
	US$000	US$000	US$000	US$000
2017	17,168	6,531	10,638	(1)
2016	17,269	17,275	(5)	(1)

19. Cash and short-term deposits

	Group 2017 US$000	Company 2017 US$000	Group 2016 US$000	Company 2016 US$000
Cash at bank and in hand	119,286	118,990	70,070	69,651

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company has restricted cash of US$1 million (2016 : US$ 2.3million) in relation to margin security for foreign exchange forward contracts (see Note 26).

20. Trade and other payables

	Group 2017 US$000	Company 2017 US$000	Group 2016 US$000	Company 2016 US$000
Trade and other payables:				
Current	9,006	5,553	9,667	4,743
Interest payable	1,435	1,435	1,614	1,614
	10,441	6,988	11,281	6,357
Non-current	248	248	-	-

21. Borrowings

	Group & Company 2017 US$000	Group & Company 2016 US$000
Current borrowings:		
Bond (see below)	10,000	10,000
Total current borrowings	10,000	10,000
Non-current borrowings:		
Bond (see below)	80,000	90,000
Total non-current borrowings	80,000	90,000
Total borrowings	90,000	100,000

Notes to the financial statements

At 31 December 2017

21. Borrowings (continued)

Secured bond

During April 2014, the Company successfully issued a US$125 million secured bond in the Norwegian bond market with maturity in April 2019. The purpose of the bond was to refinance the existing Transocean seller's credit debt and for general corporate purposes. Settlement date of the bond was 9 April 2014 and it was issued with an interest rate of 7%. Repayment terms are US$5 million bi-annually with a final bullet repayment of US$80 million in April 2019.

	Group & Company 2017 US$000	*Group & Company 2016 US$000*
Bond and loans repayment:		
Within one year	10,000	10,000
In two to five years	80,000	90,000
	90,000	100,000

22. Changes in liabilities arising from financing activities

The table below sets out an analysis of the changes in liabilities from financing activities:

	2016	*Cash flows*	*Non Cash Changes*			*2017*
	US$000	*US$000*	*Acquisition*	*FX movement*	*Fair Value Changes*	*US$000*
Long Term Borrowings	90,000	(10,000)	-	-	-	80,000

The cash flow from financing activities of US$ 10million in 2017 represents the total net cash from financing activities in the consolidated statement of cash flows of US$34.0million excluding dividends paid of US$ 24.0million.

23. Commitments and contingencies

Obligations under operating leases

At 31 December 2017 the Group had future minimum lease payments under non-cancellable operating leases as set out below:

	Group 2017 US$000	*Company 2017 US$000*	*Group 2016 US$000*	*Company 2016 US$000*
Payments due under operating lease for land and buildings:				
Over five years	2,270	2,270	2,378	2,378
	2,270	2,270	2,378	2,378

Capital commitments

There were capital commitments of US$1.8 million at 31 December 2017 (2016: US$3.9 million).

Notes to the financial statements

At 31 December 2017

24. Share capital

Group and Company

Authorised	*2017 No.000*	*2016 No.000*
Ordinary shares of £0.0065 each	30,032	30,032

Group and Company

Allotted called up and fully paid	*No.000*	*US$000*
At 1 January 2016	30,032	304
At 31 December 2016 and 2017	30,032	304

Group and Company

	Share premium account US$000
At 1 January 2016	129,837
At 31 December 2016 and 2017	129,837

25. Related party transactions

Group

The financial statements include the financial statements of the Group and the subsidiaries listed below:

Name	*Country of Incorporation*	*% Interest*
WilPhoenix (UK) Ltd	United Kingdom	100
WilHunter (UK) Ltd	United Kingdom	100
WilPhoenix (Malta) Ltd	Malta	100
WilHunter (Malta) Ltd	Malta	100
Awilco Drilling Pte. Ltd.	Singapore	100

During the year the Group entered into transactions, in the ordinary course of business, with Awilhelmsen Offshore AS, which is a major shareholder through its subsidiaries.

Notes to the financial statements

At 31 December 2017

25. Related party transactions (continued)

Transactions entered into and trading balances outstanding at 31 December 2017 with Awilhelmsen AS and its subsidiaries are as follows:

	2017	*2016*
	US$000	*US$000*
Purchase of management services	1,908	1,166
Share based payment	(64)	57
Amounts owed to Awilhelmsen AS and its subsidiaries	(208)	(81)

Sales and purchases between related parties are made at normal market prices. Outstanding balances are unsecured, interest free and cash settlement terms vary between 30 and 90 days. The Company has not provided or benefitted from any guarantees for any related party receivables or payables. The Company has not made any provision for doubtful debts relating to amounts owed by related parties.

Directors and other key management personnel

The remuneration of directors and other key management personnel of the Group is as follows

	2017	*2016*
	US$000	*US$000*
Short-term employee benefits	1,697	1,668
Share-based payment	1,261	682
Other long-term benefits	107	96

Included in the short-term employee benefits are director's emoluments of GBP 460,000 (2016: GBP 460,000). Six directors received remuneration in respect of their services to the Company during the year (2016: six). The highest paid director was Jon Bryce – please refer to the Directors' remuneration report on page 23 for further details.

Company

The Company entered into the following transactions and had the following balances with its wholly owned subsidiaries

Notes to the financial statements

At 31 December 2017

25. Related party transactions (continued)

	2017 *US$000*	*2016* *US$000*
Transactions:		
Amounts invoiced to WilPhoenix (UK) Ltd in respect of services provided to the company	37,195	46,283
Amounts invoiced on behalf of WilPhoenix (UK) Ltd	(132,717)	(66,708)
Amounts invoiced to WilHunter (UK) Ltd in respect of services provided to the company	1,687	16,350
Invoiced to WilHunter (UK) Ltd	-	-
Amounts invoiced on behalf of WilHunter (UK) Ltd	-	(15)
Amounts invoiced to WilPhoenix (Malta) Ltd in respect of services provided to the company	(20)	30
Amounts invoiced to WilHunter (Malta) Ltd in respect of services provided to the company	(19)	30
Invoiced to WilHunter (Malta) Ltd		-
Invoiced to Awilco Drilling Pte. Ltd.	195	-
Transfer of funds to/(from) Awilco Drilling Pte. Ltd.	(328)	1,633
Taxation paid on behalf of subsidiaries	27,333	54,093
Dividends received from WilPhoenix (Malta) Ltd	236	-
Dividends received from WilHunter (Malta) Ltd	501	8,000
Issue of intercompany loan to WilHunter (Malta) Ltd	-	-
	(65,937)	59,696

Balance:		
Amounts payable to WilPhoenix (UK) Ltd	(306,583)	(212,502)
Amounts payable to WilHunter (UK) Ltd	(179,245)	(180,932)
Amounts receivable from WilPhoenix (Malta) Ltd	278,541	278,325
Amounts receivable from WilHunter (Malta) Ltd	308,621	282,371
Amounts receivable from Awilco Drilling Pte. Ltd.	5,083	5,092
	106,417	172,354

Entity with significant influence over the Group

Awilhelmsen AS, owns 37.6% of the ordinary shares in Awilco Drilling PLC.

Notes to the financial statements

At 31 December 2017

26. Capital management, financial risk management objectives and policies

The Group's and the Company's principal financial liabilities comprise loans, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

Management has assessed the fair values of the financial instruments are generally approximate to the carrying values except foreign exchange contracts which are carried at fair value.

The Group and the Company are exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises foreign currency risk. Financial instruments affected by market risk are trade payables and accruals.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's and Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's and Company's operating activities (when expenses are denominated in a different currency from the Company's functional currency).

The Group manages its foreign currency risk by holding cash in the foreign currency required to settle foreign current liabilities, unless the Group has insufficient cash resources available, in which case, it enters into hedging transactions for significant foreign currency commitments.

At the balance sheet date, the Group held GBP1.7 million in trade and other payables (2016: GBP1.4 million). A 5% strengthening or weakening of US$ to GBP would have an effect of US$ 0.1 million on the Group 2017 result (2016: US$0.1 million). The Group has no other material currency exposures.

Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables). The Company has credit risk due to its receivables from subsidiary undertakings and from external clients.

Management assess the credit rating of new and existing clients and determine if any action is required to secure the financial security in respect of work performed.

Liquidity risk

The Group's objective is to maintain sufficient liquidity in order to support the needs of the business and meet the repayments of the debt and commitments as they fall due. In order to achieve this, the Group also has the prospect of issuing new equity or entering into new borrowing arrangements.

Notes to the financial statements

At 31 December 2017

26. Capital management, financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Group	*Less than 3 months*	*3 to 12 months*	*1-5 years*	*Total*
Interest bearing loans	-	15,211	98,925	114,136
Trade and other payables	8,884	2,398	-	11,281
At 31 December 2016	8,884	17,609	98,925	125,417
Interest bearing loans	-	11,715	85,775	97,490
Trade and other payables	7,884	2,557	248	10,689
At 31 December 2017	7,884	14,272	86,023	108,179

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

Company	*Less than 3 months*	*3 to 12 months*	*1-5 years*	*Total*
Interest bearing loans	-	15,211	98,925	114,136
Trade and other payables	3,932	811	-	4,743
At 31 December 2016	3,932	16,022	98,925	118,879
Interest bearing loans	-	11,715	85,775	97,490
Trade and other payables	4,850	703	248	5,801
At 31 December 2017	4,850	12,418	86,023	103,291

Fair value of financial assets and financial liabilities

The table below summaries the carrying amounts and fair values of the Group's financial assets and liabilities.

Group	*2017 US$000 Book Value*	*2016 US$000 Book Value*	*2017 US$000 Fair Value*	*2016 US$000 Fair Value*
Financial assets				
Loans and receivables				
Trade receivables	17,168	17,269	17,168	17,269
Prepayment and other receivables	1,570	1,109	1,570	1,109
Accrued revenue	5,191	5,971	5,191	5,971
VAT receivable	144	133	144	133
Current tax receivable	227	22,078	227	22,078
Cash and cash equivalents	119,286	70,070	119,286	70,070
Total financial assets	143,586	116,630	143,586	116,630

Notes to the financial statements

At 31 December 2017

26. Capital management, financial risk management objectives and policies (continued)

Fair value of financial assets and financial liabilities (continued)

	2017 US$000 Book Value	2016 US$000 Book Value	2017 US$000 Fair Value	2016 US$000 Fair Value
Financial liabilities				
Interest bearing debt				
Non-current portion	80,000	90,000	80,828	76,545
Current portion	10,000	10,000	10,104	8,505
Trade and other payables	9,254	9,667	9,254	9,667
Interest payable	1,435	1,614	1,435	1,614
Current tax payable	4,170	23,923	4,170	23,923
Fair value through profit and loss				
Foreign exchange contracts	123	1,042	123	1,042
Total financial liabilities	104,982	136,246	105,914	121,296

The table below summaries the carrying amounts and fair values of the Company's financial assets and liabilities.

Company	2017 US$000 Book Value	2016 US$000 Book Value	2017 US$000 Fair Value	2016 US$000 Fair Value
Financial assets				
Loans and receivables				
Trade receivables	17,168	17,269	17,168	17,269
Prepayment and other receivables	637	854	637	854
VAT receivable	144	131	144	131
Cash and cash equivalents	118,990	69,651	118,990	69,651
Total financial assets	136,939	87,905	136,939	87,905

	2017 US$000 Book Value	2016 US$000 Book Value	2017 US$000 Fair Value	2016 US$000 Fair Value
Financial liabilities				
Trade and other payables	5,801	4,743	5,801	4,743
Interest payable	1,435	1,614	1,435	1,614
Interest bearing debt				
Non-current portion	80,000	90,000	80,828	76,545
Current portion	10,000	10,000	10,104	8,505
Fair value through profit and loss				
Foreign exchange contracts	123	1,042	123	1,042
Total financial liabilities	97,359	107,399	98,291	92,449

Notes to the financial statements

At 31 December 2017

26. Capital management, financial risk management objectives and policies (continued)

Capital management

Capital includes called up share capital, share premium and retained earnings.

The Company's intention is to pay a regular dividend in support of its main objective to maximise returns to shareholders. All of the Company's free cash flow is intended to be distributed subject to maintaining a robust cash buffer to support operational working capital requirements and planned capital expenditure.

The Company's capital is monitored at a Group level. The Group monitors capital using a gearing ratio, which is net debt divided by total shareholders' funds plus net debt. The Group includes within net debt, bonds and loans less cash and cash equivalents.

	Group 2017 US$000	*Group 2016 US$000*
Borrowing (note 21)	90,000	100,000
Cash and cash equivalents (note 19)	(119,286)	(70,070)
Net debt	(29,286)	29,930
Capital	231,209	227,067
Capital and net debt	201,923	256,997
Gearing ratio	(15)%	12%

27. Share-based payments

Long Term Incentive Plan

A long term incentive plan for the Executive Director and other key management personnel, with a total limit of up to 4% of the Company's issued share capital was approved at the Annual General Meeting on 26 June 2013. The awards for the years 2010 and 2012 are now fully exercised. There are still outstanding amounts under the 2014, 2015 and 2016 plans.

The plan "vests" after three years and the exercise period is five years subject to the employee remaining employed by the Company with the exception of the 2016 plan which "vests" after four years.

All share options and awards are cash settled.

Notes to the financial statements

At 31 December 2017

27. Share-based payments (continued)

The following table list the inputs to the model used for these valuations (share prices are in NOK).

Group and Company	*2017*				*2016*			
	2013 Plans	*2014 Plans*	*2015 Plans*	*2016 Plans*	*2010 Plans*	*2012 Plans*	*2013 Plans*	*2014 Plans*
Exercise price	-	-	-	-	29.00	-	-	-
Share price	32.30	32.30	32.30	32.30	40.80	40.80	40.80	40.80
Expected life	-	-	0.88 years	2.88 years	0.55 years	-	-	0.46 years
Volatility	-	-	44%	49%	57%	-	-	30%
Risk free interest rate	-	-	0.46%	0.77%	0.78%	-	-	0.31%
Model used				Black-Scholes				

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options and awards during the year.

Group	*2017 No.*	*2017 WAEP (NOK)*	*2016 No.*	*2016 WAEP (NOK)*
Outstanding as at 1 January	632,827	1.86	1,001,610	2.52
Granted during the year	601,172	-	167,910	2.23
Exercised during the year	(290,321)	-	(485,329)	3.56
Forfeited during the year	(3,647)	-	(51,413)	-
Adjusted during the year	-	-	49	-
Outstanding at 31 December	940,031	-	632,827	1.86
Exercisable at 31 December	462,450	-	349,965	3.36

Company	*2017 No.*	*2017 WAEP (NOK)*	*2016 No.*	*2016 WAEP (NOK)*
Outstanding as at 1 January	397,329	2.96	712,161	3.55
Granted during the year	554,816	-	114,864	3.26
Exercised during the year	(172,849)	-	(417,833)	4.13
Forfeited during the year	(3,647)	-	(11,912)	-
Adjusted during the year	-	-	49	-
Outstanding at 31 December	775,649	-	397,329	2.96
Exercisable at 31 December	388,492	-	149,046	7.88

Notes to the financial statements

At 31 December 2017

27. Share-based payments (continued)

The estimated fair value of the granted share options and awards are reached on the basis of the "Black-Scholes option pricing model". The model is applied utilising a risk free discount rate and also taking into account the terms and conditions upon which the options and awards are granted as well as the performance conditions that are required to be satisfied before vesting. The weighted average remaining contractual life at 31 December 2017 is 0.04 years. The Group total share option and award charge amounted to US$0.3 million (2016: US$ 0.1 million). The carrying amount of the liability relating to the cash-settled options at 31 December 2017 is US$ 3.0 million (2016: US$2.7 million).

The Company only total share option and award charge amounted to US$0.8 million (2016: US$0.3 million credit). The carrying amount of the liability relating to the cash-settled options at 31 December 2017 is US$ 2.2 million (2016: $1.7 million).

The table below summaries the carrying amount of the liability

Group	*Less than 3 months*	*3 to 12 months*	*1 – 5 years*	*Total*
Share options and awards	2,069	703	248	3,020
At 31 December 2017	2,069	703	248	3,020

Company	*Less than 3 months*	*3 to 12 months*	*1 – 5 years*	*Total*
Share options and awards	1,299	703	248	2,250
At 31 December 2017	1,299	703	248	2,250

28. Derivative Financial Instruments

	2017 US$000	*2016 US$000*
Foreign exchange contracts	(123)	(1,042)

The foreign currency forwards were entered into in order to minimise the Company's exposure to losses resulting from fluctuations in foreign currency exchange rates. The fair value of the forward exchange contracts, as shown above, is recorded as other income in the statement of comprehensive income and classified as other receivables in the statement of financial position. Forward currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturities of the contracts.

Fair value hierarchy

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

29. Subsequent events

During February 2018, the Group raised new equity of US$ 65million through the subscription of 17,600,000 new shares at a subscription price of NOK 29 per share. The completion of the private placement was approved at the EGM which was held on 23 March 2018.

During March 2018, the Group signed a contract with Keppel FELS shipyard in Singapore for the building of one new CS 60 ECO MW semi-submersible drilling rig. The cost for the rig delivered from the yard in Singapore is approximately USD 425 million. Delivery is planned for late Q1 2021. In connection with

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At 31 December 2017

29. Subsequent events (continued)

entering into the contract for such newbuilding, the Group has also negotiated options to build up to three additional rigs of similar design, such options to be independent of each other.