

December 31st 2014

Island Drilling Company ASA

4th Quarter Financial Report



ISLAND DRILLING



Operations

Operations continue to be satisfactory also for Q4/14 –with an average available rig time for the Island Innovator in line with the budget for the quarter. At the same time, the operating expenses (OPEX) are well below budget. As can be seen from the accounts, this has resulted in a good operating profit (EBITDA).

The rig concluded operations on well 7220/11-1 'Alta', and the rig performed a good drill stem test. The rig then relocated to well 25/10-12S Kopervik, for drilling a well according to the Lundin well program.

The main focus in Q4/14 has been on continuing to improve operations and increasing the available rig time. A number of measures have been implemented in cooperation with the rig manager – Odfjell Drilling AS – to optimise procedures and operations, and improve technical solutions. Operational development has been good, with planned projects being completed. No lost-time incidents have been reported. We now see the results of this continuous work in the Q4/14 performance.

Market update

The negative trend observed in the rig market throughout 2014 is continuing. However, since the rig still has six wells left under its 12-well Lundin Charter Contract, the weaker rig market has no impact on the company's profitability in the short term.

Financial update

Operating revenues in Q4/14 amounted to USD 42.3 million. (YTD/14 USD 167,8 million), while EBITDA in Q4/14 amounted to USD 23,5 million (YTD/14 USD 83,2 million)). Due to the the general decline in the market values for drilling rigs Island Drilling has taken an impairment charge on the rig value of MUSD 61 in Q4/14 – which leads to a loss of USD 51,5 million for the fourth quarter 2014 (Q4/14). For the year to date (YTD Q4/14), the loss is USD 40,4 million. Adjusted for the impairment loss the net profit in the fourth quarter was USD 9,5 million and USD 20,6 million YTD Q4/14.

Total fixed assets as of 31 December 2014 amount to USD 655,8 million, after the impairment of USD 61 million in Q4/14. Current assets total USD 65,0 million, of which bank deposits amount to USD 28,8 million. Long-term liabilities amount to USD 420,5 million as of 31 December 2014, a decrease of USD 44,3 million since year-end 2013. Long-term liabilities include the senior bank loan, the bond loan and loans from related parties. Current liabilities as of 31 December 2014 amount to USD 80,3 million, including the short-term portion of the long-term debt.

The cash flow from operating activities for the fourth quarter 2014 was USD 31,2 million (YTD/14 USD 60,3 million), while the cash flow from investments was minus USD 6,4 million. The high cash flow from operating activities Q4/14 was due to the charterer (Lundin) paying two month's revenue in December – the November revenue that would normally be paid early January 2015 was received already December 30th, 2014. The cash flow from financing activities was minus USD 6,3 million. This resulted in a net cash flow of USD 18,5 million in Q4/14 (YTD/14 minus USD 0,5 million), increasing

the cash and cash equivalents from USD 10,3 million at 30 September 2014 to USD 28,8 million at 31 December 2014 (USD 29.3 million at year-end 2013).

Profit & Loss Account

Amounts in USD 1,000s

	YTD Q4 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	2013
Revenues	167 776	42 261	42 494	43 262	39 759	37 287
Operating expenses	84 576	18 725	22 181	21 334	22 336	22 383
EBITDA	83 200	23 536	20 312	21 928	17 423	14 904
Depreciation and amortisation	34 082	8 590	8 590	8 497	8 404	9 151
Impairment	61 000	61 000	0	0	0	12 300
EBIT	-11 882	-46 055	11 722	13 431	9 020	-6 546
Net financial items	-28 543	-5 456	-7 433	-8 830	-6 824	-8 877
Net pre-tax profit	-40 425	-51 511	4 289	4 601	2 196	-15 424
Taxes	0	0	0	0	0	0
Net result after taxes	-40 425	-51 511	4 289	4 601	2 196	-15 424
EBITDA%	50 %	56 %	48 %	51 %	44 %	40 %

Balance sheet

Amounts in USD 1,000s

Assets	31-12-14	30-09-14	30-06-14	31-03-14	31-12-13
<i>Fixed assets</i>					
Total intangible assets	0	0	0	0	0
Rig, machinery and equipment	655 777	719 392	721 434	729 982	733 023
Total Fixed Assets	655 777	719 392	721 434	729 982	733 023
<i>Current Assets</i>					
Total receivables	36 174	57 374	60 053	57 265	54 930
Cash and cash equivalents	28 826	10 328	18 053	14 934	29 342
Total Current Assets	64 999	67 702	78 105	72 199	84 272
Total Assets	720 776	787 094	799 539	802 182	817 295
Equity and Liabilities	31-12-14	30-09-14	30-06-14	31-03-14	31-12-13
Paid-in equity	260 333	260 333	260 333	260 333	260 333
Retained earnings	-40 425	11 086	6 797	2 196	0
Total Equity	219 908	271 419	267 130	262 529	260 333
Bonds	137 215	137 001	136 787	136 572	136 358
Long term loans	283 321	292 797	307 986	312 751	328 412
Current liabilities	80 332	85 878	87 636	90 329	92 192
Total Liabilities	500 868	515 675	532 409	539 653	556 962
Total Equity and Liabilities	720 776	787 094	799 539	802 182	817 295

Cash flow statement

Amounts in USD 1,000s

	YTD Q4 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	2 013
Cash flow from operating activities	60 329	31 238	13 549	7 983	7 559	-26 545
Cash flow from investment activities	-19 669	-6 417	-7 008	-408	-5 836	-242 835
Cash flow from financing activities	-41 176	-6 324	-14 265	-4 457	-16 131	234 069
Net cash flow in the period	-517	18 497	-7 724	3 118	-14 408	-35 310
Cash and cash equiv. at start of period	29 342	10 328	18 053	14 934	29 342	64 652
Cash and cash equiv. at end of period	28 825	28 825	10 328	18 053	14 934	29 342



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