SEVANDrilling

Annual Report and Financial Statements

For the Year Ended December 31, 2016

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BOARD OF DIRECTORS REPORT

Sevan Drilling Limited (the "Company" and, together with its subsidiaries, the "Group" or “Sevan”) is an international offshore drilling contractor specializing in operations in the ultra deep-water segment. The Group owns three ultra deep-water cylindrical drilling units *Sevan Driller, Sevan Brasil*, and *Sevan Louisiana*. Sevan also has one additional rig constructed and ready for delivery, *Sevan Developer*.

Sevan generated operating revenues of USD 237.3 million and a net loss for the period of USD 93.0 million. Excluding non-cash asset impairments, the result for the year was a net loss of USD 55.5 million.

STRUCTURE

Sevan Drilling Limited is the parent company of the Sevan Drilling Group. The Company is a Bermudan company with management services provided through Sevan Drilling Management AS at Drammensveien 288, Oslo, Norway.

The Company's shares are listed on the Oslo Stock Exchange and trades under the Group's symbol "SEVDR".

The Company's website is: www.sevandrilling.com.

OVERVIEW

The Group has entered management service agreements with the Seadrill Group for the operations of its drilling rigs and has regional representation in Rio de Janeiro, Brazil, Houston, USA, Singapore and Dubai. The Company has operating subsidiaries in these countries, except Dubai, and subsidiaries in Bermuda, Hungary and United Kingdom.

Sevan Drilling Management AS provides management support to all entities in the Group. The Group's rigs are managed by subsidiaries of Seadrill Limited ("Seadrill") in Brazil, the United States and Dubai. The terms for these assignments are set out in written management agreements.

The Group also has a marketing agreement with Seadrill Management Ltd. ("Seadrill Management") pursuant to which the Seadrill Group is responsible for the marketing of the Group's fleet. Lastly, Seadrill Management provides general administrative support to the Group.

The Group currently has two drilling rigs under contract which operate in Brazil and U.S. Gulf of Mexico. The third is currently idle in Singapore and continues to be marketed.

The fourth rig is on order with Cosco (Qidong) Offshore Co. Limited (“Cosco”). The rig is ready for delivery and quayside at the Cosco shipyard in China. On October 14, 2016, the delivery deferral agreement for the *Sevan Developer* was extended to April 15, 2017. *Sevan Developer* continues to be marketed for an acceptable drilling contract where financing can be obtained to allow delivery.

On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

VISION AND VALUES

The Company's vision is to take advantage of its unique cylindrical design for offshore drilling rigs and capture a share of the global market for offshore drilling in the ultra deep-water segment. This vision shall be achieved by maintaining a high operational and ethical standards in all of the Group's relations with customers, suppliers and employees.

The Board has defined the Company's values and has adopted ethical guidelines, which apply to all employees in the Group. The Company's vision and values are set out in further detail on the Company's website. Ethical guidelines applicable to all the Group’s employees can also be found there.

OPERATIONS REVIEW

The Group's fleet currently consists of four drilling rigs; *Sevan Driller*, *Sevan Brasil, Sevan Louisiana* and *Sevan Developer.*

The "*Sevan Driller*" operated in Brazil during the year under a well intervention contract with Shell do Brasil ("Shell") for three months, which concluded in July 2016. The *Sevan Driller* is in Singapore where it continues to be actively marketed. If acceptable employment cannot be secured, the rig will remain idle in the region. Technical utilization for the *Sevan Driller* while on contract with Shell was 99.6%. Economical utilization for the same period was at 99.7%.

The Group's second rig "*Sevan Brasil*" continued operations in Brazil under a six-year contract with Petrobras, which commenced in July 2012. The Company completed commercial negotiations with Petrobras in March 2016, when the *Sevan Brasil* contract dayrate was reduced to USD 250,000 per day effective 26 February 2016 through the remaining term of the contract ending July 2018. A portion of the dayrate continues to be denominated in Brazilian Reais. Technical utilization for the rig during the year was at 97.4%. Economical utilization was at 95.5%.

The Group's third rig "*Sevan Louisiana*" continued operations in the U.S. Gulf of Mexico under a three-year contract with LLOG Bluewater Holdings LLC ("LLOG"), which commenced in May 2014. Technical utilization for the rig during the year was at 97.7%. Economical utilization was at 97.1%.

The fleet's technical utilization has improved significantly in 2016 at 98.2% (2015: 93.6%).

At April 20, 2017, the fleet's contracted backlog revenue was USD 124.7 million.

The Group has a fourth rig "*Sevan Developer*" on order from Cosco pursuant to an all-in, turn-key construction contract at a price of USD 526 million. The contractual delivery date was April 30, 2014. The Company has entered into a delivery deferral agreement with Cosco that extends the delivery period to October 2017.

Under the deferral agreement, the *Sevan Developer* will remain in China at the Cosco shipyard at their costs and Sevan provides management services to support the shipyard during the deferral period. Sevan has the ability to take delivery should an acceptable drilling contract be secured that can support financing of the final delivery installment. If no contract has been secured and no mutual agreement reached to extend further, the contract will terminate at the end of the deferral period. The Group will receive, in such case, a refund of the remaining initial investment plus associated costs. Cosco has provided guarantees from commercial banks for its liability to repay the Group, effective through the maximum 36-month deferred delivery period.

During the year the second and third deferral options were exercised, extending the deferral period to April 15, 2017. Cosco refunded USD 52.6 million in two installments of USD 26.3 million. Upon exercising the third deferral option the final delivery installment was amended to USD 499.7 million, representing 95% of the contract price.

On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

Sevan Drilling ASA, the former parent of the Group, has been accused of breaches of Sections 276 (a) and 276 (b) of the Norwegian Criminal Code in respect of payments made in connection with the performance during 2012 to 2015 of drilling contracts originally awarded by Petrobras to subsidiaries of Sevan Marine ASA in the period between 2005-2008, which was prior to the separation from the Sevan Marine Group and subsequent listing in 2011. In connection with the accusation, The Norwegian Authority for Investigation and Prosecution of Economic and Environmental Crime ("ØKOKRIM") performed a search and seizure exercise in the Company's offices.

The Company is co-operating with the authorities in identifying and making available all documents, which the authorities consider relevant. Reference is made to Note 20 "Commitments & Contingencies" of the financial statements for further details.

The Group remains committed to the highest ethical standards and continues to cooperate with authorities in all relevant jurisdictions.

FINANCIAL REVIEW

Statement of Profit or Loss

The Group's operating revenue in 2016 was USD 237.3 million (2015: USD 366.8 million). The decrease in revenue is primarily due to the *Sevan Driller* operating for three months on a well service program at a lower day rate and being idle for nine months while being operational for eleven months in 2015. The *Sevan Brasil* operated at a reduced day rate for ten months of 2016.

Total operating expenses were USD 253.9 million (2015: USD 450.4 million). Vessel operating expenses decreased by USD 33.1 million, primarily due to lower operating costs during the idle time on the *Sevan Driller* in addition to continued cost savings across the fleet. General and administrative costs decreased by USD 1.7 million due to additional corporate activities part of which are reflected through higher management service fees and costs from external service providers. Depreciation and amortization was USD 70.4 million (2015: USD 73.9 million), the decrease was driven by the impairment recognized in Q3 2016.

A non-cash asset impairment of USD 37.5 million was recognized in Q3 2016 (2015: USD 196.5 million). The impairment was a result of lower value-in-use estimates for the *Sevan Driller, Sevan Brasil* and *Sevan Louisiana* compared to their carrying values due to the continued decline in demand in the ultra deep-water drilling market and the time line for a projected recovery thereof.

Net financial items in 2016 amounted to USD 69.0 million (2015: USD 67.3 million). Interest expenses on the senior secured credit facility increased due to the rising LIBOR rate in 2016.

Tax expense in 2016 was USD 7.4 million (2015: USD 0.9 million) driven by higher income in U.S. Gulf of Mexico.

The Group incurred a net loss of USD 93.0 million (2015: USD 151.8 million).

Balance sheet

As at December 31, 2016 total assets amounted to USD 1,555.1 million (2015: USD 1,753.7 million).

Drilling rigs amounted to USD 1,411.1 million (2015: USD 1,566.1 million). Additions in the period totaled USD 10.6 million. Two deferral options were exercised on the *Sevan Developer* during 2016, resulting in total yard refunds of USD 52.6 million.

The non-cash asset impairment of USD 37.5 million was recognized in the year in respect of *Sevan Driller, Sevan Brasil* and *Sevan Louisiana.* Impairments arose due to the significant decline in demand in the ultra deep-water drilling market, the time line for a projected recovery thereof, and subsequent changes in contracting status. The carrying amounts of the *Sevan Driller, Sevan Brasil* and *Sevan Louisiana* have been reduced to their estimated recoverable values. Accordingly, the *Sevan Driller* was impaired by USD 9.6 million, *Sevan Brasil* by USD 2.1 million and *Sevan Louisiana* USD 25.8 million.

For a further description of significant accounting estimates and judgments see Note 2 "Accounting Estimates and Judgments" to the Consolidated Financial Statements.

Net interest bearing debt totaled USD 1,120.2 million (2015: USD 1,242.3 million). The decrease is primarily caused by repayments of principal under the Group's senior secured credit facility, USD 140.0 million, amortization of financing fees, USD 6.2 million, and repayment of the revolving credit facility (“RCF”), USD 70.0 million. This is offset by USD 85.0 million of draw-downs of the RCF. The Group's RCF is made available by its majority shareholder, Seadrill, in the amount of USD 300.0 million, of which USD 115.0 million is undrawn at year end.

Cash flows

Cash and cash equivalent balances totaled USD 26.0 million (2015: USD 42.4 million). The Group used cash generated from its operations and the drawings made under the RCF to fund investment and financing activities throughout 2016.

Cash flow generated from operating activities during 2016 USD 54.9 million (2015: USD 85.1 million) was negatively impacted by a decrease in operating income offset by a favorable change in working capital.

Cash flow generated by investing activities in 2016 was USD 56.5 million (2015: USD 10.5 million). This was primarily a result of USD 57.7 million in proceeds from the exercising of the deferral options for the *Sevan Developer,* offset by capital expenditures of USD 1.2 million.

Net cash used in financing activities during 2016 was USD 128.3 million (2015: USD 85.0 million). The increase is attributable to higher repayments in the year offset by the further drawdown on the RCF facility.

RELATIONSHIP WITH SEADRILL

Seadrill owns 50.11% of the shares in the Company and is thus our parent company from a corporate law point of view. Seadrill is represented on the Board through Mr. Per Wullf, Chief Executive Officer of Seadrill Management. Financial reporting is fully coordinated with Seadrill and Seadrill consolidates the accounts of the Group with its own.

Financial support

Seadrill has guaranteed the Group's senior secured credit facility. The terms of the guarantee are set out in a written guarantee agreement. The Company pays a guarantee fee to Seadrill of 1.0% of the outstanding amount of the loan. The total fee paid in 2016 was USD 11.2 million. Under the terms of the agreement, Seadrill guarantees the bank credit facility in exchange for the financial covenants being measured at the Seadrill consolidated level. Seadrill's support of the Group's financing means that the costs of the bank financing are significantly lower than what could be achieved had the Group been a stand-alone entity. The Group is exposed to the risk of Seadrill not meeting its financial covenants and other terms in the guarantee and its own loan agreements due to the cross-default provision in the Group's loan agreement.

Seadrill has provided the Group with the RCF in order to meet the Group's short-term liquidity needs beyond what is covered by the Group's bank credit facility. The terms of the RCF are set out in a loan agreement, which was revised in April 2016. The main terms are an interest rate of 6.0% plus LIBOR, a commitment fee of 2.4% on any undrawn amounts and a term expiring 31 December 2017. The cost of this financing is significantly lower than what the Group would have incurred if such financing would have been arranged on a stand-alone basis.

Comprehensive restructuring efforts

Seadrill and the Company are engaged in ongoing negotiations with secured lenders, including Sevan's secured lenders, and potential new money investors regarding the terms of a comprehensive restructuring. The key goals of these restructuring efforts continue to be building a bridge to recovery and achieving a sustainable capital structure.

On April 28, 2016, as part of these comprehensive restructuring efforts, the Company executed an amendment to the covenants contained within its bank credit facility where Seadrill is the guarantor. The amendments among other things amend the equity ratio, leverage ratio, minimum-value-clauses, and minimum liquidity requirements. The covenant amendments were in place until 30 June 2017.

On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. These amendments also include a milestone, which is currently July 31, 2017, by which Seadrill and its majority owned and controlled subsidiaries, including Sevan, are required to implement a comprehensive restructuring plan. These extensions provide additional time for Seadrill and the Company to further advance the ongoing comprehensive restructuring negotiations. Failure to meet or extend this milestone may result in events of default under our credit facility and other funded debt.

We expect the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code. We are preparing accordingly and have retained financial advisers and legal counsel.

There is inherent uncertainty in the completion of the comprehensive restructuring plan and therefore the Company is also actively preparing various contingency plans. The Group's going concern assumption is based on management's expectation that a comprehensive restructuring plan will be completed successfully, however the timing and outcome of this process is inherently uncertain. These conditions indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Management services

The Group is party to several management agreements with subsidiaries of Seadrill. These make Seadrill's organization fully responsible for the day-to-day operation of the Group (through its subsidiaries in Brazil, United States and Dubai) and the marketing of the fleet (through an agreement with Seadrill Management). Further, Seadrill Management supports the general administrative management of the Group.

The terms of these management agreements are market based. Total payments to Seadrill Management under these agreements in 2016 were USD 30.9 million.

Operationally, the Group benefits from Seadrill's management systems driving safety and operational performance. The Group has access to a larger labor resource pool, improved pricing for insurance, savings through access to vendor master service agreements and increased reliance on internal resources in maintenance and engineering (as opposed to contracting from third parties). The Group has reduced costs to address the current depressed market through Seadrill's cost saving initiatives, while continuing to maintain safe, efficient operations and preserving the quality of the assets.

The Seadrill marketing function provides the Group's rig fleet with the benefit of Seadrill's extensive client relationships and access to geographical regions where Seadrill has a presence and proven performance history. The Seadrill organization actively markets the Group's fleet in all geographical regions, highlighting the advantages of the Group's unique cylindrical design and improved operational performance since Seadrill has managed the fleet.

Administratively, the Group relies on the Seadrill corporate functions for administrative support, in areas such as accounting, treasury, supply chain and human resource management.

The Board is monitoring the quality and costs of all services provided by the Seadrill organization and continually evaluates the level of service provided by Seadrill. The Board is aware of the potential conflict of interest of Seadrill but is confident that the Seadrill organization treats the Group's rigs on par with other rigs in the overall Seadrill fleet.

OUTLOOK

In 2016, the Company continued to demonstrate strong safety and operating performance from the Sevan design fleet. Operating costs have been reduced in line with operating activities and the Company benefited from cost reduction initiatives through the Seadrill management service agreements.

The *Sevan Brasil* and *Sevan Louisiana* continued operating in their ongoing contracts with Petrobras and LLOG, respectively. The *Sevan Driller* is in Singapore where it continues to be actively marketed. If acceptable employment cannot be secured, the rig will remain idle in the region.

The *Sevan Developer* delivery deferral period was extended twice in 2016 and the Company received refunds of the initial installment under the agreements. On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

Short to medium term outlook for the offshore drilling market continues to be extremely challenging. Due to a significant decline in oil prices, many oil companies have been focused on conserving cash and reduced capital expenditures for exploration and development projects. With early terminations and slowed demand, competition for available work has become extremely challenging. Many drilling contractors are bidding rigs below cash break-even levels in order to keep rigs active.

Leading long-term indicators appear to be moving in a positive direction. While the level of capital spending is expected to be low again in 2017, oil companies are reflecting less reduction in capital spending than what was previously anticipated. The industry's response to this downturn was a significant reduction in costs, which has in turn reduced the break-even costs for oil companies to develop offshore fields.

With respect to the offshore drilling market supply, the global fleet of semi-submersible rigs and drillships currently totals 283 units. Approximately 40% of the global fleet has an average of 30 years old. Since 2013 we believe 74 floating rigs have been scrapped. We expect accelerated scrapping activities to continue. There are approximately 27 cold stacked rigs that are greater then 30 years old and another 25 rigs of the same age that will become idle in the next 18-months. These rigs are scrapping candidates due to the 35 year classing expenditures that can cost upwards of USD 100 million and rig owners will choose to scrap rather than make this significant investment.

Scrapping activities will assist in a balancing of rig supply. However, the newbuild order book that stands at approximately 47 rigs, offsets it. Due to the subdued level of contracting activity, it is likely that a significant number of newbuild orders will be delayed or cancelled pending an improved market.

On April 28, 2016, as part of Seadrill's and the Company's comprehensive restructuring efforts, the Company executed an amendment to the covenants contained within its bank credit facility where Seadrill is the guarantor. The amendments, among other things, amend the equity ratio, leverage ratio, minimum-value-clauses, and minimum liquidity requirements. The covenant amendments were in place until 30 June 2017.

On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. These amendments also include a milestone, which is currently July 31, 2017, by which Seadrill and its majority owned and controlled subsidiaries, including Sevan, are required to implement a comprehensive restructuring plan. These extensions provide additional time for Seadrill and the Company to further advance the ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan. Failure to meet or extend this milestone may result in events of default under our credit facility and other funded debt.

We expect the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code. We are preparing accordingly and have retained financial advisers and legal counsel. The Company's business operations remain unaffected by these restructuring efforts and the Company expects to continue to meet its ongoing customer and business counterparty obligations.

There is inherent uncertainty in the completion of the comprehensive restructuring plan and therefore the Company is also actively preparing various contingency plans. The Group's going concern assumption is based on management's expectation that a comprehensive restructuring plan will be completed successfully. However the timing and outcome of this process is inherently uncertain. These conditions indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continues as a going concern.

RISK FACTORS

The Group’s activities expose it to a variety of risks, many of which are beyond the Company’s control. The Group has a risk management program covering these factors (among others) and seeks to minimize overall exposure to risk and the impact of external factors on performance.

This report includes and is based on, among other things, forward-looking information and statements. Forward-looking statements are often, but not always, identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "outlook," "strategy," "future," "likely," "may," "should," "could," "will" and similar references to future periods.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Our business faces numerous risks, many of which are beyond our control. The impact of these risks, as well as other unforeseen risks, could have a material negative impact on our business, financial condition or results of operations. You should consider the risks set out below, including the risks associated with comprehensive restructuring efforts, before deciding to invest in, or maintaining your investment in, our securities. There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

Market risk

The offshore contract drilling industry is cyclical and volatile. Our business in the offshore drilling sector depends on the level of activity in oil and gas exploration, development and production in offshore areas worldwide. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development and political and regulatory environments affect our customers' drilling programs. Oil and gas prices and market expectations of potential changes in these prices also significantly affect this level of activity and demand for drilling units.

Declines in oil and gas prices for an extended period, or market expectations of potential decreases in these prices, have and could continue to negatively affect our business in the offshore drilling sector. Sustained periods of low oil prices have resulted in reduced exploration and drilling because oil and gas companies' capital expenditure budgets are subject to cash flow from such activities and are therefore sensitive to changes in energy prices. These changes in commodity prices can have a dramatic effect on rig demand, and periods of low demand can cause excess rig supply and intensify the competition in the industry that often results in drilling units, particularly older and less technologically advanced drilling units, being idle for long periods. We cannot predict the future level of demand for our services or future conditions of the oil and gas industry. In response to the recent decrease in the prices of oil and gas, a number of our oil and gas company customers have recently announced decreases in budgeted expenditures for offshore drilling but less than previously expected. Any future decrease in exploration, development or production expenditures by oil and gas companies could reduce our revenues and materially harm our business and results of operations.

Some of our offshore drilling contracts may be terminated early due to certain events. Under certain circumstances, our contracts may permit customers to terminate contracts early without the payment of any termination fees, as a result of non-performance, longer periods of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events beyond our control. During periods of challenging market conditions, we may be subject to an increased risk of our customers seeking to repudiate their contracts, including through claims of non-performance. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by the prevailing uncertainty surrounding the development of the world economy and the credit markets. If our customers cancel contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated statement of financial position, results of operations or cash flows.

Operational risk

Drilling operations

The operation of drilling rigs requires very high standards of safety. Such operations are associated with considerable risks and liabilities. These include technical, operational, commercial and political risks. Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all risks. Consistent with standard industry practice, our customers generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. However, there can be no assurances that these customers will be willing or financially able to indemnify us against all these risks. In addition, a court may decide that certain indemnities in our current or future contracts are not enforceable. The Group may also incur liability for pollution and other environmental damage without being able to recover said liabilities through insurance.

Because of the Company's international operations, the Company may be exposed to political and other uncertainties. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect the Company's ability to compete. Failure to comply with applicable laws and regulations, including those relating to sanctions and export restrictions, may subject the Company to criminal sanctions or civil remedies, including fines, denial of export privileges, injunctions or seizures of assets.

Relationship with Seadrill

The Company's ability to enter into new drilling contracts and expand its customer and supplier relationships will depend largely on its ability to leverage its relationship with Seadrill and its reputation and relationships in the offshore drilling industry. If Seadrill suffers material damage to its reputation or relationships, it may harm the Company's ability to:

- renew existing drilling contracts upon their expiration;

- obtain new drilling contracts;
- efficiently and productively carry out the Company's drilling activities;
- successfully interact with shipyards;
- obtain financing and maintain insurance on commercially acceptable terms;
- maintain access to capital on favorable terms under the RCF; or
- maintain satisfactory relationships with suppliers and other third parties.

In addition, pursuant to the management and administrative services agreement, Seadrill Management provides the Company with significant management, administrative, financial and other support services and/or personnel. Subsidiaries of Seadrill also provide advisory, technical and administrative services to the Company's fleet pursuant to advisory, technical and administrative services agreements. The Company's operational success and ability to execute the Company's growth strategy depends significantly upon the satisfactory performance of these services. The Company's business will be harmed if Seadrill and its subsidiaries fail to perform these services satisfactorily, if they cancel their agreements with the Company or if they stop providing these services to the Company.

Small fleet size

Since the Group's fleet consists of only three units in operation, any operational downtime or any failure to secure employment at satisfactory rates will affect the Group's results more significantly than for a group with a larger fleet. Furthermore, frequent rig mobilizations could be disruptive to the Group's financial results if we experience delays due to adverse weather, third party services or physical damage to our rigs. Two of the Group's fleet are currently operational, *Sevan Brasil* and *Sevan Louisiana*. The *Sevan Louisiana* is expected to conclude its current contract in May 2017 with no subsequent contract.

Price risk

Changes to the price level of goods and services acquired may affect the Group, where after price developments are carefully monitored. The Group seeks to handle the risk through contract clauses with its customers. Furthermore, operating cost inflation is mitigated through annual dayrate adjustments for the *Sevan Driller* and the *Sevan Brasil*.

Financial risk

The Group is exposed to liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group's overall risk management program seeks to minimize potential adverse effects on the Group's financial performance.

Risk management for the Group is carried out by the treasury function that is integrated in Seadrill's management organization. Final authority is, however, retained within the Company. Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units within the Group. The Board approves the principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, currency risk, interest rate risk and credit risk.

Liquidity risk

The Group's objective is to maintain flexibility of financing by providing sufficient credit lines when managing liquidity. This may include maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity is sensitive to operational uptime on the units performing contracts. Reference is made to Note 21 "Financial Assets and Financial Liabilities" for a maturity analysis of the Group's financial liabilities.

After the *Sevan Developer* delivery deferral agreement was extended on October 14, 2016, the Group will have to finance the USD 499.7 million of the final installment and any mobilization costs and customer required variations, if and when delivery of the rig occurs. This, however, will only be done if a satisfactory employment contract has been secured upon which external financing can be raised.

On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

Seadrill has provided the Group with a USD 300.0 million RCF in order to meet the Group's short term liquidity needs beyond what is covered by the Group's senior secured credit facility. On April 28, 2016 the RCF was extended to December 31, 2017. There are no changes to the terms of the RCF facility under the extension. At year-end, USD 185.0 million was drawn thereunder. With the amended RCF terms, cash flow from operations and the shipyard deferral agreement, the Company is forecasting adequate liquidity for the next 12 to 18 months. If the RCF cannot be renewed at expiry or replaced with another facility on similar or better terms or additional contracts cannot be secured for rigs there is a risk that the Company will not have adequate liquidity beyond the end of 2017.

Seadrill has guaranteed the Group's senior secured credit facility. Under the terms of the agreement, Seadrill guarantees the bank credit facility in exchange for the financial covenants being measured at the Seadrill consolidated level. The Group is exposed to the risk of Seadrill not meeting its financial covenants and other terms in the guarantee and its own loan agreements due to the cross-default provision in the Group's loan agreement. Defaults under Seadrill’s credit facilities could result in defaults under our credit facility.

On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. These amendments also include a milestone, which is currently July 31, 2017, by which Seadrill and its majority owned and controlled subsidiaries, including Sevan, are required to implement a comprehensive restructuring plan. These extensions provide additional time for Seadrill and the Company to further advance the ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan. Failure to meet or extend this milestone may result in events of default under our credit facility and other funded debt.

We expect the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code. We are preparing accordingly and have retained financial advisers and legal counsel. The Company's business operations remain unaffected by these restructuring efforts and the Company expects to continue to meet its ongoing customer and business counterparty obligations.

There is inherent uncertainty in the completion of the comprehensive restructuring plan and therefore the Company is also actively preparing various contingency plans. The Group's going concern assumption is based on management's expectation that a comprehensive restructuring plan will be completed successfully, however the timing and outcome of this process is inherently uncertain.

Foreign currency risk

The Group's foreign currency risk primarily arises due to operations conducted in Brazil. Operating revenue and expenses are principally denominated in USD however, a portion of revenues and expenses are denominated in Brazilian reais. The revenues denominated in Brazilian reais are more or less equal to operating costs in Brazilian reais and therefore constitutes a natural hedge.

As the net income is primarily in USD this is also the primary financing currency.

The Group may use forward contracts to manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities. As of December 31, 2016, no forward contracts have been entered into.

A +/-5% change in the USD exchange rate against Brazilian reais, which the Group has significant assets and liabilities at the end of each respective period in, is estimated to have an impact on the Group's profit before tax of USD 1.0 million (2015: USD 1.9 million).

Interest rate risk

The Group's exposure to interest rate risk primarily relates to its floating interest rate debt. The Group continuously considers whether part of the interest rate exposure should be hedged. As of December 31, 2016, no interest rate hedges have been entered into.

All of the Group’s debt is subject to interest rates which fluctuate with the market. A change in interest rate of +/- 100 basis points ("bps") would affect the Group's interest cost with USD 11.2 million (2015: USD 12.4 million). This sensitivity analysis has been determined based on an assumption that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 bps increase or decrease is used when reporting interest rate risk internally to the Board and represents management’s assessment of a reasonably expected change in interest rates.

Credit risk

The Group has financial assets which expose it to credit risk arising from possible default by a counterparty, primarily from deposits with banks and financial institutions, as well as exposures to customers. The Group has no significant concentration of credit risk towards any single financial institution and has policies that limit the amount of credit exposure to individual institutions.

The Company's customers are all engaged in the offshore oil and gas industry and consists independent oil and gas producers and government-owned oil companies. The Company performs ongoing credit evaluations of its customers and generally does not require collateral for amounts outstanding. The credit quality of a customer is assessed by reference to external credit ratings (where available) and by analysis of historical information about counterparty default rates.

The Company's current counterparties are Petrobras for the *Sevan Brasil* and LLOG for the *Sevan Louisiana*. The Group has not had a history of collection problems or significant disputes, and continues to closely monitor ongoing material matters with these customers. No provision for doubtful accounts has been recognized in the periods presented.

The Group is exposed to the risk of Seadrill not meeting its financial covenants and other terms in the guarantee and its own loan agreements due to the cross-default provision in the Group's loan agreement.

REMUNERATION AND BENEFITS

The remuneration payable to the directors will be set by the annual general meeting. No member of the Board is entitled to severance pay or other benefits upon termination of his/her term.

The CEO receives a base salary, bonus and benefits, which are evaluated in accordance with Section 16 of the Company's Corporate Governance and disclosed in Note 5 "Employee Benefit Expense" to the Consolidated Financial Statements.

The Company does not have an established long-term incentive scheme based on grants of share options. At this date the Board does not intend to develop such a scheme but does have the ability to do so.

As of December 31, 2016 the Company had not set aside or accrued any amounts for pensions, retirement or similar benefits, except from what is specified in Note 5 "Employee Benefit Expense" to the Consolidated Financial Statements.

CORPORATE GOVERNANCE

The Company is committed to strong corporate governance principles to ensure the creation of optimal shareholder value over time. The objective of the Company's corporate governance is to regulate the interaction between the Company's shareholders, the Board of Directors (the "Board"), the Chief Executive Officer (the "CEO") and the Company's senior management team (the "Executive Management Team").

1. Implementation and reporting on corporate governance

The Norwegian Accounting Act includes provisions on corporate governance in its Section 3-3b which impose a duty on the Company to issue an annual statement on its principles and practice for corporate governance. These provisions also stipulate minimum requirements for the content of this report.

As a company incorporated in Bermuda, the Company is also subject to Bermuda laws and regulations with respect to corporate governance.

The Norwegian Corporate Governance Board has issued the Norwegian Code of Practice for Corporate Governance (the "Code"). Adherence to the Code is based on the "comply or explain" principle, which means that a company must comply with the recommendations of the Code or explain why it has chosen an alternative approach to specific recommendations. The Code may be found at www.nues.no.

Oslo Børs (the Norwegian Stock Exchange) requires listed companies to publish an annual statement of their policy on corporate governance in accordance with the Code in force at the time. The Continuing Obligations of listed companies are available on www.oslobors.no.

The Company complies with the above mentioned rules and regulations, including the current Code, in all material respects, where deviations exist these are noted in the relevant section below.

The Company has not established separate guidelines for corporate social responsibility as recommended by the Code.

2. Business activity

In compliance with the Bermuda Companies Act, the Company's Memorandum of Association describes its objects and purposes as unrestricted. This represents a deviation from the Code, but the Company has clear values and objectives as described below under point 3 which are communicated to the shareholders.

The Company's bye-laws are available at the Company's website, www.sevandrilling.com.

3. Values and objectives

The Company's long term objective, following the clause above, is to become a premier drilling contractor owning units specializing in offshore drilling in ultra-deep water. The Company will pursue the following main strategies to reach its overall objective (1) monetize its current design and technology by delivering safe, efficient and cost effective service to its customers, (2) pursue technological advancements with its unique hull design and (3) develop a strong and motivated work force that delivers outstanding service and results.

4. Health, safety and environment guidelines

The Company believes that all incidents and accidents that cause personal injury or environmental damage should be prevented. It strives to achieve zero incidents and accidents by developing a culture where all employees take responsibility for their own safety, for the safety of their co-workers, for process safety and to protect the environment. The Company encourages all employees to report all unsafe activity or conditions and to stop activities until appropriate risk measures are in place. A management system is established in cooperation with the employees, ensuring commitment to health, safety, the environment, quality management, continuous improvement of operations and risk management.

5. Ethical guidelines

The Company will aim to maintain a high ethical standard in its business concept and relations with customers, suppliers and employees.

6. Company capital and dividend

The Board aims to maintain a satisfactory equity ratio in the Company in light of the Company's goals, strategy and risk profile, thereby ensuring that there is an appropriate balance between equity and other sources of financing. The Board shall regularly assess the Company's capital requirements in light of the Company's strategy and risk profile.

It is an objective for the Company to generate return to the shareholders in the form of dividends and capital appreciation, at a level which is at least equal to other investment possibilities with comparable risk. The Board will establish a dividend policy at a point when the Company is in a position to pay dividends.

According to the Bye-laws, the Board may declare cash dividends or distributions out of contributed surplus to be paid to the shareholders according to their rights and interests including such interim dividends as appear to the Board to be justified by the position of the Company. This is a deviation from section 3 of the Code which states that the background to any proposal for the Board to be given a mandate to approve a distribution of dividends should be explained, but is in accordance with Bermudian law.

The Board is authorized to repurchase treasury shares and to issue any unissued shares within the limits of the authorized share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in the Code. This constitutes a deviation from section 3 of the Code, but is in accordance with Bermudian law.

7. One class of shares

The Company has one class of shares with equal rights.

8. Transactions with related parties

Any transactions, agreements or arrangements between the Company and its shareholders, members of the Board, members of the Executive Management Team or close associates of any such parties shall only be entered into as part of the ordinary course of business and on an arm's length basis. The Board shall consider to arrange for a valuation to be obtained from an independent third party unless the transaction, agreement or arrangement in question must be considered to be immaterial. The Company's financial statements will in accordance with applicable accounting principles provide further information about transactions with related parties.

Board Members and members of the Executive Management Team shall immediately notify the Board if they have any material direct or indirect interest in any transaction entered into by the Company

9. Transfer of shares

The shares in the Company are freely tradable.

10. The general meeting

All registered shareholders have the right to participate in the General Meetings of the Company, which exercise the highest authority of the Company.

The Bye-laws of the Company provide that at least 7 days' notice of a general meeting shall be given to each shareholder entitled to attend and vote thereat, stating the date, time, place and the general nature of the business to be considered at the meeting. This is a deviation from section 6 of the Code, which requires a minimum of 21 days' notice period but in line with practice for Bermuda companies. The Company will aim to give shareholders longer notice of general meetings than the minimum requirement. Where appropriate, efforts should be made to arrange for representatives from the Board and the Company's auditor to be present at General Meetings.

The Bye-laws of the Company provide that the Chairman of the Board shall preside as chairman at every general meeting. This is a deviation from section 6 of the Code, which requires routines to ensure an independent chairing in the general meeting, but in line with practice for Bermuda companies.

Notices for a General Meeting shall provide information on the procedures shareholders must observe in order to participate in and vote at the General Meeting. The notice should also set out: (i) the procedure for representation at the meeting through a proxy, including a form to appoint a proxy, to allow for shareholders who are unable to attend in person will be able to vote by proxy and (ii) the right for shareholders to propose resolutions in respect of matters to be dealt with at the General Meeting.

11. Nomination Committee

The Company has not established a nomination committee. This is a deviation from Section 7 of the Code which recommends that all listed companies shall have a Nomination Committee. The reason for the deviation is that the Company is of the view that a nomination committee is not required with the current shareholder structure. Members of the Board identify and evaluate proposed candidates for nomination to the Board which are to be appointed at the Annual General Meeting. The Board will consult shareholders with respect to nominations of new directors to the Board.

12. The board composition

The Board is appointed by the General Meeting and under the Bye-laws a Director can be appointed by the Board to fill a casual vacancy. The Board should have the requisite competency to independently evaluate the cases presented by the Executive Management Team as well as the Company's operations, and function well as a body of colleagues.

The composition of the Board should as far as possible ensure that the Board can attend to the common interests of all shareholders and meets the Company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the Board can function effectively as a collegiate body.

Board Members shall be encouraged to own shares in the Company. Board Members may, subject to shareholder approval, also receive options for shares.

13. Sub-committees of the board

The Company shall have a remuneration committee appointed by the Board.

The Company shall have an audit committee appointed by the Board.

The Board may from to time also appoint other sub-committees, as deemed necessary or appropriate.

14. Responsibility of the Board of Directors

The Board shall prepare an annual plan for its work with special emphasis on goals, strategy and implementation. The Board's primary responsibility shall be (i) participating in the development and approval of the Company's strategy, (ii) performing necessary monitoring functions and (iii) acting as an advisory body for the Executive Management Team. Its duties are not static, and the focus will depend on the Company's ongoing needs. The Board is also responsible for ensuring that the operation of the Company is in compliance with the Company's values and ethical guidelines. The Chairman of the Board shall be responsible for ensuring that the Board's work is performed in an effective and correct manner.

The Board shall ensure that the Company has a good management with clear internal distribution of responsibilities and duties. The CEO is responsible for the executive management and day-to-day operations of the Company.

All members of the Board shall on a monthly basis receive information about the Company's operational and financial development. The Company's strategies shall regularly be subject to review and evaluation by the Board.

The Board shall evaluate its work on an annual basis.

15. Risk management and internal control

The Board shall seek to ensure that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. The internal control and the systems should also encompass the Company's corporate values and ethical guidelines. The objective of the risk management and internal control shall be to manage exposure to risks in order to ensure successful conduct of the Company's business and to support the quality of its financial reporting.

The Board shall seek to ensure that reviews of the Company's most important areas of exposure to risk and its internal control arrangements are carried out at least annually.

The Board shall seek to provide an account in the annual report of the main features of the Company's internal control and risk management systems as they relate to the Company's financial reporting.

16. Board compensation

The General Meeting shall from time to time determine the Board's remuneration. Remuneration of Board Members shall be reasonable and based on the Board's responsibilities, work, time invested and the complexity of the enterprise. The compensation shall be a fixed annual amount. The Chairman of the Board may receive a higher compensation than the other Board Members. The Board shall be informed if individual Board Members perform other tasks for the Company than exercising their role as Board Members. Work in sub-committees may be compensated in addition to the remuneration received for Board membership.

The Company's financial statements shall provide information about the Board's compensation.

17. Compensation to executive management

The Board decides the salary and other compensation to the CEO, however any compensation linked to the value of the Company's shares shall be approved by the General Meeting. The CEO's salary and bonus shall be determined on the basis of an evaluation with emphasis on the following factors: financial results, business development, employee and customer satisfaction. Any fringe benefits shall be in line with market practice, and should not be substantial in relation to the CEO's basic salary. The Board shall annually carry out an assessment of the salary and other remuneration to the CEO.

The Company's financial statements shall provide information about salary and other compensation to the CEO.

18. Information and communication

The Board and the Executive Management Team assign considerable importance to giving the shareholders quick, relevant and current information about the Company and its activity areas. Emphasis is placed on ensuring that the shareholders receive identical and simultaneous information.

Sensitive information will be handled internally in a manner that minimizes the risk of leaks. All contracts to which the Company becomes a party, should contain confidentiality clauses.

The Company shall have clear routines for who is allowed to speak on behalf of the Company on different subjects, and who shall be responsible for submitting information to the market and investor community. The CEO and the CFO shall be the main contact persons of the Company in such respects.

19. Auditor

Each year the auditor shall present to the Board a plan for the audit work and confirm that the auditor satisfies established requirements as to independence and objectivity.

When deemed necessary by the Board, the auditor shall be present at Board meetings where the annual accounts are on the agenda. Whenever necessary, the Board shall meet with the auditor to review the auditor's view on the Company's accounting principles, risk areas, internal control routines etc.

The use of the auditor as a financial adviser to the Company should be sought limited to cases where such use of the auditor does not have the ability to affect or question the auditors' independence and objectiveness as auditor for the Company. Only the Company's CEO and/or CFO shall have the authority to enter into agreements in respect of such counseling assignments.

At the Annual General Meeting, the Board shall present a review of the auditor's compensation as paid for auditory work as far as required by law and remuneration associated with other assignments.

In connection with the auditor's presentation to the Board of the annual work plan, the Board should specifically consider if the auditor to a satisfactory degree also carries out a control function.

The Board shall arrange for the auditor to attend General Meetings as and where appropriate.

CORPORATE SOCIAL RESPONSIBILITY

Being socially responsible is integrated throughout the Group's business. The Board has defined the Group's values and adopted ethical guidelines applicable to all employees and contractors.

Health, safety and environment

The Group's core business principles involve ensuring the health and safety of employees and taking care of the environment. The Group strives for a working environment, which provides job satisfaction and good health conditions. The aim is to provide a safe and inspiring working environment characterized by mutual respect and cooperation.

The Group had 10 accidents and no fatalities in 2016 (2015: 12 accidents and no fatalities).

The Group's drilling units have an environmentally friendly profile. The Group works continuously to minimize and reduce the environmental impacts of their operations. However, their operations involve activities that entail potential risks to the external environment. Emergency response plans have been established to limit harm to the environment in the case of accidental emissions.

Employment and labor practices

The Group makes efforts to ensure all employees are given equal opportunities for personal and professional development. Every employee is treated equally regardless of gender, age, ethnic origin and functional ability. The Group does not tolerate harassment or victimization of another employee or colleague, whether sexual, racial or otherwise.

The Group has not implemented any specific measures in order to meet the objectives of the Norwegian Discrimination Act and of the Anti-discrimination and Accessibility Act. The Board and Management continuously consider the need for specific measures in this respect.

Human rights

The Group's aim is to carry out its business without any violation of basic human rights. Operations are carried out in accordance with internationally recognized human rights standards. The Group supports the UN's Universal Declaration of Human Rights and its work to end forced labor, discrimination and child labor.

Anti-corruption

The Group rejects all forms of corruption, and seeks to identify and eliminate all facilitation payments and enhance transparency in all business transactions. If any employee is in doubt, it is an obligation to elevate the ethical dilemma to their supervisor or manager.

In November 2013, the Board aligned its anti-bribery and corruption compliance manual with Seadrill.

At least once a year a risk assessment is conducted and the results communicated to the Board. In 2016, no additional risks were identified that were not documented in the manual.

RESPONSIBILITY STATEMENT

The Board and the CEO have today considered and approved the report and the financial statements for the Sevan Drilling Group and the parent company Sevan Drilling Limited for the year ending December 31, 2016.

The consolidated financial statements of Sevan Drilling Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and such additional disclosure requirements as stated in the Norwegian Accounting Act that are applicable per December 31, 2016.

The financial statements for Sevan Drilling Limited have been prepared in accordance with the Norwegian Accounting Act and International Financial Reporting Standards (IFRS) that are applicable per December 31, 2016. The Director's report for the Sevan Drilling Group and Sevan Drilling Limited has been prepared in accordance with the Norwegian Accounting Act and the Norwegian Accounting Standard no. 16 applicable per December 31, 2016.

We confirm that, to the best of our knowledge:

- the financial statements for the Sevan Drilling Group and Sevan Drilling Limited for the year ending December 31, 2016 have been prepared in accordance with applicable accounting standards;
- the information in the financial statements gives a true and fair view of the Sevan Drilling Group's and Sevan Drilling Limited's assets, liabilities, financial position as of December 31, 2016 and results of operations for the year ending December 31, 2016; and
- our report for the year ending December 31, 2016 includes a true and fair view of:
    - the development, results of operations and position for the Sevan Drilling Group and Sevan Drilling Limited; and
    - the principal risks and uncertainties relevant to the operation of the Sevan Drilling Group and Sevan Drilling Limited.

Oslo, April 27, 2017

The Board of Directors

Per Wulff, Chairman

Ragnhild Wiborg, Director

Elin Karfjell, Director

Georgina Sousa, Director

Scott McReaken, Director

Consolidated Financial Statements

For the Year Ended December 31, 2016

Consolidated Financial Statements

Consolidated Statement of Profit or Loss

for the year ended December 31, 2016

USD millions	Note	2016	2015
Operating revenue	3	**237.3**	**366.8**
Operating expense	4,5	(125.4)	(158.5)
General and administrative expense	4,5	(19.2)	(20.9)
Depreciation and amortization	10	(70.4)	(73.9)
Impairment	10	(37.5)	(196.5)
Foreign exchange loss, net		(1.4)	(0.6)
Total operating expense		**(253.9)**	**(450.4)**
Operating loss		**(16.6)**	**(83.6)**
Financial expense	6	(69.0)	(67.3)
Net financial items		**(69.0)**	**(67.3)**
Loss before tax		**(85.6)**	**(150.9)**
Tax expense	7	(7.4)	(0.9)
Net loss		**(93.0)**	**(151.8)**
Attributable to:			
Equity holders of the Company		(93.0)	(151.8)
Earnings per share for loss attributable to the ordinary equity holders of the Company			
Basic loss per share	9	(3.13)	(5.11)
Diluted loss per share	9	(3.13)	(5.11)

Consolidated Statement of Comprehensive Income

	2016	2015
Net Loss	(93.0)	(151.8)
Items that may be reclassified to profit or loss		
Foreign currency translation	—	—
Total Comprehensive Loss	**(93.0)**	**(151.8)**
Attributable to:		
Equity holders of the Company	(93.0)	(151.8)

The notes on pages 24 to 52 are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

as at December 31, 2016

USD millions	Note	2016	2015
ASSETS			
Drilling rigs	10	1,411.1	1,566.1
Deferred tax asset	7	0.5	1.2
Other non-current assets	11	0.9	13.5
Total non-current assets		**1,412.5**	**1,580.8**
Inventories	13	51.4	51.3
Trade and other receivables	14	65.2	79.2
Cash and cash equivalents	21	26.0	42.4
Total current assets		**142.6**	**172.9**
Total assets		**1,555.1**	**1,753.7**
EQUITY			
Share capital	17	3.0	3.0
Share premium	17	713.5	713.5
Other equity		(403.6)	(310.6)
Total equity		**312.9**	**405.9**
LIABILITIES			
Interest bearing debt	15	801.2	937.7
Other non-current liabilities		—	1.7
Total non-current liabilities		**801.2**	**939.4**
Trade and other payables	16	25.0	38.0
Interest bearing debt	15	319.0	304.6
Other current liabilities	16	97.0	65.8
Total current liabilities		**441.0**	**408.4**
Total liabilities		**1,242.2**	**1,347.8**
Total equity and liabilities		**1,555.1**	**1,753.7**

The notes on pages 24 to 52 are an integral part of these Consolidated Financial Statements.

Oslo, April 27, 2017

The Board of Directors

Per Wulff, Chairman

Ragnhild Wiborg, Director

Elin Karfjell, Director

Georgina Sousa, Director

Scott McReaken, Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2016

USD millions			**Other equity**			
	Share capital (Note 17)	**Share premium (Note 17)**	**General reserve**	**Equity settled employee benefits reserve**	**Retained earnings**	**Total equity**
Equity as at January 1, 2016	**3.0**	**713.5**	**—**	**2.4**	**(313.0)**	**405.9**
Net loss	—	—	—	—	(93.0)	**(93.0)**
Expiration of share options	—	—	—	(2.4)	2.4	**—**
Equity as at December 31, 2016	**3.0**	**713.5**	**—**	**—**	**(403.6)**	**312.9**
Equity as at January 1, 2015	**108.6**	**666.0**	**280.0**	**2.4**	**(499.3)**	**557.7**
Net loss	—	—	—	—	(151.8)	**(151.8)**
Capital decrease of Sevan Drilling ASA	(108.5)	—	—	—	108.5	**—**
Parent migration	2.9	47.5	(280.0)	—	229.6	**—**
Equity as at December 31, 2015	**3.0**	**713.5**	**—**	**2.4**	**(313.0)**	**405.9**

The notes on pages 24 to 52 are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2016

USD millions	Note	2016	2015
Operating activities			
Loss before tax		(85.6)	(150.9)
Adjustment to reconcile profit before tax to net cash flows provided by operating activities:			
Depreciation, amortization and impairment	10	115.8	280.1
Net financial items	6	69.0	67.3
Payment for long-term maintenance		(9.4)	(12.3)
Other non-cash items		(6.1)	(2.3)
Changes in operating assets and liabilities:			
Inventory	13	(0.1)	(4.8)
Trade and Other receivables	14	12.7	(22.3)
Other non-current assets	11	12.6	1.7
Related party balances		23.8	(6.8)
Trade and Other payables	16	(13.0)	(2.6)
Other current liabilities	16	1.8	4.8
Other non-current liabilities		(1.7)	(1.3)
		119.8	150.6
Tax paid		(1.5)	(4.8)
Interest, commitment and guarantee fees paid		(63.4)	(60.7)
Net cash flows generated from operating activities		**54.9**	**85.1**
Investing activities			
Purchases of property, plant and equipment and other non-current assets	10	(1.2)	(18.5)
Refund of yard installment	10	57.7	29.0
Net cash flows generated from investing activities		**56.5**	**10.5**
Financing activities			
Proceeds from interest-bearing debt	15	85.0	95.0
Repayment of interest-bearing debt	15	(210.0)	(180.0)
Debt fees paid		(3.3)	—
Net cash flow used in financing activities		**(128.3)**	**(85.0)**
Net (decrease) / increase in cash and cash equivalents		**(16.9)**	**10.6**
Foreign Exchange differences		0.5	1.6
Cash balance at 1 January		42.4	30.2
Cash and cash equivalents at December 31,		**26.0**	**42.4**

The notes on pages 24 to 52 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

General information

The Consolidated Financial Statements, set out below, comprise the parent company, Sevan Drilling Limited, and its subsidiaries for the year ended December 31, 2016. Sevan Drilling Limited is a company incorporated in Bermuda whose common shares trade on the Oslo Børs. The address of the registered office is Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda.

Sevan Drilling Limited (the "Company" and, together with its subsidiaries, the "Group" or "Sevan") is an international offshore drilling contractor specializing in operations in the ultra deep-water segment. The Group owns three ultra deep-water cylindrical drilling units *Sevan Driller, Sevan Brasil,* and *Sevan Louisiana*. Sevan also has one additional rig constructed and ready for delivery, *Sevan Developer*.

Note 1 – Summary of Significant Accounting Policies

1.1 Basis of Preparation

The 2016 Consolidated Financial Statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) that are effective for the year ended December 31, 2016.

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. The accounting policies applied are consistent with those applied in the Consolidated Financial Statements for 2015.

The amounts presented in the Consolidated Financial Statements are stated in U.S. Dollars (USD) and values are rounded to the nearest million, except when otherwise indicated.

In 2016 management reclassified certain categories within the Consolidated Statement of Profit or Loss and Consolidated Cash Flow Statement to align with the presentation in the Quarterly Reports. Management consider this to be a more useful presentation.

The Group's financial statements are prepared on a going concern basis. The Group's going concern assumption is based on management's expectation that a comprehensive restructuring plan will be completed successfully, however the timing and outcome of this process is inherently uncertain. These conditions indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

The Group's liquidity requirements relate to servicing debt amortizations, interest payments, and funding working capital requirements. Sources of liquidity include existing cash balances, revenues and availability of the RCF. The Group has historically relied on the cash generated from operations to meet working capital needs, and on funding provided by its majority shareholder Seadrill Limited. The Group's bank facility is guaranteed by Seadrill, and cross default clauses exist between this facility and Seadrill's other credit facilities. The outstanding balance of the bank facility as at December 31, 2016 is USD 944.9 million of which USD 140.0 million is classified as current liabilities.

As a result of the downturn in the offshore drilling industry, Seadrill will be required to secure additional liquidity to fully meet its short term liquidity requirements over the next twelve months. Seadrill and the Company are engaged in ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan, which may include the infusion of new capital.

The Company expects the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement or chapter 11 proceedings. We are preparing accordingly and have engaged financial advisors and legal counsel. The Company's business operations remain unaffected by these restructuring efforts and the Company expects to continue to meet its ongoing customer and business counterparty obligations.

The financial information in this report has been prepared on the basis that the Company will continue as a going concern, which presumes that it will be able to realize its assets and discharge its liabilities in the normal course of business as they come due. Financial information in this report does not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

1.1.1 Changes in Accounting Policy and Disclosures

a) New and amended standards adopted by the Group

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

These amendments do not have any impact on the Consolidated Financial Statements of the Group.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Consolidated Financial Statements of the Group.

b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of the relevant aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its Consolidated Balance Sheet and its equity.

(a) Classification and measurement

The Group does not expect a significant impact on its Consolidated Balance Sheet and its equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortized cost under IFRS 9. However, the Group will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to historical experience and credit worthiness of its customers and financial institutions, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Based on the analysis to date, the Company has assessed that there is significant interaction between IFRS 15 and IFRS 16 relating to Leases; therefore, the Company expects to adopt the updates concurrently, effective January 1, 2018. The Company continues to make significant progress on its review of the standard to determine the effect the requirements may have on its consolidated financial statements, according to its contract-specific facts and circumstances.

The Company is consulting with other drilling companies to fully determine recognition and disclosure under the new standard. At present, the Company does not expect the pattern of revenue recognition under the new guidance to materially differ from its current revenue recognition pattern and expects to transition using a modified retrospective approach whereby it will record the cumulative effect of applying the new standard to all outstanding contracts as at January 1, 2018 as an adjustment to opening retained earnings. The Company's initial assessment may change as it continues to refine these assumptions.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. Early application has not been undertaken. The amendments are not expected to have any material impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company has started assessing the impact of this standard update on its consolidated financial statements and related disclosures and has determined that its drilling contracts contain a lease component. The adoption of this standard will result in increased disclosure of the Company's leasing arrangements and may affect the way the Company recognizes revenues associated with the lease and revenue components, according to its contract-specific facts and circumstances. The standard update could also introduce variability to the timing of the Company's revenue recognition compared to current accounting standards. Based on the analysis to date, the Company has assessed there is significant interaction between IFRS 15 relating to revenue recognition from contracts with customers and IFRS 16; therefore, the Company expects to adopt the updates concurrently, effective January 1, 2018, using the modified retrospective approach.

The Company is consulting with other drilling companies to fully determine recognition and disclosure under the new standard. The Company continues to make significant progress on its review of the standard to determine the effect the requirements could have on its consolidated financial statements and may change its initial assessment as it continues to refine these requirements.

1.2 Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2016. Subsidiaries comprise all entities over which the Group has control. Control is achieved when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to the elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that ceases.

The Group uses the acquisition method to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated Statement of Profit or Loss immediately.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

1.3 Segment Reporting

The Board of the Company (which is identified as the chief operating decision maker in the Group ("CODM")), along with management has reassessed the operating segments in 2016. The Group continues to aggregate its rigs into a single reporting unit representing the fleet as a whole, based on evaluation of IFRS 8.12 as aggregating same core characteristics.

The CODM evaluates the operating performance of each rig but is focused on the overall results of the Group, based on several key metrics at the Group level, including revenue, operating profit, EBITDA and net cash.

1.4 Foreign Currency Translation

The Group's Consolidated Financial Statements are presented in USD, which is also the parent company's functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the Consolidated Statement of Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

1.5 Property, Plant and Equipment

All property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the relevant asset.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over the estimated useful lives. The estimated useful life of our Drilling rigs, when new, is 30 years.

Other fixed assets consist of furniture, fixtures and equipment that are depreciated using the straight-line method over their estimated useful lives ranging from 3-10 years.

Costs related to periodic overhauls of drilling rigs are capitalized under capital assets and amortized over the anticipated period between overhauls, this is generally 5 years. Related costs are primarily yard costs and the cost of employees directly involved in the work. Amortization costs for periodic overhauls are included in depreciation, amortization and impairment expense. Costs for other repair and maintenance activities are expensed as incurred and are included in operating expenses.

General and specific debt issuance costs directly attributable to the acquisition, construction or production of a qualifying asset (which are assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Assets are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets of groups of assets (cash-generating units).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the Consolidated Statement of Profit or Loss.

1.6 Construction in Progress

Construction contracts are capitalized as construction in progress based on installments payable to the yard and other suppliers. Received and approved invoices are the basis of capitalization. Insurance and net financial expenses during the construction period are capitalized as construction in progress. Cost of labor directly attributable to the construction of the Group's rigs is also capitalized. Costs of training, manning and other pre-operational activities are expensed as incurred.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Loans and receivables are measured at fair value at the transaction date and subsequently re-measured at amortized cost. Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Financial assets are classified as current, except for those with maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current. The losses arising from impairment are recognized in the Consolidated Statement of Profit or Loss in operating expenses for receivables.

This category generally applies to trade and other receivables. See Note 1.10 "Trade Receivables" for further disclosures relating to impairment of trade receivables.

Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings.

After initial recognition, interest-bearing loans are subsequently measured at amortized cost. Gains and losses are recognized in the Consolidated Statement of Profit or Loss when the liabilities are derecognized.

This category generally applies to interest-bearing loans and trade and other payables.

1.8 Fair value measurement

The Group initially measures financial assets and liabilities at their fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair-value related disclosures for financial assets and liabilities are disclosed in Note 21 "Financial Assets and Financial Liabilities".

1.9 Inventories

Inventories consist of diesel and spare parts on the rigs which do not meet the definition of property, plant and equipment. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the average cost method.

As necessary, we record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine these amounts, we regularly review inventory quantities on hand and compare them to estimates of operational requirements and technological developments.

1.10 Trade Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business and are classified as current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment charge is recognized in the Consolidated Statement of Profit or Loss as 'operating expense'.

1.11 Cash and Cash Equivalents

In the Consolidated Statement of Cash Flow, cash and cash equivalents include cash in hand, bank deposits, and other short-term highly liquid investments with a maturity of less than three months.

1.12 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company acquires the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction cost and income tax, is included in equity attributable to the Company's equity holders.

1.13 Current and Deferred Income Tax

The tax expense for the period comprises current tax and the change in deferred tax. Tax is recognized in the Consolidated Statement of Profit or Loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and legislation) that have been enacted or substantially enacted by balance sheet date and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. The tax base included in the calculation of deferred income tax is calculated in local currency and translated into USD at foreign exchange rates prevailing at the balance sheet date. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.14 Provisions

Provisions are recognized in the Consolidated Balance Sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured as the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate that accounts for time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense in the Consolidated Statement of Profit or Loss.

1.15 Revenue Recognition

Revenue comprises the fair value of the consideration receivable for the sale of services and charter in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax and after eliminated sales within the Group.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

- Charter revenues are recognized on a straight-line basis over the contract period during which the services are rendered, and at the rates established in the underlying contracts. Under some contracts, the Company is entitled to additional payments for meeting or exceeding certain performance targets. Such additional payments are recognized when any uncertainties are resolved or upon completion of the drilling program.

- Penalties imposed as compensation to the customer for delivery of a rig later than contractually agreed shall be accrued for on a separate account in the balance sheet at the date the charter contract commences. If any part of the penalty is recoverable from vendors due to directly correlated delays caused by them, the penalty recoverable from the vendor shall offset the accrual of penalties payable to the customer. The net accrued amount is amortized over the fixed term of the charter contract as a reduction of income.

- Mobilization expenses are offset by mobilization revenues and recognized using the straight line method over the full fixed term of the underlying charter contract, and classified as operating expense.

1.16 Leases

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the period of the lease.

1.17 Employee benefits

Short term obligations

Any liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled within 12 months and relate to employee's services up to the end of the reporting period are measured at the amounts expected to be paid when the liabilities are settled and presented as current employee benefit obligations in the balance sheet.

The cost of the wages and salaries are recognized as an employee benefit expense in the reporting period that the employee's services relate to.

Post-employment obligations

The Group makes contributions on behalf of its employees to Seadrill's defined contribution scheme. The Group pays contributions to Seadrill and has no other obligations once these payments have been made. The contributions are recognized as an employee benefit expense when they are due.

The Group does not operate a defined benefit scheme.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Note 2 – Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under current circumstances.

2.1 Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below. These estimates and assumptions are based on historical experience and other factors that are believed to be reasonable when the consolidate financial statement were prepared. Actual results may differ from these estimates due to market changes or circumstances that are beyond the control of the Group.

Impairment of assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal is based on available market data. The recoverable value of the rigs was calculated using an income method discounted cash flow. The recoverable amount is sensitive to the discount rate used in the model in addition to key assumptions including forecasted operational expense, operational taxes, utilization and day rates. The key assumptions used to determine the recoverable amount are further explained in Note 10 "Property, Plant and Equipment".

Income taxes

The Group is subject to income taxes in various jurisdictions. Judgment is required in determining the provision for income taxes. During the ordinary course of business, transactions and calculations occur for which the ultimate tax effect is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The accounting for deferred income tax assets relies upon management’s judgment of the Group’s ability to generate future positive taxable income in each respective jurisdiction.

Residual value and useful life

The Group uses estimates when assessing a capital asset’s useful life and residual value to determine the depreciation plan for each unit in operation. The actual lives and residual values of these assets can vary depending on a variety of factors including technological advances that impact the methods or cost of oil and gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. We re-evaluate the remaining useful lives of our drilling units as and when certain events occur which directly impact our assessment of their remaining useful lives and include changes in operating condition, functional capability and market and economic factors.

Note 3 - Segment information

The rigs are aggregated for reporting purposes as they all provide the same service, have the same production process, are marketed to the same customer base, are based on the same design/use the same methods to provide their services and operate in the same regulatory environment. The rigs form a single global fleet and each rig can be re-deployed to other locations based on demand.

Therefore, for management purposes, the Group has one reportable segment, representing the fleet as a whole.

Geographic information

Revenues from external customers by country, based on the location of the customer:

	2016	2015
US	133.6	120.7
Brazil	103.7	246.1
Total Revenue	**237.3**	**366.8**

Revenue was earned from three customers during 2016 (2015: two customers).

Non-current assets by country, based on the location of the asset*:

	2016	2015
US	498.6	561.5
Brazil	494.6	923.1
Singapore	381.3	—
China	37.5	95.2
Other	0.5	0.9
Total non-current assets	**1,412.5**	**1,580.8**

* Asset locations at the end of a period are not necessarily indicative of the geographic distribution of the revenues or operating profits generated by such assets during such period.

Note 4 – Operating expenses and General and administrative expenses

4.1 Operating expenses

	2016	2015
Vessel operating expenses	35.3	39.8
Operational support management fees	5.7	2.7
Total vessel and rig operating expense	**41.0**	**42.5**
Travel, training and office costs	3.8	9.4
Management fee charges	0.8	8.3
Consultancy	2.6	1.9
Amortization of mobilization costs	8.4	9.7
Catering	5.2	6.6
Insurance	5.2	6.7
Other	1.7	2.4
Total other operating expense	**27.7**	**45.0**
Employee benefit expense (Note 5)	**56.7**	**71.0**
Total operating expenses	**125.4**	**158.5**

4.2 General and administrative expenses

	2016	2015
Travel, training and office costs	0.6	0.5
Management fee charges	17.1	14.8
Consultancy	1.0	4.1
Other	—	0.1
Total other general and administrative expense	**18.7**	**19.5**
Employee benefit expense (Note 5)	**0.5**	**1.4**
Total general and administrative expenses	**19.2**	**20.9**

Both operating expenses, general and administrative and employee benefit expenses include management charges from subsidiaries of the Group's immediate controlling party, Seadrill. Total operating and management fees charged in 2016 amounted to USD 30.9 million (2015: USD 35.4 million). Management charges included pre-commencement rig services, rig crew and staff management services, technical and commercial management services, insurance arrangements, accounting services, fuel procurement as well as other additional services.

Specification of auditor's fee (excl. VAT)

	2016	2015
Statutory audit	0.5	0.7
Other assistance from auditor	—	0.2
Total audit fees	**0.5**	**0.9**

In 2016 management reclassified certain categories within total operating expenses in the Consolidated Statement of Profit or Loss to align with the presentation of the Quarterly Reports. Management consider this to be a more useful presentation.

In the 2015 annual report, total operating expenses were disclosed in the following categories:

	2015
Operating expense	42.9
Depreciation, amortization and impairment	270.4
Employee benefit expense	70.6
Other operating expenses	65.9
Foreign exchange loss	0.6
Total operating expense	**450.4**

In the 2016 annual report, total operating expenses have been re-mapped to more clearly define these costs:

	2015
Operating expense	158.5
General and administrative expense	20.9
Depreciation and amortization	73.9
Impairment	196.5
Foreign exchange loss	0.6
Total operating expense	**450.4**

Note 5 – Employee Benefit Expense

	2016	2015
Wages and salaries	41.1	52.0
Management fee charges	7.3	9.6
Employer's contribution tax	7.2	9.0
Pension costs	1.6	1.8
Total employee expense	**57.2**	**72.4**

Remuneration of Senior Management and Board of Directors

		2016				
USD Thousands		**Salaries**	**Retirement benefits**	**Other benefits**	**Start date**	**End date**
Scott McReaken	CEO / CFO/ Board member	104.1	3.7	12.8		
Per Wulff	Chairman	42.8	—	—		
Birgitte R. Vartdal	Chairman	36.5	—	—		Aug-16
Kristian Johansen	Vice chairman	10.4	—	—		Mar-16
Svend Anton Maier	Board member	27.2	—	—		Aug-16
Ragnhild M. Wiborg	Board member	45.3	—	—		
Elin Karfjell	Board member	—	—	—	Dec-16	
Georgina Sousa	Board member	3.6	—	—	Aug-16	
Total remuneration paid		**269.9**	**3.7**	**12.8**		

The table shows compensation paid during the year calculated using average exchange rates for the year.

Effective August 1, 2016, Scott McReaken's employment with Sevan Drilling was terminated and he was employed by Seadrill Management Ltd. From this date Mr. McReaken was seconded from Seadrill in the position of Chief Financial Officer. The total salary and benefits in the table reflects salary earned for services rendered to Sevan Drilling, including management charges from Seadrill for the provision of his services.

No loans were granted to the CEO, the Chairman of the Board, or to any other related party. No board member was entitled to severance pay during the year.

On August 25, 2016 Birgitte R. Vartdal resigned as Chairman and from the Board of Directors. Per Wulff became Chairman of the Board effective on this date.

Kristian Johansen resigned effective March 14, 2016. Georgina Sousa was appointed to the Board on August 25. Elin Karfjell and Scott McReaken were appointed to the Board effective December 21, 2016.

USD Thousands		2015				
		Salaries	Retirement benefits	Other benefits	Start date	End date
Scott McReaken	CEO / CFO	492.3	—	18.2		
Birgitte R. Vartdal	Chairman	49.8	—	—		
Kristian Johansen	Vice chairman	44.5	—	—		
Svend Anton Maier	Board member	20.5	—	—	Aug-15	
Erling Lind *	Board member	29.0	—	—		Aug-15
Per Wullf	Board member	41.0	—	—		
Ragnhild M. Wiborg	Board member	42.8	—	—		
Total remuneration paid		**719.9**	**—**	**18.2**		

* Invoiced from Advokatfirmaet Wiersholm AS

The table shows compensation paid during the year and calculated using average exchange rates for the year.

Effective 17 August 2015, Sevan Drilling Management AS seconded Scott McReaken to North Atlantic Management AS on a part time basis assigned to the position of Chief Financial Officer which includes the provision of such services to North Atlantic Drilling Limited. The total salary and benefits in the table reflects salary earned for services rendered to Sevan Drilling, net of management services provided to North Atlantic Management AS.

No loans were granted to the CEO, the Chairman of the Board, or to any other related party. Other benefits include severance paid as a result of the restructuring activities.

On completion of the migration, on 29 June 2015, the Board of the Company was identical to that of Sevan Drilling ASA. On 26 August 2015 Mr Erling Lind resigned as Chairman and Director of the Board. Ms Birgitte R. Vartdal was appointed Chairman of the Board. On 14 March 2016 Kristian Johansen resigned as Vice Chairman and Director of the Board.

In 2015 Kristian Johansen has been the leader of the audit committee and in August 2015, Ragnhild M. Wiborg replaced Birgitte R. Vartdal as a member of the audit committee.

Note 6 – Financial Expense

	2016	2015
Interest expense	37.3	37.2
Amortization of finance fees	6.2	6.5
Interest on RCF, commitment and guarantee fees to Seadrill	25.5	23.6
Total financial expense	**69.0**	**67.3**

Note 7 – Income Tax Expense

	2016	2015
Current tax		
Current tax on profits for the year	6.8	3.2
Adjustments for current tax of prior periods	(0.1)	(1.1)
Total current tax expense	**6.7**	**2.1**
Deferred income tax		
Change deferred tax	0.7	(1.2)
Total deferred tax expense	**0.7**	**(1.2)**
Income tax expense	**7.4**	**0.9**
Loss before tax	**(85.6)**	**(150.9)**
Tax at domestic tax rates applicable to profits in holding company Bermuda 0% (2015: 0%)	—	—
Prior year adjustments	(0.1)	2.7
Effect of other tax jurisdictions	7.5	(1.8)
Tax expense	**7.4**	**0.9**

Tax losses

The Group has unused tax losses carried forward in respect of Norwegian and Brazilian tax jurisdictions of USD 488.6 million (2015: USD 307.2 million), with no expiration date.

Unrecognized temporary differences

Temporary differences for which no deferred tax asset has been recognized:

	2016	2015
Foreign currency	1.4	16.6
Tax losses	488.6	307.2
Interest deduction	18.2	—
Other	1.3	—
Unrecognized deferred tax assets relating to the above temporary differences	**131.3**	**90.0**

Temporary differences for which no deferred tax liability has been recognized:

	2016	2015
Accruals and provisions	—	(5.4)
Unrecognized deferred tax liabilities relating to the above temporary differences	**—**	**(1.4)**

Note 8 – Dividend per Share

No dividend was paid in 2016 (2015: nil). No dividend will be proposed at the 2017 AGM.

Note 9 – Earnings per Share

	2016	2015
Loss attributable to equity holders of the Company (USD millions)	(93.0)	(151.8)
Weighted average number of ordinary shares on issue (millions)	29.7	29.7
Basic and diluted earnings per share (USD per share)	(3.13)	(5.11)

Basic earnings per share were calculated by dividing the(loss)/profit attributable to equity holders in the Company by the weighted average number of ordinary shares in issue during the year. There are no instruments which dilute basic earnings per share or could potentially dilute basic earnings per share in the future. As such, the basic and diluted earnings per share figures are identical in 2016 and 2015.

Note 10 – Property, Plant and Equipment

	Construction in process (CIP)*	Units in operation (UIO)	Drilling rigs	Other fixed assets	Total fixed assets
Book value as at January 1, 2016	**95.2**	**1,470.3**	**1,565.5**	**0.6**	**1,566.1**
Additions	—	10.6	10.6	—	10.6
Refund from yard	(57.7)	—	(57.7)	—	(57.7)
Depreciation charge	—	(70.0)	(70.0)	(0.4)	(70.4)
Impairment	—	(37.5)	(37.5)	—	(37.5)
Book value as at December 31, 2016	**37.5**	**1,373.4**	**1,410.9**	**0.2**	**1,411.1**
Cost	37.5	2,047.7	2,085.2	9.7	2,094.9
Accumulated depreciation	—	(338.7)	(338.7)	(9.5)	(348.2)
Accumulated impairment	—	(335.6)	(335.6)	—	(335.6)
Net book value as at December 31, 2016	**37.5**	**1,373.4**	**1,410.9**	**0.2**	**1,411.1**

* USD 26.3 million secured by guarantees from the shipyard.

	Construction in process (CIP)*	Units in operation (UIO)	Drilling rigs	Other fixed assets	Total fixed assets
Book value as at January 1, 2015	**124.4**	**1,709.4**	**1,833.8**	**1.1**	**1,834.9**
Additions	—	30.8	30.8	—	30.8
Refund from yard	(29.0)	—	(29.0)	—	(29.0)
Disposals	(0.2)	—	(0.2)	—	(0.2)
Depreciation charge	—	(73.4)	(73.4)	(0.5)	(73.9)
Impairment	—	(196.5)	(196.5)	—	(196.5)
Book value as at December 31, 2015	**95.2**	**1,470.3**	**1,565.5**	**0.6**	**1,566.1**
Cost	95.2	2,037.1	2,132.3	9.7	2,142.0
Accumulated depreciation	—	(268.7)	(268.7)	(9.1)	(277.8)
Accumulated impairment	—	(298.1)	(298.1)	—	(298.1)
Net book value as at December 31, 2015	**95.2**	**1,470.3**	**1,565.5**	**0.6**	**1,566.1**

* USD 78.9 million secured by guarantees from the shipyard.

Impairment testing of assets

The recoverable values of the rigs were calculated using an income method discounted cash flow. The key assumptions applied for the purpose of impairment testing of rigs in operation include discount rate and expected future cash flows. To discount the future cash flows, management used a post-tax weighted average cost of capital (WACC) of 11%. Estimated future cash flows are based on the Group's five-year forecast and utilize several assumptions including forecasted operational expense, operational taxes, utilization (94%) and dayrates (low USD 200k's per day with recovery to mid USD 400k's per day by 2021).

Dayrates are based on current contract amounts for the remaining contract term. The underlying assumptions and assigned probabilities of occurrence for utilization and dayrate scenarios beyond contracted periods were developed using a methodology that examines historical data for each rig, which considers the rig's age, rated water depth and other attributes and then assesses its future marketability in light of the current and projected market environment at the time of assessment. Other assumptions, such as operating, maintenance and inspection costs, are estimated using historical data adjusted for known developments and future events that are anticipated by management at the time of the assessment. Management's assumptions are necessarily subjective and are an inherent part of our asset impairment evaluation, and the use of different assumptions could produce results that differ from those reported. Management's assumptions involve uncertainties about future demand for our services, dayrates, expenses and other future events, and management's expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially alter our analysis in testing an asset for potential impairment.

Due to the continued decline in demand in the ultra deep-water drilling market, the time line for a projected recovery thereof, Management concluded that recoverable values of *Sevan Driller, Sevan Brasil* and *Sevan Louisiana* are less than their carrying amounts. Therefore, the carrying amounts of these rigs have been reduced to their estimated recoverable values through a non-cash impairment charge. Accordingly the *Sevan Driller* has been impaired by USD 9.6 million, *Sevan Brasil* by USD 2.1 million and *Sevan Louisiana* USD 25.8 million.

Based on sensitivity analyzes performed, the Company believes that reasonable movements in the key assumptions could result in a further impairment loss to be recognized. Thus there is a possibility the Group may recognize impairment in the following year if the facts underlying the key assumptions change over the coming year. An increase in the WACC of 100 basis points to 12% would increase the impairment by approximately USD 68.9 million, and a reduction of expected market rates in the re-contract years of 5.0% would increase the impairment by approximately USD 37.5 million over the whole fleet.

Note 11 – Other Non-Current Assets

	2016	2015
Net late delivery penalties	0.6	1.3
Net mobilization expense	0.3	12.2
Total other non-current assets	**0.9**	**13.5**

Net late delivery penalties include penalties incurred for the late delivery of the service element of the charter contract for the *Sevan Brasil*.

Note 12 – Subsidiaries

Overview of the Group structure as of December 31, 2016:

Subsidiaries	Registered office	Interest held	Functional currency	Principal activities
Sevan Drilling Rig II AS	Norway	100%	USD	Rig operator
Sevan Drilling Rig V AS[1]	Norway	100%	USD	Holding company
Sevan Drilling Rig VI AS	Norway	100%	USD	Holding company
Sevan Drilling Management AS	Norway	100%	USD	Rig management
Sevan Drilling ASA[2]	Norway	100%	USD	Holding company
Sevan Drilling Pte Ltd	Singapore	100%	USD	Holding company
Sevan Drilling Rig II Pte Ltd	Singapore	100%	USD	Holding company
Sevan Drilling Rig V Pte Ltd	Singapore	100%	USD	Holding company
Sevan Drilling Rig VI Pte Ltd	Singapore	100%	USD	Rig owner
Sevan Drilling Rig IX Pte Ltd	Singapore	100%	USD	Rig management
Sevan Drilling Limited	UK	100%	USD	Holding company
Sevan Drilling North America LLC	USA	100%	USD	Rig operator
Sevan Driller Ltd	Bermuda	100%	USD	Rig owner
Sevan Brasil Ltd	Bermuda	100%	USD	Rig owner
Sevan Developer Ltd	Bermuda	100%	USD	Holding company
Sevan Louisiana Hungary KFT	Hungary	100%	USD	Rig owner
Sevan Marine Servicos de Perfuracao Ltda	Brazil	100%	USD	Holding company
Sevan Investimentos do Brasil Ltda	Brazil	100%	USD	Service company

[1] Effective December 2016 Sevan Drilling AS and Sevan Drilling Rig VIII AS have merged into Sevan Drilling Rig V AS.

[2] Effective June 30, 2016 Sevan Drilling ASA was recapitalized as a wholly owned subsidiary of the Group and continues to be consolidated.

Note 13 – Inventories

	2016	2015
Fuel	1.9	2.0
Spares and consumables	49.5	49.3
Inventories	**51.4**	**51.3**

Note 14 – Trade and Other Receivables

	2016	2015
Trade receivables	46.1	67.3
Prepayments	0.5	1.6
Other receivables	18.6	10.3
Trade and other receivables	**65.2**	**79.2**

The Group did not have any impairment losses on trade receivables during 2016 and 2015.

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

	2016	2015
Before due date	46.1	67.3
Net trade receivables	**46.1**	**67.3**

See Note 21 "Financial Assets and Financial Liabilities" which explains how the Group manages and measures credit quality of trade receivables.

Note 15 – Interest Bearing Debt

	2016	2015
Bank credit facility	801.2	937.7
Non-current	**801.2**	**937.7**
Bank credit facility	134.0	134.6
Revolving credit facility with Seadrill	185.0	170.0
Current	**319.0**	**304.6**
Total	**1,120.2**	**1,242.3**

Total interest bearing debt include secured liabilities (bank and collateralized debt) of USD 1,120.2 million (2015: USD 1,242.3 million). See Note 21 "Financial Assets and Financial Liabilities" for additional discussion of collateral arrangement.

The bank credit facility is a USD 1,750 million secured bank loan facility was composed of a USD 350 million export credit facility and USD 1,400 million commercial facility. Tranche A, totaling USD 1,400 million, was drawn down in October 2013. The undrawn Tranche B, USD 350 million, was cancelled in December 2014 as a consequence of the arrangement made with Cosco to defer the delivery date of the *Sevan Developer*. Upon delivery, new financing will have to be secured to cover the final installment. The availability of such financing is expected to depend on a satisfactory drilling contract having been secured for the *Sevan Developer* and lending capacity at the time. Basic term is divided between LIBOR +2.5% for GIEK tranche and LIBOR +2.9% for Commercial tranche.

The GIEK tranche is extended to September 2023 and the commercial tranche matures in September 2018. If the commercial tranche is not refinanced satisfactorily after 5 years, then the GIEK tranche also becomes due.

The Company's bank credit facility is guaranteed by Seadrill, in exchange for the financial covenants being measured at the Seadrill consolidated level. Seadrill charges a guarantee fee of 1.0% per annum on amounts drawn. In 2016 USD 11.2 million was paid in guarantee fees (2015: USD 11.3 million).

The main financial covenants measured at the Seadrill consolidated level contained in the bank credit facility include an aggregated minimum liquidity requirement for the Seadrill group, interest coverage ratio, current ratio, equity ratio, leverage ratio, these are detailed below. In addition to financial covenants, the credit facility agreements generally contain covenants which are customary in secured financing in this industry, including operational covenants in relation to the relevant rigs, information undertakings and covenants in relation to corporate existence and conduct of our business. The facility agreement also identified various events which would trigger mandatory reduction, prepayment, and cancellation of the facility.

May 2015 Amendments

In May 2015, Seadrill executed an amendment to the covenants contained in all of its secured credit facilities. As such the main financial covenants contained in our credit facilities are as follows:

- Aggregated minimum liquidity requirement for the Seadrill group: to maintain cash and cash equivalents of at least USD150 million within the Seadrill group.
- Interest coverage ratio: to maintain an EBITDA to interest expense ratio of at least 2.5.

- Current ratio: to maintain current assets to current liabilities ratio of at least 1. Current assets are defined as book value less minimum liquidity, but including up to 20% of shares in listed companies owned 20% or more. Current liabilities are defined as book value less the current portion of long term debt.

- Equity ratio: to maintain total equity to total assets ratio of at least 30%. Both equity and total assets are adjusted for the difference between book and market values of drilling units.

- Leverage ratio: to maintain a ratio of net debt to EBITDA. Net debt is calculated as all interest bearing debt less cash and cash equivalents excluding minimum liquidity requirements.

    - 6.0:1, from and including the financial quarter starting on July 1, 2015 and including the financial quarter ending on September 30, 2016;

    - 5.5:1, from and including the financial quarter starting on October 1, 2016 and including the financial quarter ending December 31, 2016;

    - 4.5:1, from and including the financial quarter starting on January 1, 2017 until the final maturity date.

In connection with the amendment made in May 2015, effective from July 1, 2015, an additional margin may be payable on the senior secured credit facilities as follows:

- 0.125% per annum if the leverage ratio is 4.50:1 up to and including 4.99:1;

- 0.25% per annum if the leverage ratio is 5.00:1 up to and including 5.49:1;

- 0.75% per annum if the leverage ratio is 5.50:1 up to and including 6.00:1

In addition, as part of the amendments to the covenants contained in the Company's senior secured credit facilities in May 2015, the Company is restricted from making dividend distributions during the waiver period until January 1 2017.

April 2016 Amendments, as amended in April 2017

On April 28, 2016, Seadrill executed waiver agreements in respect of all of its senior secured credit facilities. On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. The key terms and conditions of these agreements are as follows:

- Equity ratio: Seadrill is required to maintain a total equity to total assets ratio of at least 30.0%. Prior to the amendment, both total equity and total assets are adjusted for the difference between book and market values of drilling units, as determined by independent broker valuations. The amendment removes the need for the market value adjustment from the calculation of the equity ratio until June 30, 2017. On April 4, 2017, the amendment period was extended until September 30, 2017.

- Leverage ratio: Seadrill is required to maintain a ratio of net debt to EBITDA. Prior to the amendment the leverage ratio had to be no greater than 6.0:1, falling to 5.5:1 from October 1, 2016, and falling again to 4.5:1 from January 1, 2017. The amendment retains the ratio at 6.0:1 until December 31, 2016, and then increases to 6.5:1 between January 1, 2017 and June 30, 2017. On April 4, 2017, the amendment period was extended until September 30, 2017.

- Minimum-value-clauses: Seadrill's and the Company's secured bank credit facilities contain loan-to-value clauses, or minimum-value-clauses ("MVC"), which could require the Seadrill and the Company to post additional collateral or prepay a portion of the outstanding borrowings should the value of the drilling units securing borrowings under each of such agreements decrease below required levels. This covenant has been suspended until June 30, 2017. On April 4, 2017, the amendment period was extended until September 30, 2017.

- Minimum Liquidity: The aggregated minimum liquidity requirement for the group to maintain cash and cash equivalents of at least USD 150 million has been increased to USD 250 million. On April 4, 2017, the amendment period was extended until September 30, 2017.

Additional undertakings:

- Further process: Seadrill and the Company has agreed to consultation, information provision and certain processes in respect of further discussions with its lenders under its senior secured credit facilities.

- Restrictive undertakings: Seadrill and the Company has agreed to additional near-term restrictive undertakings applicable during this process, including (without limitation) limitations in respect of:
    - dividends, share capital repurchases and total return swaps;
    - investments in, extensions of credit to or the provision of financial support for non-wholly owned subsidiaries;
    - investments in, extensions of credit to or the provision of financial support for joint ventures or associated entities;
    - acquisitions;
    - dispositions;
    - prepayment, repayment or repurchase of any debt obligations;
    - granting security; and
    - payments in respect of newbuild drilling units, in each case, subject to limited exceptions.
- Other changes and provisions:
    - Undrawn availability: Seadrill and the Company has agreed to refrain from borrowing any undrawn commitments under its senior secured credit facilities.
    - Fees: The Company has agreed to pay certain fees to its lenders in consideration of these extensions and amendments.

These extensions and amendments are designed to provide Seadrill and the Company and the banking group with a period of stability and certainty while a more comprehensive financing package is agreed. Seadrill and the Company intends to further communicate these financing plans this year.

For the purposes of the above tests, EBITDA is defined as the earnings before interest, taxes, depreciation and amortization on a consolidated basis and (ii) the cash distributions from investments, each for the previous period of twelve months as such term is defined in accordance with accounting principles consistently applied. However, in the event that Seadrill or a member of the group acquires rigs or rig owning entities with historical EBITDA available for the rigs' previous ownership, such EBITDA shall be included for covenant purposes in the relevant loan agreement, and if necessary, be annualized to represent a twelve (12) month historical EBITDA. In the event that Seadrill or a member of the group acquires rigs or rig owning companies without historical EBITDA available, Seadrill is entitled to base a twelve month historical EBITDA calculation on future projected EBITDA only subject to any such new rig having (i) a firm charter contract in place at the time of delivery of the rig, with a minimum duration of twelve months, and (ii) a firm charter contract in place at the time of such EBITDA calculation, provided Seadrill provides the agent bank with a detailed calculation of future projected EBITDA. Further, EBITDA shall include any realized gains and/or losses in respect of the disposal of rigs or the disposal of shares in rig owning companies.

Cash distributions from investments are defined as cash received by Seadrill, by way of dividends, in respect of its ownership interests in companies which Seadrill does not control but over which it exerts significant influence.

Our credit facilities contain customary restrictive covenants which that limit, among other things, our ability to:

- incur additional indebtedness;
- sell the mortgaged drilling rig, if applicable;
- make additional investments or acquisitions;
- pay dividends; and
- effect a change of control in the Company.

Seadrill is in compliance with the related covenants as of December 31, 2016.

Effective December 29, 2014, the Revolving Credit Facility ("RCF") with Seadrill was increased to USD 300 million. On April 28, 2016, the RCF maturity was extended to December 31, 2017. As a result, the RCF has been reclassified as a current liability in the Consolidated Balance Sheet. The RCF is secured with second priority in the Group's assets and incurs interest on drawn amounts at a rate of LIBOR +6.0% (+5.5% previously), payable quarterly in arrears. There is a commitment fee of 2.4% (2.2% previously) per annum on the undrawn balance on the RCF.

The Group has the following undrawn debt facilities:

	2016	2015
Expiring within one year	115.0	130.0
Expiring beyond one year	—	—
Total undrawn debt facilities	**115.0**	**130.0**

The USD 115 million (December 31, 2015: USD 130.0 million) undrawn facility expiring within one year is the RCF.

Security arrangements relating to drilling units are described in Note 19 "Securities for Debt" and liquidity risk is described in Note 21 "Financial Assets and Financial Liabilities".

Note 16 – Current Liabilities

	2016	2015
Trade payables	6.0	12.1
Accrued expenses relating to trade payables	19.0	25.9
Total trade and other payables	**25.0**	**38.0**
Income and gross revenue tax payable	5.4	0.2
Other taxes payable	7.4	6.0
Payable to related parties	67.7	45.3
Other payables	16.5	14.3
Total other current liabilities	**97.0**	**65.8**

Note 17 – Share Capital

	Number of shares	Share capital	Share premium	Total
Sevan Drilling Limited as at January 1, 2016	29,731,457	3.0	713.5	716.5
Proceeds of shares issued	—	—	—	—
Sevan Drilling Limited as at December 31, 2016	**29,731,457**	**3.0**	**713.5**	**716.5**
Sevan Drilling ASA as at January 1, 2015	594,623,436	108.6	666.0	774.6
Capital decrease of Sevan Drilling ASA	—	(108.5)	—	(108.5)
Sevan Drilling ASA as at June 29, 2015 (migration date)	**594,623,436**	**0.1**	**666.0**	**666.1**
Sevan Drilling Limited as at June 30, 2015	29,731,457	3.0	713.5	716.5
Proceeds of shares issued	—	—	—	—
Sevan Drilling Limited as at December 31, 2015	**29,731,457**	**3.0**	**713.5**	**716.5**

On May 26, 2015 the Board of Directors of Oslo Børs resolved to admit the shares of the new parent Sevan Drilling Limited to listing on Oslo Børs.

Sevan Drilling ASA's share capital consisted of 594,623,436 shares authorized and issued of NOK 1.00 per share. As part of the migration, Sevan Drilling ASA's share capital was reduced from NOK 594,623,436 to a share capital of NOK 1,000,000 through a reduction of the nominal value of the Company's shares from NOK 1 to NOK 0.001681737.

Sevan Drilling Limited's authorized share capital at this date consisted of 10,000,000,000 common shares of USD 0.10 each; of which 31,000,000 common shares were issued prior to the migration.

Effective on the market closing June 29, 2015, shareholders of Sevan Drilling ASA received 1 share in the Sevan Drilling Limited for every 20 shares each shareholder held in Sevan Drilling ASA (rounded up to the nearest whole share). As a result of the repayment of paid in capital, Sevan Drilling ASA owned 1,268,543 shares in the Company.

On July 2, 2015 Sevan Drilling Limited completed a buyback acquiring 1,268,543 of its shares from Sevan Drilling ASA at a price of NOK 10.20 per share, and the shares were subsequently cancelled. After completion of these transactions the share capital of the Company consists of 29,731,457 shares each having a nominal value of USD 0.10. Sevan Drilling ASA no longer holds any shares in the Company.

After the migration steps above, the shareholders in Sevan Drilling ASA will still remain as shareholders in the Company, with the same ownership percentages prior to the migration.

The total authorized number of ordinary shares was 100.0 million with a par value of NOK 1 per share. All issued shares were fully paid at balance sheet date.

List of 20 major shareholders at December 31, 2016	**Shares**	**Voting share**
SEADRILL LIMITED	14,897,069	50.1%
BNP PARIBAS SECS	573,335	1.9%
NORDNET BANK AB	431,530	1.5%
NORDNET LIVSFORSIKRI	384,467	1.3%
FORBREGD STIG	360,000	1.2%
SKJONG LEIF INGE	210,000	0.7%
SKJEGSTAD KNUT ARNE MELBY	210,000	0.7%
ASMYR JON MAGNE	200,000	0.7%
RAKA INVEST AS	200,000	0.7%
ALCHEMY TRADING AS	200,000	0.7%
SIVILØKONOM OLE KRIS	171,401	0.6%
CORNELIUSSEN ALF JOHAN	162,740	0.6%
HEDMANT INVEST AS	154,000	0.5%
HAAV HOLDING AS	150,000	0.5%
DANSKE BANK AS	134,446	0.5%
JENSEN ASBJØRN	130,000	0.4%
ÅLRUST TORBJØRN	122,980	0.4%
ULLEBUST HELGE MARTIN LUNDEVI	122,000	0.4%
MERCURIENNE AS	120,000	0.4%
ISMAIL SAMI ABDI	117,663	0.3%
Total 20 largest shareholder accounts	**19,051,631**	**64.1%**
Total number of shares	29,731,457	
Foreign ownership (Citizenship/Country of registration)	16,036,380	53.9%

Note 18 – Operating Leases

The Group leases offices under non-cancellable lease agreements.

The future aggregate minimum lease payments under operating leases are as follows:

	2016	2015
No later than 1 year	—	0.2
Between 1-5 years	—	—
Greater than 5 years	—	—
Total lease and rental obligations	**—**	**0.2**

Operating lease expense recognized for the year is USD 0.2 million (December 31, 2015: USD 0.7 million).

Note 19 – Securities for Debt

At the balance sheet date, the Group is party to the following security arrangements:

The bank credit facility is secured, on a cross-collateralized basis, by a first priority mortgage over the *Sevan Driller*, the *Sevan Brasil*, the *Sevan Louisiana*; a guarantee from Seadrill and each of the subsidiaries of the Company, Sevan Drilling Rig II Pte Ltd, Sevan Drilling Rig V Pte Ltd, Sevan Drilling Rig VI Pte Ltd, Sevan Driller Ltd, Sevan Brasil Ltd, Sevan Louisiana Hungary Kft, Sevan Drilling Rig II AS and Sevan Drilling North America LLC; a pledge over the shares issued by these subsidiaries; first priority security interest over each of these subsidiaries' rights with respect to all earnings and proceeds of insurance; and a first priority security interests in the bank accounts opened and maintained in the name of each of these subsidiaries in which all hires, freights, income, insurance proceeds and other sums payable in respect of the rigs are credited.

The RCF is secured, on a cross-collateralized basis, by a second priority mortgage over the *Sevan Driller*, the *Sevan Brasil* and the *Sevan Louisiana*. The closing net book values of the Company's drilling units were as follows:

	2016	2015
Sevan Driller	381.3	408.0
Sevan Brasil	494.0	511.6
Sevan Louisiana	498.1	550.7
Total	**1,373.4**	**1,470.3**

Note 20 - Commitments & Contingencies

The Sevan Developer

At December 31, 2016, the Group has a capital commitment for USD 499.7 million (2015: USD 447.1 million) for the delivery installment when the *Sevan Developer* is delivered. In October 2014, the Group entered an agreement with Cosco to defer the delivery date for 12 months with options to extend the date for subsequent periods of 6 months until October 2017. At the end of the deferral period and if options to extend are not exercised, the construction contract will terminate and the USD 26.3 million initial investment will be refunded and the investment impaired. Refund guarantees have been provided for the full deferral period. Delivery will occur if and when a contract that can support financing of the final delivery installment is secured.

On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

Legal matters

In 2011, the Company was separated out from the 100% ownership of Sevan Marine ASA and listed separately on the Oslo Stock Exchange. On October 16, 2015, Sevan Marine ASA issued an Oslo Stock Exchange notice advising that its Board had received a report from external counsel it had engaged to investigate allegations of improper conduct related to historical contracts with Petrobras. Sevan Marine handed over the report to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime ("ØKOKRIM"). The report concluded that it was more likely than not that illegal conduct had occurred, in the form of improper payments to obtain business, when Petrobras awarded contracts to subsidiaries of Sevan Marine ASA between 2005-2008.

Against this background, the Company reports that Sevan Drilling ASA has been accused of breaches of Sections 276 a and 276 b of the Norwegian Criminal Code in respect of payments made in connection with the performance during 2012 to 2015 of drilling contracts originally awarded by Petrobras to Sevan Marine ASA in the period between 2005-2008. In connection with the accusation, ØKOKRIM has performed a search and seizure exercise in the Company's offices. The Company is co-operating with the authorities in identifying and making available all documents, which the authorities consider relevant.

The Company has also voluntarily approached the Brazilian authorities with regard to these matters. The Company’s own investigation into these matters has uncovered no evidence of improper conduct by the Company.

We cannot predict the scope or ultimate outcome of the ØKOKRIM investigation. We also cannot predict whether any other governmental authority will seek to investigate this matter, or if a proceeding were opened, the scope or ultimate outcome of any such investigation. As a result, no loss contingency has been recognized in the Company’s Consolidated Financial Statements.

Note 21 – Financial Assets and Financial Liabilities

The Group’s financial instruments held as at December 31, 2016 consist of cash, trade receivables, trade payables and bank borrowings measured at amortized cost with variable interest rates.

The Group's financial instruments are classified as follows:

Financial assets

Financial assets at amortized cost	**2016**	**2015**
Trade and other receivables	65.2	79.2
Cash and cash equivalents	26.0	42.4
Total financial assets	**91.2**	**121.6**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The carrying value may be affected by changes in the credit risk of the counterparties.

Cash and cash equivalents consists of cash in the bank which is highly liquid.

Management assessed that the fair value of trade and other receivables and cash and cash equivalents approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial liabilities

Financial liabilities at amortized cost	**2016**	**2015**
Interest-bearing debt	1,120.2	1,242.3
Trade and other payables	25.0	38.0
Total financial liabilities	**1,145.2**	**1,280.3**

Note 15 "Interest Bearing Debt" contains further information on interest bearing debt including maturity and interest rates.

Management assessed that the fair value of trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

As at December 31, 2016 the fair value of interest-bearing debt has been determined using the discounted cash flow method using a discount rate that reflects the non-performance risk.

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing debt	1,120.2	1,039.7	1,242.3	1,242.3

Financial instruments risk management objectives and policies

The Group's principle financial liabilities comprise loans and debt and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principle financial assets are trade and other receivables and cash and cash equivalents.

The Group is exposed to liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group’s overall risk management program seeks to minimize potential adverse effects on the Group’s financial performance.

Risk management for the Group is carried out by the treasury function that is integrated in Seadrill's management organization. Final authority is, however, retained within the Company. Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units within the Group. The Board approves the principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, price risk, interest rate risk, credit risk and liquidity risk.

Liquidity risk

The Group’s objective is to maintain flexibility of financing by providing sufficient credit lines when managing liquidity. This may include maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity is sensitive to operational uptime on the units performing contracts.

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

December 31, 2016	**0 – 6 month**	**6 – 12 month**	**Year 2**	**Year 3**	**Year 4-5**	**Later**
Debt (including interest)	92.3	276.1	739.8	24.1	23.4	44.6
Trade and other payables	25.0	—	—	—	—	—
Total	**117.3**	**276.1**	**739.8**	**24.1**	**23.4**	**44.6**

December 31, 2015	**0 – 6 month**	**6 – 12 month**	**Year 2**	**Year 3**	**Year 4-5**	**Later**
Debt (including interest)	93.9	262.7	169.6	738.5	47.2	44.5
Trade and other payables	38	—	—	—	—	—
Total	**131.9**	**262.7**	**169.6**	**738.5**	**47.2**	**44.5**

Foreign currency risk

The Group's foreign currency risk primarily arises due to operations conducted in Brazil. Operating revenue and expenses are principally denominated in USD however, a portion of revenue and expenses are denominated in Brazilian reais. The revenues denominated in Brazilian reais are more or less equal to operating costs in Brazilian reais and therefore constitutes a natural hedge.

As the net income is primarily in USD this is also the primary financing currency.

The Group may use forward contracts to manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities. As of December 31, 2016, no forward contracts have been entered into.

The following table demonstrates the sensitivity to a reasonably possible change in Brazilian reais, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities.

	Increase/decrease in Brazilian reais	Effect on profit before tax
2016	5%	1.0
2015	5%	1.9

The Group's exposure to foreign currency changes for all other currencies is not material.

Interest rate risk

The Group's exposure to interest rate risk primarily relates to its floating interest rate debt. The Group continuously considers whether part of the interest rate exposure should be hedged. As at December 31, 2016, no interest rate hedges have been entered into.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and debt affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate debt, as follows:

	Increase/decrease in basis points	Effect on profit before tax
2016	100	11.2
2015	100	12.4

This sensitivity analysis has been determined based on an assumption that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used when reporting interest rate risk internally to the Board and represents management's assessment of a reasonably expected change in interest rates.

Credit risk

The Group has financial assets which expose it to credit risk arising from possible default by a counterparty, primarily from deposits with banks and financial institutions, as well as exposures to customers. The Group has no significant concentration of credit risk towards any single financial institution and has policies that limit the amount of credit exposure to individual institutions.

Trade receivables

The Company's customers are all engaged in the offshore oil and gas industry and consists independent oil and gas producers and government-owned oil companies. The Company performs ongoing credit evaluations of its customers and generally does not require collateral for amounts outstanding. The credit quality of a customer is assessed by reference to external credit ratings (where available) and by analysis of historical information about counterparty default rates.

The Company's current counterparties are Petrobras for the *Sevan Brasil* and LLOG for the *Sevan Louisiana*. The Group has not had a history of collection problems or significant disputes, and continues to closely monitor ongoing material matters with these customers. No provision for doubtful accounts has been recognized in the periods presented.

Cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Cash deposits are made only with approved counterparties and within credit limits assigned to each counterparty.

Guarantees

The Group is also exposed to the risk of Seadrill not meeting its financial covenants and other terms in the guarantee and its own loan agreements due to the cross-default provision in the Group's loan agreement.

Note 22 – Related Party Transactions

Balances and transactions between the entities within the Group have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Seadrill owns 50.11% of the Company's shares. The Group has been consolidated in Seadrill's accounts, which can be found at www.seadrill.com.

Seadrill has guaranteed the bank facility referred to in Note 15 "Interest Bearing Debt". Seadrill is providing the RCF of which USD 185.0 million was outstanding as of December 31, 2016 (2015: USD 170.0 million). Seadrill charged the Group interest on the RCF and guarantee and commitment fees in a total amount of USD 25.5 million (2015: USD 23.6 million).

As a consequence of being responsible for the day-to-day operation of the Group's rigs, Seadrill entities incur direct costs on behalf of the Group. Seadrill also provides executive services, management support and administrative services to the Group. The total fees charged for operating and management services were USD 30.9 million (2015: USD 35.4 million). The Group had a current liability (including the commitment, guarantee and management fees mentioned above) of USD 67.5 million to Seadrill as at December 31, 2016 (2015: USD 45.3 million). The Group also has a current asset from Seadrill of USD 0.2 million (2015: nil).

North Atlantic Drilling Ltd provides executive services to Sevan, the total fees charged were USD 0.4 million (2015: USD 0.2 million). The Group has a current asset with North Atlantic Drilling of USD 0.3 million (2015: USD 0.2 million). The Group also has a current liability to North Atlantic Drilling of USD 0.2 million (2015: nil).

Related party transactions are made on terms equivalent to those that prevail in arm’s length transactions.

Note 23 – Events After Balance Sheet Date

The Group has evaluated subsequent events after the balance sheet date through the date the accompanying Consolidated Financial Statements became available to be issued.

On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. These amendments also include a milestone, which is currently July 31, 2017, by which Seadrill and its majority owned and controlled subsidiaries, including Sevan, are required to implement a comprehensive restructuring plan. These extensions provide additional time for Seadrill and the Company to further advance the ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan, which may include the infusion of new capital.

The Company expects the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement or chapter 11 proceedings. We are preparing accordingly and have engaged financial advisors and legal counsel. The Company's business operations remain unaffected by these restructuring efforts and the Company expects to continue to meet its ongoing customer and business counterparty obligations.

On April 27, 2017, the delivery deferral agreement for the *Sevan Developer* was deferred to May 31, 2017 to finalize negotiations. If an agreement cannot be reached the remaining installment of USD 26.3 million will be refunded.

Sevan Drilling Limited Financial Statements

For the Year Ended December 31, 2016

Sevan Drilling Limited Financial Statements

Statement of Profit or Loss

for the year ended December 31, 2016

USD thousand	Notes	2016	2015
Operating revenue		**—**	**—**
Operating expenses		(756)	(219)
Impairment of investments	6	(138,372)	(69,940)
Total operating expenses		**(139,128)**	**(70,159)**
Operating Loss		**(139,128)**	**(70,159)**
Intercompany interest income	5	—	38,123
Intercompany interest expense	5	—	(18,719)
Interest expense	7	(26,107)	(23,975)
Dividend income	6	8,474	—
Net financial items		**(17,633)**	**(4,571)**
Loss before tax		**(156,761)**	**(74,730)**
Tax expense		—	—
Net Loss		**(156,761)**	**(74,730)**
Statement of comprehensive loss			
Net loss		(156,761)	(74,730)
Other comprehensive income net of tax		—	—
Comprehensive loss		**(156,761)**	**(74,730)**
Attributable to:			
Equity holders of the Company		**(156,761)**	**(74,730)**

The notes on pages 58 to 64 are an integral part of these financial statements.

Balance Sheet

as at December 31, 2016

USD thousands	Notes	2016	2015
Non-current assets			
Investments in subsidiaries	6	291,406	316,116
Accounts receivables from group companies	5	—	723,334
Total non-current assets		**291,406**	**1,039,450**
Current assets			
Accounts receivables from group companies	5	827,681	123,460
Other receivables		24	—
Cash and bank deposits		7,209	20,530
Total current assets		**834,914**	**143,990**
Total assets		**1,126,320**	**1,183,440**
Equity and liabilities			
Equity			
Share capital		2,973	2,973
Share premium		713,500	713,500
Retained earnings		(234,310)	(77,549)
Total equity		**482,163**	**638,924**
Non-current Liabilities			
Accounts payable to group companies	5	—	354,473
Total non-current liabilities		**—**	**354,473**
Current liabilities			
Trade payables		—	311
Interest bearing debt	7	185,000	170,000
Accounts payable to group companies	5	458,550	19,732
Other current liabilities		607	—
Total current liabilities		644,157	190,043
Total liabilities		**644,157**	**544,516**
Total equity and liabilities		**1,126,320**	**1,183,440**

The notes on pages 58 to 64 are an integral part of these financial statements.

Oslo, April 27, 2017
The Board of Directors

Per Wulff, Chairman

Ragnhild Wiborg, Director

Elin Karfjell, Director

Georgina Sousa, Director

Scott McReaken, Director

Statement of Changes in Equity

for the year ended December 31, 2016

USD thousands	**Share capital**	**Share premium**	**Other**	**Total equity**
Equity January 1, 2016	**2,973**	**713,500**	**(77,549)**	**638,924**
Net result for the year	—	—	(156,761)	(156,761)
Equity December 31, 2016	**2,973**	**713,500**	**(234,310)**	**482,163**
Equity January 1, 2015	**3,100**	**705,449**	**(2,819)**	**705,730**
Contribution	—	8,051	—	8,051
Net result for the year	—	—	(74,730)	(74,730)
Share buy back	(127)	—	—	(127)
Equity December 31, 2015	**2,973**	**713,500**	**(77,549)**	**638,924**

The notes on pages 58 to 64 are an integral part of these financial statements.

Statement of Cash Flow

for the year ended December 31, 2016

USD thousands	**2016**	**2015**
Operating activities		
Loss before tax	(156,761)	(74,730)
Adjustment to reconcile profit before tax to net cash flows:		
Net financial items	17,633	4,571
Impairment	138,372	69,940
Other non-cash	—	2
Net foreign exchange differences	4	2
Working capital adjustments:		
Trade and other payables	293	309
Other receivables	(25)	—
Net cash generated from operating activities	**(484)**	**94**
Investing activities		
Net movement on loans to intercompany	(94,549)	(33,037)
Dividend receivable	8,474	—
Net cash used in investing activities	**(86,075)**	**(33,037)**
Financing activities		
Proceeds from loans from related parties	85,000	95,000
Repayment of loans from related parties	(96,107)	(63,975)
Change in intercompany balances	84,345	14,524
Share buy back	—	(127)
Contribution by Sevan Drilling ASA	—	8,051
Net cash generated from financing activities	**73,238**	**53,473**
Net increase in cash and cash equivalents	**(13,321)**	**20,530**
Cash balance at January 1,	**20,530**	**—**
Cash and cash equivalents at December 31,	**7,209**	**20,530**

The notes on pages 58 to 64 are an integral part of these financial statements.

Notes to the Sevan Drilling Limited Financial Statements

General information

Sevan Drilling Limited (the “Company”) is a company incorporated in Bermuda. The address of the registered office is Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda.

Note 1 – Summary of Significant Accounting Policies

1.1 Basis of Preparation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) that are effective for the year ended December 31, 2016.

The amounts presented in the financial statements are stated in U.S. dollars ("USD") and values are rounded to the nearest thousand, except when otherwise indicated.

The financial statements are prepared on a going concern basis. The Company's going concern assumption is based on management’s expectation that Seadrill’s comprehensive restructuring plan will be completed successfully and the Revolving Credit Facility ("RCF") will be extended, however the timing and outcome of this process is inherently uncertain.

As a result of the downturn in the offshore drilling industry, Seadrill will be required to secure additional liquidity to fully meet its short term liquidity requirements over the next twelve months. Seadrill and the Company are engaged in ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan, which may include the infusion of new capital.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies applied are consistent with those applied in the consolidated financial statement for 2015.

1.1.1 Changes in Accounting Policy and Disclosures

a) New and amended standards adopted by the Company

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

These amendments do not have any impact on the Company.

b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed a high-level impact assessment of the two applicable aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortized cost under IFRS 9. However, the Company will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company does not expect a significant impact on its equity due to historical experience and credit worthiness of its customers and financial institutions, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

1.2 Foreign Currency Translation

The Company's financial statements are presented in USD, which is also the company's functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

1.3 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Loans and receivables are measured at fair value at the transaction date and subsequently re-measured at amortized cost. Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Financial assets are classified as current, except for those with maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current. The losses arising from impairment are recognized in the statement of profit or loss in operating expenses for receivables.

This category generally applies to other receivables.

Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company’s financial liabilities include other payables and loans and borrowings.

After initial recognition, interest-bearing loans are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized.

This category generally applies to interest-bearing loans and other payables.

1.4 Cash and Cash Equivalents

In the consolidated statement of cash flow, cash and cash equivalents include cash in hand, bank deposits, and other short-term highly liquid investments with a maturity of less than three months.

1.5 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.6 Current and Deferred Income Tax

The tax expense for the period comprises current tax and the change in deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and legislation) that have been enacted or substantially enacted by balance sheet date and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. The tax base included in the calculation of deferred income tax is calculated in local currency and translated into USD at foreign exchange rates prevailing at the balance sheet date. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

1.7 Investment in subsidiaries

Investments in subsidiaries are held at cost. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

1.8 Sevan Drilling Group

The Company will be consolidated into the "Sevan Drilling Group" (the parent company Sevan Drilling Limited and its subsidiaries) financial statements as at December 31, 2016.

Note 2 – Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under current circumstances.

2.1 Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below. These estimates and assumptions are based on historical experience and other factors that are believed to be reasonable when the consolidate financial statement were prepared. Actual results may differ from these estimates due to market changes or circumstances that are beyond the control of the Company.

Impairment of investments

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal is based on available market data. The recoverable value of the investments was calculated using an income method discounted cash flow.

The estimated future free cash flows associated with the investment were primarily based on expectations around applicable day rates, rig utilization, operating costs and capital and long-term maintenance expenditures. To discount the future cash flows, management used a pre-tax weighted average cost of capital (WACC) of 11%. The model derived an enterprise value of the investments, after which associated debt was subtracted to provide equity values. The carrying value of the investment was found to exceed the fair value by $138,372,000. We have recognized this impairment of the investments within "Impairment of Investments" in the Statement of Profit or Loss.

The assumptions used in the model were derived from unobservable inputs and are based on management's judgments and assumptions available at the time of performing the impairment test. The significant assumptions include forecasted operational expense, operational taxes, utilization (94%) and dayrates (low USD 205k per day with recovery to mid USD 400k per day by 2021).

The underlying assumptions and assigned probabilities of occurrence for utilization and dayrate scenarios were developed using a methodology that examines historical data for each rig, which considers the rig's age, rated water depth and other attributes and then assesses its future marketability in light of the current and projected market environment at the time of assessment. Other assumptions, such as operating, maintenance and inspection costs, are estimated using historical data adjusted for known developments and future events that are anticipated by management at the time of the assessment. Management's assumptions are necessarily subjective and are an inherent part of our asset impairment evaluation, and the use of different assumptions could produce results that differ from those reported. Management's assumptions involve uncertainties about future demand for our services, dayrates, expenses and other future events, and management's expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially alter our analysis in testing an asset for potential impairment.

Note 3 - Share capital and shareholder information

	Number of shares	Share capital	Share premium	Total
Sevan Drilling Limited as at December 31, 2016	29,731,457	2,973	713,500	716,473

Each share has a nominal value of USD 0.10.

List of 20 major shareholders at December 31, 2016	Shares	Voting share
SEADRILL LIMITED	14,897,069	50.1%
BNP PARIBAS SECS	573,335	1.9%
NORDNET BANK AB	431,530	1.5%
NORDNET LIVSFORSIKRI	384,467	1.3%
FORBREGD STIG	360,000	1.2%
SKJONG LEIF INGE	210,000	0.7%
SKJEGSTAD KNUT ARNE MELBY	210,000	0.7%
ASMYR JON MAGNE	200,000	0.7%
RAKA INVEST AS	200,000	0.7%
ALCHEMY TRADING AS	200,000	0.7%
SIVILØKONOM OLE KRIS	171,401	0.6%
CORNELIUSSEN ALF JOHAN	162,740	0.6%
HEDMANT INVEST AS	154,000	0.5%
HAAV HOLDING AS	150,000	0.5%
DANSKE BANK AS	134,446	0.5%
JENSEN ASBJØRN	130,000	0.4%
ÅLRUST TORBJØRN	122,980	0.4%
ULLEBUST HELGE MARTIN LUNDEVI	122,000	0.4%
MERCURIENNE AS	120,000	0.4%
ISMAIL SAMI ABDI	117,663	0.3%
Total 20 largest shareholder accounts	19,051,631	64.1%
Total number of shares	29,731,457	
Foreign ownership (Citizenship/Country of registration)	16,036,380	53.9%

Note 4 - Employee benefit expense

The Company had no employees during the period (2015: nil).

Note 5 - Intercompany Transactions

	2016	2015
Long-term receivables from Group companies	—	723,334
Accounts receivables from Group companies	827,681	123,460
Total receivables from Group companies	**827,681**	**846,794**
Long-term payables to Group companies	—	354,473
Accounts payables to Group companies	458,550	19,732
Total liabilities to Group companies	**458,550**	**374,205**

	2016	2015
Interest income from Group Companies	—	38,123
Interest expense from Group Companies	—	(18,719)
Total income from Group companies	**—**	**19,404**

Note 6 - Investment in subsidiaries

Company	Address	Ownership	Book value USD
Sevan Drilling AS	Oslo	100.0%	1
Sevan Drilling Rig V AS	Oslo	100.0%	1
Sevan Drilling Rig VI AS	Oslo	100.0%	1
Sevan Drilling Management AS	Oslo	100.0%	1
Sevan Drilling Rig VIII AS	Oslo	100.0%	1
Sevan Driller Ltd	Bermuda	100.0%	1,000
Sevan Brasil Ltd	Bermuda	100.0%	1,000
Sevan Developer Ltd	Bermuda	100.0%	1,000
Sevan Louisiana Hungary KFT	Hungary	100.0%	180,653,631
Sevan Drilling Pte Ltd	Singapore	100.0%	110,749,858
Sevan Drilling Rig IX Pte Ltd	Singapore	100.0%	1
Sevan Drilling Limited	UK	100.0%	1
Total			**291,406,496**

In 2016, an impairment charge of USD 138,372,000 was recognized on the investment held in Sevan Drilling Pte Ltd (2015: USD 69,940,143).

In 2016, dividend income of USD 8,474,186 (2015: nil) was received from the investment held in Sevan Louisiana Hungary KFT.

Note 7 - Interest Bearing Debt

	2016	2015
Current liabilities		
Debt from related parties	185,000	170,000
Total current liabilities	**185,000**	**170,000**

	2016	2015
Undrawn debt facilities		
Expiring within one year	115,000	130,000
Total undrawn debt facilities	**115,000**	**130,000**

The principle amount outstanding is secured with second priority in the Group's assets and incurs interest on drawn amounts at a rate of LIBOR + 6.0%, payable quarterly in arrears. There is a commitment fee of 2.4% per annum on the undrawn balance of the RCF.

Note 8 - Related Party Transactions

Seadrill is providing the RCF of which USD 185,000,000 was outstanding as at December 31, 2016 (2015: USD 170,000,000). Seadrill charged the Company interest on the RCF, guarantee and commitment fees in a total amount of USD 25,500,000 (2015: USD 23,600,000).

Sevan Drilling has a total liability with Seadrill of USD 7,678,036 (2015: USD 6,352,726).

Note 9 - Events After Balance Sheet Date

The Group has evaluated subsequent events after the balance sheet date through the date the accompanying consolidated financial statements became available to be issued.

On April 4, 2017, Seadrill executed extensions to the covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017. These amendments also include a milestone, which is currently July 31, 2017, by which Seadrill and its majority owned and controlled subsidiaries, including Sevan, are required to implement a comprehensive restructuring plan. These extensions provide additional time for Seadrill and the Company to further advance the ongoing negotiations with Seadrill and Sevan lending banks and potential new money investors regarding the terms of a comprehensive restructuring plan. Failure to meet or extend this milestone may result in events of default under our credit facility and other funded debt.

We expect the implementation of a comprehensive restructuring plan will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code. We are preparing accordingly and have retained financial advisers and legal counsel. The Company's business operations remain unaffected by these restructuring efforts and the Company expects to continue to meet its ongoing customer and business counterparty obligations.

There is inherent uncertainty in the completion of the comprehensive restructuring plan and therefore the Company is also actively preparing various contingency plans. The Group's going concern assumption is based on management's expectation that a comprehensive restructuring plan will be completed successfully, however the timing and outcome of this process is inherently uncertain.

To the General Meeting of Sevan Drilling Limited

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sevan Drilling Limited. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, 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.

PricewaterhouseCoopers AS, Kanalsletta 8, Postboks 8017, NO-4068 Stavanger
T: 02316, org.no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

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Material Uncertainty Related to Going Concern

The Group is currently dependent on funding provided by its majority shareholder Seadrill, through a Rolling Credit Facility (RCF). Seadrill is also guaranteeing the Groups bank facility and Cross Default Clauses exists between the bank facility and Seadrill's other credit facilities. Seadrill is currently negotiating with its lenders to secure sufficient liquidity. The timing and outcome of the ongoing process is inherently uncertain. As stated in the Board of Directors report these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. We emphasize that the financial statements do not reflect impairment charges that may occur should a sale of assets be forced. Our opinion is not modified in respect of this matter.

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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment	
Sevan Drilling Group has rigs, newbuilding contracts and related assets with a carrying amount of MUSD 1,411 as at 31 December 2016. Due to the general downturn in the industry and the increased uncertainty, impairment indicators were considered present and management has assessed the carrying amounts for impairment. Management calculates value in use for all their rigs using a discounted cash flow model. An impairment charge of MUSD 37.5 were recognized in 2016 for three rigs. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying amounts. The conclusion depend on significant management judgement related to factors such as estimated utilization, day rates, operating expenses, discount rates and use of disposal values applied to future cash flows. The risks connected to valuation of rigs has increased during 2016 due to the	Our procedures directed at management's impairment assessment of rigs included obtaining managements valuation model and evaluating whether the model contains the elements required by accounting regulation. We assessed and challenged management on the assumptions used in the model. This included tracing input data to contracts and budgets approved by the board of directors, and considering whether day rates are consistent with our knowledge of the industry. We used current and historical external market reports where possible to challenge the rates used by management. We challenged management on their assessment of current market activity and their expectation on when the market is likely to improve. To consider the reliability of estimated operating expenses and utilization, we compared the estimates to historical performance, our knowledge of the industry and considered whether deviations from the budget had a reasonable explanation. When we considered management's analysis of sensitivity, we noted that the forecasted cash flow is highly sensitive to even minor changes to assumptions. We used our internal valuation specialists and external market data to assess the assumptions used to build the

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challenging market conditions. This has increased the need for judgement in the valuations. We focused on this area due to the magnitude of the amounts and the significant management judgement necessary. See also note 2 and 10	discount rate. We considered that the discount rate used was within an appropriate range. We checked the consistency of the use of the discount rate against all vessels and ensured the mathematical accuracy of its application in the value in use calculations. We considered that the discount rate used was within an appropriate range. Based on available evidence we found management's assumptions in relation to the value in use calculations to be reasonable.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines 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, management is responsible for assessing the Company's and the Group'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 management either intends to liquidate the Group or to cease operations, or has 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Independent Auditor's Report - Sevan Drilling Limited

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as agoing concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Stavanger, 27 April 2017

PricewaterhouseCoopers AS

Arne Birkeland

State Authorised Public Accountant

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