

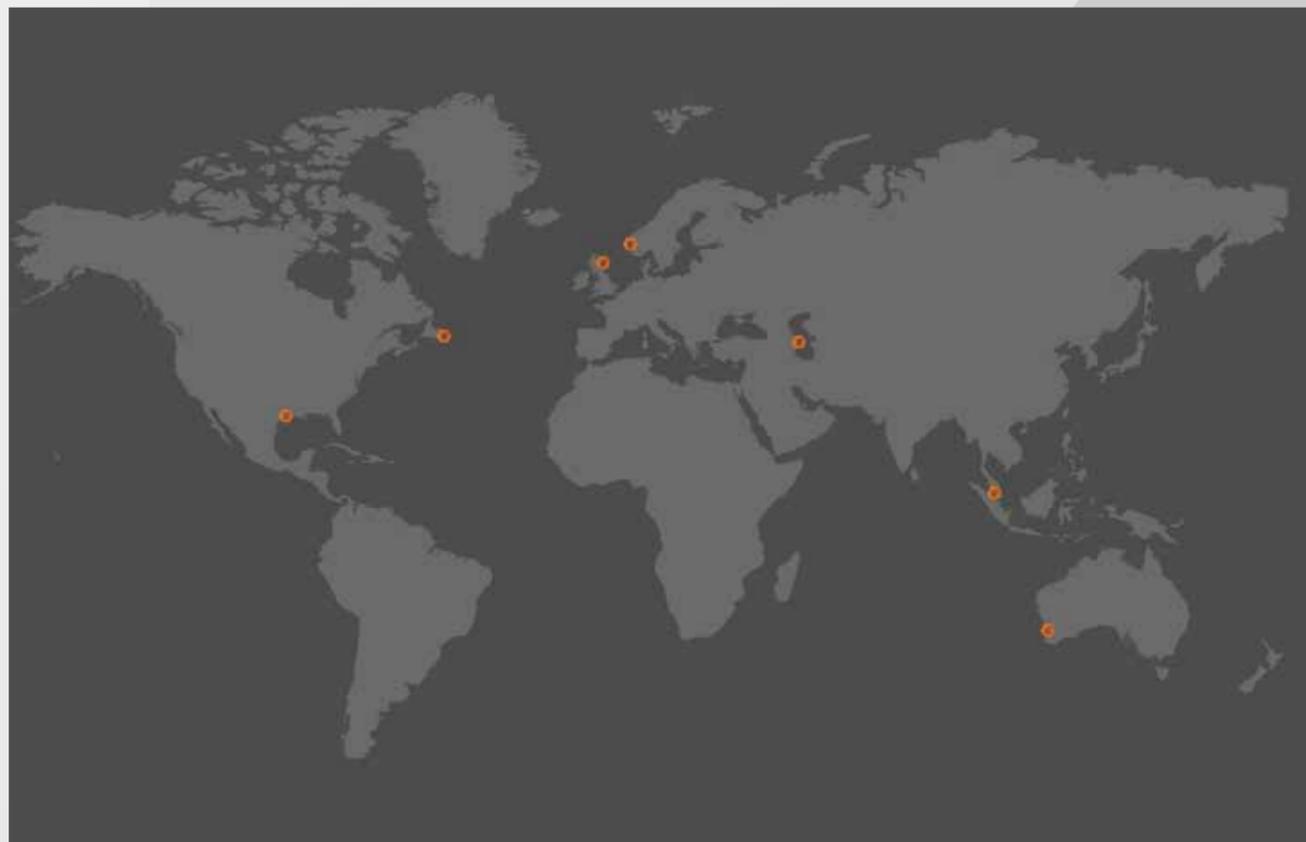
—  
EDS Group AS  
Annual Report  
2015

—  
Innovation in depth®



**ENHANCED  
DRILLING**

## | ENHANCED DRILLING AT A GLANCE



**Enhanced Drilling** is a provider of specialist drilling technology and services to the international offshore oil and gas industry.

The company's head office is in Straume (near Bergen), Norway.

Offices and workshops globally include Aberdeen in the UK, Houston in the US, Perth in Australia and Baku, Azerbaijan. There are also

workshop facilities in St John's, Canada, as well as an office in Kuala Lumpur, Malaysia. Enhanced Drilling has, for almost 30 years, built an enviable track record and world-class reputation for its innovative offshore drilling technology and services which have been deployed on more than 600 wells.

## | ENHANCED DRILLING'S PRODUCTS

### EC-DRILL® - Managed Pressure Drilling system



EC-Drill® is a Managed Pressure Drilling (MPD) system based on a Dual Gradient Drilling (DGD) method. It can be used in both shallow and deep water (including depleted wells), either from a jack-up, platform or a floating drilling vessel.

EC-Drill® solves a long-standing challenge commonly associated with deep-water wells – drilling through a narrow pore/fracture gradient pressure window.

It is a field proven, simple-yet-smart extension of conventional drilling - meaning familiarity for a small project team, with the advantage of a short training period.

EC-Drill® does not use a rotating control device (RCD) and utilises the rig's LP drilling riser and subsea BOP. Its top-side footprint is limited, meaning easy rig integration.

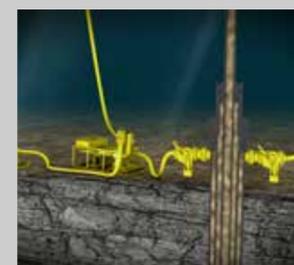
### RMR® - Riserless Mud Recovery system



Riserless Mud Recovery (RMR®) is a risk-reduction system that allows you to drill a better, more stable top hole safely, quickly and with less environmental impact.

The system is an innovative way to return mud and cuttings to the rig before the marine riser is run, without discharge to the seabed: there is no 'Pump and Dump'.

### MPC - Managed Pressure Cementing system



MPC is a risk-reduction tool that enables the successful isolation of high-pressure, unconsolidated water/gas bearing formations with high-performance cement.

The wellbore pressure can be managed in such a way that unwanted fluid exchanges between the wellbore and casing annulus are avoided during circulation of cement slurry and its setting time.

With MPC, precise control over the pressure and return flow is possible to keep the wellbore pressure profile within the drilling pressure window.

### CTS - Cuttings Transportation System



The CTS Cuttings Transportation System is based on proven technology used in the offshore market for more than 18 years.

The system was developed to transport cuttings away from the well area during top-hole drilling on semi-submersible rigs and during clean-up operations on the seabed. The system is of modular design, allowing ease of installation on most rig types.

CTS has evolved to complement our RMR® operations. It is capable of running for long periods of time without maintenance and is able to pump large particles without blockages to the system.

## Progress in a challenging market

2015 was a year of sliding oil prices and market uncertainty.

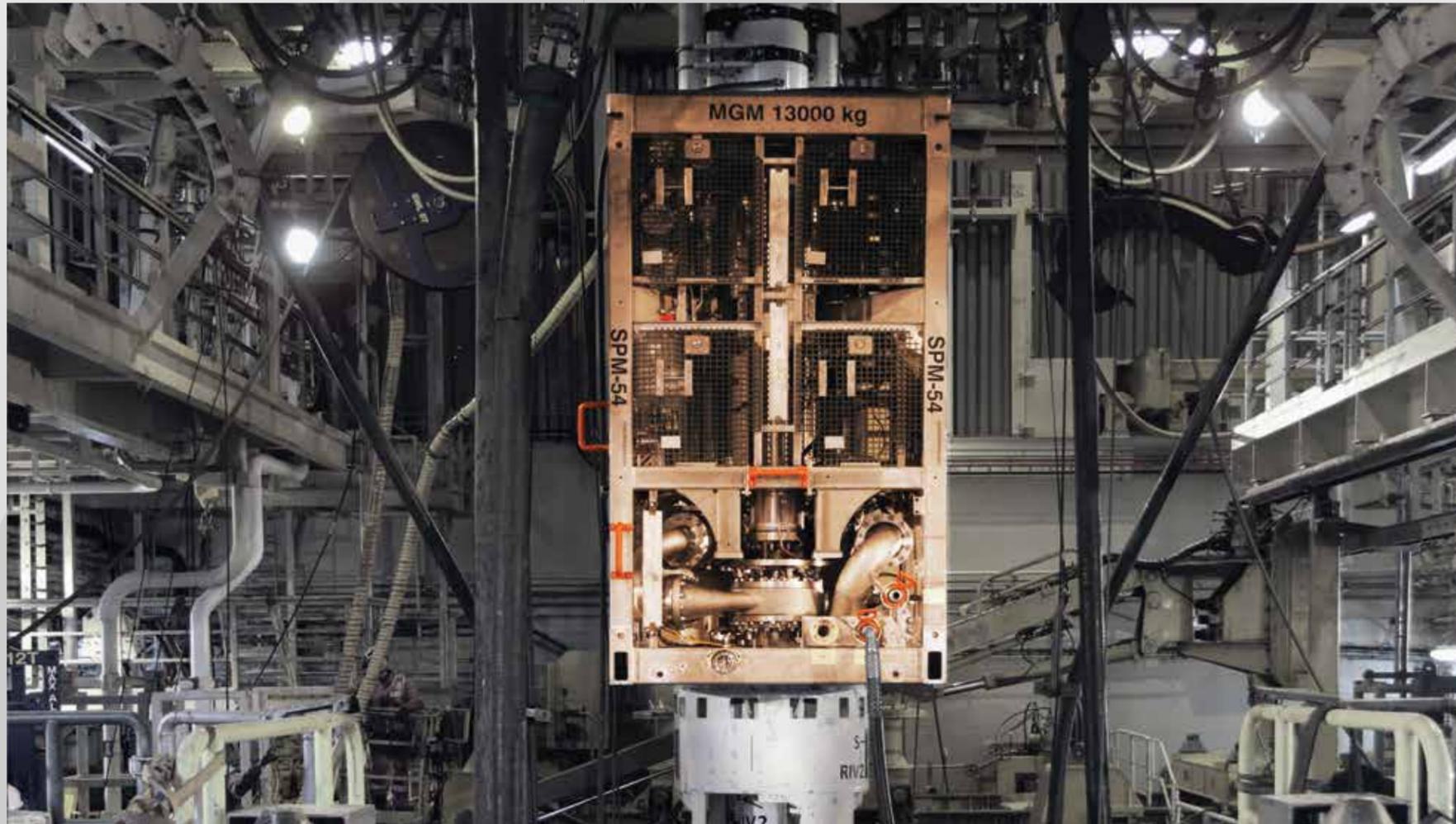
As with the majority of the oil field services sector, Enhanced Drilling did not escape the effects of the reduced activity.

### 'Pressure'

In addition, significant pricing pressure from customers and potential clients was experienced throughout the course of the year. Hardest hit has been the offshore drilling market, in particular the deep-water segment.

In response to these highly challenging market conditions, Enhanced Drilling needed to adapt accordingly. As a result, the company went through an aggressive cost-reduction programme spanning all elements of its business including downsizing, re-negotiation with suppliers, as well as the implementation of various improvement and efficiency initiatives.

By taking these measures, Enhanced Drilling was able to offset a significant portion of the market challenges, albeit with some lag affecting the various initiatives. At the same time, there is a strong correlation between the Exploration and Production market and our core business. This is irrespective of the fact that the level of activity on a well-count basis remained broadly intact given a certain portion of the slow down occurred in 2014,



**ADAPTING TO THE MARKET:**  
David Hine, CEO,  
Enhanced Drilling

as well as the geographical spread of our operations.

### 'Traction'

Our EC-Drill® Managed Pressure Drilling technology gained significant traction despite the prevailing market conditions. During the course of 2015, Enhanced Drilling conducted several Rig Integration & Well Planning (RI&WP) studies, the first stage to potential operations. Clients included such high-profile operating companies as Shell GoM, BP GoM, PDVSA GoM and Woodside WA – Australia. In addition, Enhanced Drilling was successful in closing two key EC-Drill® contracts: Statoil for the Norwegian Continental Shelf and BP Baku.

Of particular note is that both contracts are long-term agreements, entered into despite significant operational-expenditure pressure and low oil prices.

### 'Positive'

Also, our sales pipeline for EC-Drill® continued to expand throughout the year, with a positive expectation of closing further EC-Drill® opportunities in 2016.

The Dual Gradient Drilling (Subsea Mud Lift) project was taken over by Chevron, both to reduce cost and due to a delayed drilling programme. As such the Maintenance & Operations contract with Enhanced Drilling was terminated in Q1/Q2. In parallel, we continued our efforts within our Innovation function, including the ongoing improvement and evolution of both our core business (RMR® Riserless Mud Recovery) and EC-Drill®, as well as 'next generation' products which received funding from both clients and ourselves.

Naturally, given the rightsizing of the business, some of the internal improvement initiatives were necessarily pushed out over the course of the year.

### SUCCESS

The EC-Drill® Managed Pressure Drilling system gained significant traction, despite prevailing market conditions

That said, we continued our efforts in both mandatory training development and competence assurance. Based on the current rate of progress, we are in good shape to complete the first phase of both in the first half of 2016.

Despite a difficult year, our annual Human Capital survey offered a positive insight into a workforce that continues to be engaged and optimistic.

On a final note, our continued vigilance to HSEQ performance - 'getting everyone home safely' is our top priority - resulted in zero lost time injuries, one medical treatment injury and zero first aid incidents.

David Hine, Chief Executive Officer

## EDS Group AS – 2015 Consolidated (Full year figures in TNOK)

	2015	2014
<b>Profit and loss account</b>		
Operating revenue	489 516	549 921
EBITDA	57 443	87 521
EBIT	(135 235)	14 411
Loss from continued operations	(144 185)	(21 742)
<b>Balance/liquidity/capital</b>		
Equity	199 935	317 725
Cash and equivalents	37 213	53 375
Total capital	851 179	1 010 323
Interest-bearing liabilities	400 107	322 352
<b>Key figures per share</b>		
Share capital	109 254	109 254
Average number of outstanding shares	124 152 393	124 152 393
Outstanding shares 31.12	124 152 393	124 152 393
Dividend per share (NOK)	-	-
EBITDA per share (NOK)	0,46	0,70
Equity per share (NOK)	1,61	2,56

Business areas	Enhanced Drilling	Cannseal	Group	Elimin.	Total
<b>Profit and Loss Account 2015</b>					
External operating revenues	473 702	10 019	5 795	-	489 516
Intercompany operating revenues	2 000	2 777	3 713	(8 490)	(0)
Project expenses/payroll expenses	(413 534)	(11 306)	(15 724)	8 490	(432 074)
<b>EBITDA</b>	<b>62 168</b>	<b>1 490</b>	<b>(6 216)</b>	-	<b>57 443</b>
Depreciation and amortisation	(86 803)	(105 874)	-	-	(192 677)
<b>Operating profit/ (loss)</b>	<b>(24 635)</b>	<b>(104 384)</b>	<b>(6 216)</b>	-	<b>(135 235)</b>
Net financial items	2 079	(6 495)	(9 304)	-	(13 719)
Tax	(4 361)	-	(409)	-	(4 769)

Business areas	Enhanced Drilling	Cannseal	Group	Elimin.	Total
<b>Profit and Loss Account 2014</b>					
External operating revenues	543 238	-	6 683	-	549 921
Intercompany operating revenues	2 000	-	3 713	(5 713)	-
Project expenses/payroll expenses	(435 847)	(18 341)	(13 925)	5 713	(462 400)
<b>EBITDA</b>	<b>109 391</b>	<b>(18 341)</b>	<b>(3 529)</b>	-	<b>87 521</b>
Depreciation and amortisation	(72 219)	(223)	(668)	-	(73 110)
<b>Operating profit/ (loss)</b>	<b>37 172</b>	<b>(18 564)</b>	<b>(4 198)</b>	-	<b>14 411</b>
Net financial items	(4 167)	(8 098)	2 527	-	(9 737)
Tax	(16 844)	(5 443)	(4 128)	-	(26 415)

## Annual Report 2015

The official and audited financial results for EDS Group AS reflect the period January through December 2015.

2015 has been a challenging yet positive year for the EDS Group of companies.

During the year, significant focus was placed on 'right-sizing' the Enhanced Drilling business in line with the contracting offshore drilling segment. Subsequent measures included both temporary and permanent redundancies throughout the company. Additionally, significant progress was made with other streamlining initiatives and measures.

2015 followed a positive trend in HSEQ statistics, namely:

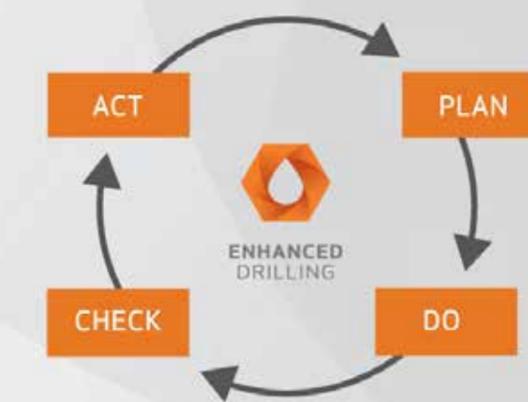
Lost Time Incidents (LTI) – 0  
 Medical Treatment Incidents (MTI) – 1  
 First Aid Incidents (FAI) – 0  
 Total Recordable Incident Frequency (TRIF) – 2.49%  
 Global Internal Audit Team (GIAT) Audits - 26  
 Environmental Spills – 1 (minor)  
 Recycling – 61.4%  
 (Note: this low percentage is due to Americas and APAC regions not being measured until Q3 and Q4 of 2015).

Our focus on continuous improvement through both Quality Assurance and Control is reflected through a significant audit programme that was performed as planned throughout the year. This included several client audit initiatives in addition to our own, which were completed with positive conclusions.

The second EC-Drill® pilot project for Statoil on the Troll field was successfully concluded in January 2015. In addition the second EC-Drill system deployed in the GoM for Statoil was performed without any non-productive time (NPT), adding an additional 2 wells to the 2 wells drilled in 2014.

All in all, EC-Drill® not only performed per plan but further verified the customers' business case. In

## Continuous Improvement Cycle



**FOCUS** The importance of Continuous Improvement is emphasised to all of the Enhanced Drilling team

In addition to EC-Drill® operations, several Well Planning & Rig Integration (WP&RI) studies were conducted during the year for Shell GoM, BP GoM, PDVSA, and Woodside. WP&RI studies continue to be the pre-cursor to full operational contracts and therefore represent an important stage of the sales pipeline for EC-Drill®.

The global RMR® and MPC® well count in 2015 increased slightly to 26 from 24 the previous year. Half of these wells were drilled in batch for a customer in the UK sector. Activity levels in the ACIS region also increased compared to 2014, specifically 7 RMR®/MPC wells compared to 4 RMR/MPC wells in 2014. CTS followed a similar trend, increasing to 23 wells from 16 in 2014. EC-Drill® activity was lower than in 2014, with 2 wells drilled using the technology, compared to 3 in 2014.

Continued development and steps towards full commercialisation of CannSeal technology were achieved in 2015, the most significant being partnering with two important industrial players: Statoil Technology Invest (STI) & Sumitomo in October.

In November, CannSeal celebrated its first successful Field Trial in the North Sea.

## | EDS Group AS Company Overview

EDS Group AS (EDS) is a leading supplier of services and technology to the global oil and gas industry. The Group's main operations are based at Straume (Bergen) and Houston, with other offices around the world including, Baku, Stavanger, Oslo, Aberdeen, St. John's and Perth.

The company provides technology, expertise and services to several of the world's major oil and gas fields, with a customer base comprising several medium sized operators, and a number of the large international oil companies. At the end of 2015, the Group had 192 professionals, all of who were permanent employees. The annual turnover was NOK 490 million.

## | Operations

EDS Group AS consists of the following segments: Enhanced Drilling, Cannseal and Other.

### Segments

#### Enhanced Drilling

EC-Drill® is a step-change solution, solving a challenge commonly encountered in deep-water wells: drilling in narrow pressure windows. This is achieved by manipulating the bottom hole pressure in the wellbore by altering the level of drilling fluid in the riser. This is done by means of a pump fitted onto the riser. It is possible to cost-effectively negotiate narrow pressure windows and reach deep targets that would otherwise be impractical.

Other benefits include improved safety due to faster kick/loss detection, rig-time savings, drilling capabilities with near-constant BHP, reduced casing strings and the ability to change riser mud levels within minutes, rather than mud weights within hours.

In 2015, EC-Drill® systems were deployed offshore on both the Norwegian Continental Shelf (NCS) and in the Gulf of Mexico (GoM) for Statoil. In addition a 3rd EC-Drill was put into build in preparation for operations in the Caspian for BP Baku.

MPC® (Managed Pressure cementing) continues to be made known to the market. MPC® uses conventional cement to facilitate the safe isolation of challenging pressure zones (shal-

low gas or water) in narrow pressure window scenarios. The system resolves two major challenges: effective cement slurry placement, plus gas flow after cementing.

The technology provides operators with precise control over the pressure and flow parameters of returning cement. Constant pressure is achieved at weak zones, preventing losses to the formation. The system is safety enhancing in that any influx or loss is quickly detected, enabling a rapid operator response to prevent the situation from escalating. Subsequent to the success of the MPC system in Azerbaijan, it was commercialised during 2015 in preparation for a broad roll-out in 2016.

In addition to these solutions the cornerstone technologies remain as Cutting Transportation System (CTS®) and Riserless Mud Recovery system (RMR®). Both technologies have been developed internally.

The RMR® encompasses a subsea pump thereby enabling a closed-loop circulation system. The system improves drilling operations by reducing the risk and cost of drilling top-hole sections; it also replaces "pump-and-dump" and ensures zero discharge to the environment. The system has been in use since 2003 and is a well-proven concept.

CTS® consists of a powerful and versatile subsea electrical-drive pump. The system enables

the operator to keep the well-head area clear of cuttings by transporting them away from the site. This means later procedures, such as tying in umbilical, are more swiftly carried out, plus the system can create drilling opportunities in areas deemed to be environmentally sensitive (coral reefs, etc).

During 2015, 2 wells were drilled with EC-Drill®, 26 wells with RMR®/MPC® and 23 with CTS®.

2015 saw zero major incidents, zero first aid incidents (FAI), one medical treatment (MTI) and zero lost time incidents (LTI).

There were four operational near misses recorded. This is considered normal in our industry considering the number of operations; however, as a company we will continue to strive for a clean record and keep safety as our highest priority.

2015's strong focus on HSEQ will continue to be followed up and developed during 2016. Our Global Internal Audit Team (GIAT) continues to foster positive results, thanks to internal ownership and cross-functional scrutiny, as well as improved process compliance and transparency.

#### CannSeal

CannSeal is a unique tool for sealing off water and gas inflow into oil wells. The wireline tool carries a specialized resin that provides zonal isolation in the annulus after the well has been completed. The tool has been further developed during 2015 and successful field trials - including the first in the North Sea - have been conducted and approved by clients.

#### GROUP/OTHER

Group consists of some corporate administration shared cost, AGR Subsea Ltd and Marine Engineering AS which are companies that have no operations.

The claim relating to the excavation project in 2012 is still not resolved and the provision in AGR Subsea Ltd is still in force. Arbitration has started and is expected to be finalized during 2016. AGR Subsea Ltd has also received a tax claim from Norwegian tax authorities relating to the Ormen Lange excavation work in 2011.



'STEP-CHANGE SOLUTION' EC-Drill® deployment in the Gulf of Mexico

## | Research and Development 2015

Innovation is at the core of the Enhanced Drilling story, hence the continuing investment in both further product development as well as next-generation concepts / technologies. In 2015 a total

of NOK 65.6 million (gross amount before client and public funding) was invested in research and development.

This included significant projects that were still in development in 2015:

#### EC-Drill®

Equivalent Circulating Density (ECD) effects arise from fluid frictional losses in the wellbore during pumping and circulation. ECD effects cause undesirable variations in bottom hole pressure during drilling. The EC-Drill® Concept compensates for these effects, and is as such a Managed Pressure Drilling (MPD) system developed by Enhanced Drilling.

Other key developments included, but were not limited to, the following:

**ECD-C** (Alternative Riser mounted MPD service) - joint development project with Statoil; **Dual Seal for Riserless Mud Recovery (RMR)** – advanced sealing system for RMR pump-system; **Remote operations of EDR services** – Onshore real-time follow up of offshore operations; **Pump Enhancement**.

## | 2015 Key Events

#### January

- Successful completion RMR®900 deepwater well in Norwegian Continental Shelf for Shell Orman Lange - deepest RMR on NCS to date.
- Shell GoM Well Planning and Rig Integration Study for EC-Drill® completed.

#### February

- EC-Drill® Product Line Manager appointed. Per Christian Stenshorne will plan our EC-Drill® and future Managed Pressure Drilling technology strategy.
- Dedicated training rooms in Straume and Houston set up. Training Portal established to help enable close skill gaps and track compliance with mandatory training courses.

#### April

- Completion of 3rd deepwater well for Statoil GoM using EC-Drill®
- RMR® for Enquest UK on the Kraken field

#### May

- Multi-well CTS deal with Statoil for Johan Sverdrup field.
- Strategically important high profile operations off Sakhalin Island, Russia: Three wells drilled from two Gazflot owned rigs (Polar Star and Northern Lights).
- 2015 Management Workshop
- Two RMR® kits leave Bergen via two Antonov-124 aircraft – one of the largest cargo planes
- RMR® pump sea test - 1600+ man hours invested in seal development; goals achieved included field wear pattern reproduced, significant increase in seal-life proven, double-seal capability

proven with Baku-type parameters

- Bid for Shell GoM EC-Drill® project submitted
- Managed Pressure Cementing system (MPC) product line commercialised

#### June

- Quality Improvement Project launched. *'This is about us changing our culture, making it strongly Quality-Assurance focused in everything that we do in our day-to-day business'*: CEO Dave Hine.

#### August

- Completion of 4th deepwater well for Statoil GoM using EC-Drill®
- Cost-reduction programme introduced
- One-year anniversary of our Aberdeen, UK office opening

#### September

- Aberdeen Open Days – Showcasing technologies, expertise and capabilities at our UK facility.
- CTS Contract Extensions with Husky and ExxonMobil
- RMR® for Enquest UK on the Kraken field
- PDVSA pre-study EC-Drill® for multi-well campaign completed

#### October

- Cannseal partnering with Statoil Technologi Invest (STI) and Sumitomo

#### November

- Mobilised EC-Drill® system for Statoil Troll in preparation for the commercial operations (2014 pilot wells)
- More than 1500 LinkedIn followers attained
- Cannseal celebrates its first successful Field Trial in the North Sea
- BP Gulf of Mexico Well Planning and Rig Integration study for EC-Drill completed

#### December

- Long term EC-Drill® contract executed with BP Baku for the Caspian Region
- Long term RMR®/MPC contract executed with BP Baku for the Caspian Region
- Long term, multi-system contract executed with Statoil for the Norwegian Continental Shelf
- Woodside Well Planning and Rig Integration EC-Drill® study awarded
- Re-financing completed together with DnB

RMR® systems bound for Sakhalin at Bergen Flesland, May 2015



## | Working Environment and Personnel

A core objective of EDS Group is to have a safe and healthy working environment. We manage our business in accordance with the OSHAS 18001:2004 standard and parts of the company is certified.

We monitor our performance continuously, and report status to the Executive Management Team and the Board of Directors on a regular basis. We have functioning safety organisations and Working Environment Committees; ensuring employee involvement in HSE related issues. Average illness absence during 2015 was 3.2%. There were some variations between the regions: Europe 4,9%, ACIS 0,5%, APAC 1,2%, and Americas 0,5%.

During 2015 Enhanced Drilling had zero lost time injuries, 1 medical treatment (MTI) and zero first aid incidents. One of the main focus areas continued from 2014 into 2015 was dropped objects, where we registered 2 near misses during 2015. Dropped objects and near misses continue to be a key focus in 2016.

### Gender equality

As of 31st December 2015, the Board of EDS had 3 Board Members, comprising 2 males and 1 female.

EDS aspires to be an attractive employer for people with different backgrounds, regardless of their ethnicity, gender, religion or age. In its policy, the company has implemented conditions to ensure equal opportunities in areas such as salary, promotion and recruitment.

The competence principle is decisive in all appointment processes. In a department where one gender is heavily under-represented, this is taken into account during the appointment process if other qualifications are otherwise equal. In connection with the yearly salary evaluation, attention is shown to possible inequality regarding average level of pay for men and women. The EDS Group provides equal pay for equal work and rewards good results.

### Environmental Reporting

All EDS activities that affect the environment

are managed by means of well-established systems and processes in order to identify and eliminate or reduce any negative impact, and to ensure, as a minimum, compliance with legislation and regulations set out by the authorities.

The environmental aspects of our activities are identified and managed. EDS aims to facilitate the continuous environmental improvement in our operations by adopting the principles of ISO 14001:2007, international standard for environmental management, and an increasing part of the EDS business are being certified. We are running internal control activities to verify compliance.

Furthermore, many of the operational activities and products of the business are focused on protecting the environment. As an example the RMR® is a product which in addition to its operational advantages offers environmental friendly solutions to clients, by allowing zero discharge of chemicals and cuttings in drilling of top hole sections.

### Environmental Performance Summary 2015

- Energy consumption is at a normal level for our type of business
- Waste management is performed to minimise waste amounts, and to facilitate for reuse and recycling of generated waste
- Chemicals are managed to reduce use and planned discharge of environmentally hazardous chemicals
- We had zero spills from our operations during 2015 recycling of generated waste
- Chemicals are managed to reduce use and planned discharge of environmentally hazardous chemicals
- We had 1 registered spill from operations in Azerbaijan in March 2015, where Water Based Mud was discharged to the environment due to the wrong positioning of a valve.

## | Remuneration

Information concerning remuneration of the Board of Directors and the Chief Executive Officer can be found in Note 24 to the consolidated financial statements.

The compensation for the external auditor can also be found in Note 24.

## | Risk Management and Internal Control

### Internal control

Effective controls ensure that the group is not exposed to avoidable risk, that proper accounting records have been maintained, that the financial information used within the business is reliable and that the consolidated accounts preparation and financial reporting processes comply with all relevant regulatory reporting requirements.

The dynamics of the group and the environment within which it operates are continually evolving together with its exposure to risk. The internal control system is designed to manage rather than eliminate the risk of assets being unprotected and to guard against their unauthorized use and the failure to achieve business objectives. Internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors confirm that there is an ongoing process for identifying, evaluating and managing the risk faced by the group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly reviewed the system of internal control utilising the review process set out below.

### Standard

EDS has defined roles, responsibilities and timelines for the accounting procedures including guidelines on the minimum level of internal control that each of the subsidiary

companies should exercise over specified processes.

All companies prepare annual operating plans and budgets, and business strategies are prepared at regional level and approved by the board. In addition EDS prepares financial forecast that are presented to the board. Detailed actual financial segment information is prepared monthly; performance compared to budget is monitored at company, regional and group level. In addition, actual performance is compared to latest forecast and prior year on a monthly basis including analysis of any significant variances.

Capital expenditure and investment decisions are treated as a part of the budget and forecast processes. Details about who has the right to approve investments are described in an authorisation matrix. The cash position of the group is monitored on a daily basis and variances from expected levels are investigated thoroughly.

An important factor in ensuring proper financial reporting is good IT controls. There are many IT controls in place to access the accounting systems for the year as a whole and at the year-end these controls have been intensified.

## | Results, Cash Flow, Investments, Finance and Liquidity

Turnover for EDS Group decreased from NOK 550 million (for 2014) to NOK 490 million in 2015.

Operating loss for EDS was 135 million compared to a profit of 14 million in 2014. Net losses from continued operations for the financial year 2015 were NOK 144 million compared to NOK 22 million in 2014. For more information about the background for the results, see the operational section and the notes to the accounts.

Accumulated cash flow from EDS's operational activities was negative NOK 7 million, compared to positive NOK 54 million in 2014. Total investments for EDS were NOK 90 million, compared to NOK 131 million in 2014, and

were mainly related to development of EC-Drill® equipment as well as CannSeal equipment. Cash and cash equivalents for the Group on 31.12.15 were NOK 37 million.

EDS's total interest-bearing debt at year end 2015 was NOK 238 million, which represent 28 % of EDS's total assets, compared to 23 % year-end 2014.

At the end of the year, total assets amounted to NOK 851 million, down from NOK 1 010 million the previous year.

The equity to total assets ratio at 31.12.2015 was 23 %, down from 31 % at 31.12.2014. The debt to equity ratio per 31.12.2015 was 3.3 and 2.2 per 31.12.2014.

various currency exposures, primarily with respect to the AUD, CAD, GBP and USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Positions are reviewed quarterly. The group held no FX derivatives at year end 2015 or 2014.

### (ii) Price risk

The Group is indirectly exposed to changes in the oil price, however current group policy is to not hedge oil price changes.

(iii) As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Group policy is that long-term borrowings shall be based on floating interest rates, however interest rate derivatives shall be applied in order to avoid significant losses due to interest rate changes.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Group policy is that long-term borrowings shall be based on floating interest rates, however interest rate derivatives shall be applied in order to avoid significant losses due to interest rate changes.

Based on the risk analysis where a 1% interest rate increase/decrease is applied, the impact of net interest expenses would be negative NOK 4 million and positive NOK 4 million respectively.

### Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposure to customers, including receivables and committed transactions.

The Group's customers are mainly the large international oil companies with limited to low credit risk potential. The Group seeks to obtain financial guarantees from debtors where

the credit risk and exposure is considered to be high. In addition, majority of the Group's receivables are credit insured in order to reduce credit risk.

The Group's main bank at 31st December 2015 is DNB.

### Liquidity risk

The Group has a customer portfolio with large, medium and small cap customers. Delayed payments from some of the largest customers at the same time could have a significant impact on the Group's liquidity situation. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. At 31st December 2015 the Group had undrawn committed short-term credit lines amounting to NOK 26 million plus cash deposits of NOK 37 million. As a result of the EC-Drill® new build program, Enhanced Drilling entered into a shareholder loan of NOK 60 million in 2015.

## | Financial risk

### Financial risk factors

The Group's activities are exposed to a variety of financial risks. Market risks including currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in cooperation with the Group's operating units. The board provides risk management policies covering specific areas, such as foreign exchange risk, interest rate risk, liquidity risk and credit risk.

### Market risk

#### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from

## | Parent Company

EDS Group AS is the parent company and its main activity is to act as the owner of the shares in its subsidiaries. The operating result in 2015 was negative NOK 3 million compared to negative NOK 1 million in 2014

The net result in 2015 was negative NOK 161 million compared to net profit of NOK 2 million in 2014.

Accumulated cash flow from the company's operations was NOK 0 million.

The total assets were NOK 550 million compared to NOK 507 million the previous year. The equity to asset ratio was 54% at 31.12.2015.

## | Continued Operation

EDS Group is financed through a traditional bank loan. The original loan agreement signed in February 2013, was rolled over for additional 3.5 years at year end 2015. In addition, a substantial CapEx Expansion facility was added to the existing SFA in line with the anticipated build plan for EC-Drill® systems.

EDS Group has met the financial covenants during 2015 and expects to meet them in 2016.

The Board has considered the factors above in relation to continued operations and concluded that in accordance with the Accounting Act §3-3a, we confirm that the financial statements have been prepared under the assumption of a going concern.

The key assumptions made in the impairment test reflect the Board's current assessment of EDS's potential to adapt to and benefit from trends in the oil services industry. Management believes that the expectations reflected in the forward looking forecasts used as a basis for the impairment reviews, are reasonable. However, as the impairment valuations are based on forward looking information, they will involve risk and uncertainty. For more information, please refer to note 3.

## | Annual Result and Allocations

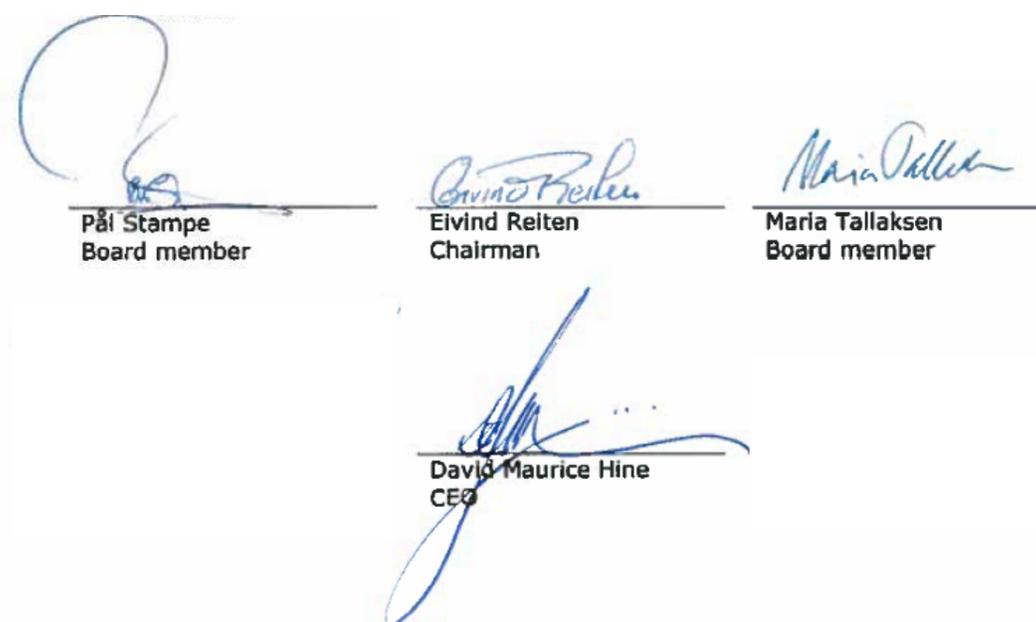
The Board proposes the following allocations of the EDS Group's net loss for the financial year:

	Figures in TNOK
Loss for the year	133 751
Non-controlling interests' share of loss for the year	10 434
Total loss allocated to retained earnings	144 185

The Board proposes the following allocations of the parent company EDS Group AS' net loss for the financial year:

Loss for the year	161 171
Total loss allocated to retained earnings	161 171

Straume, 02 June 2016

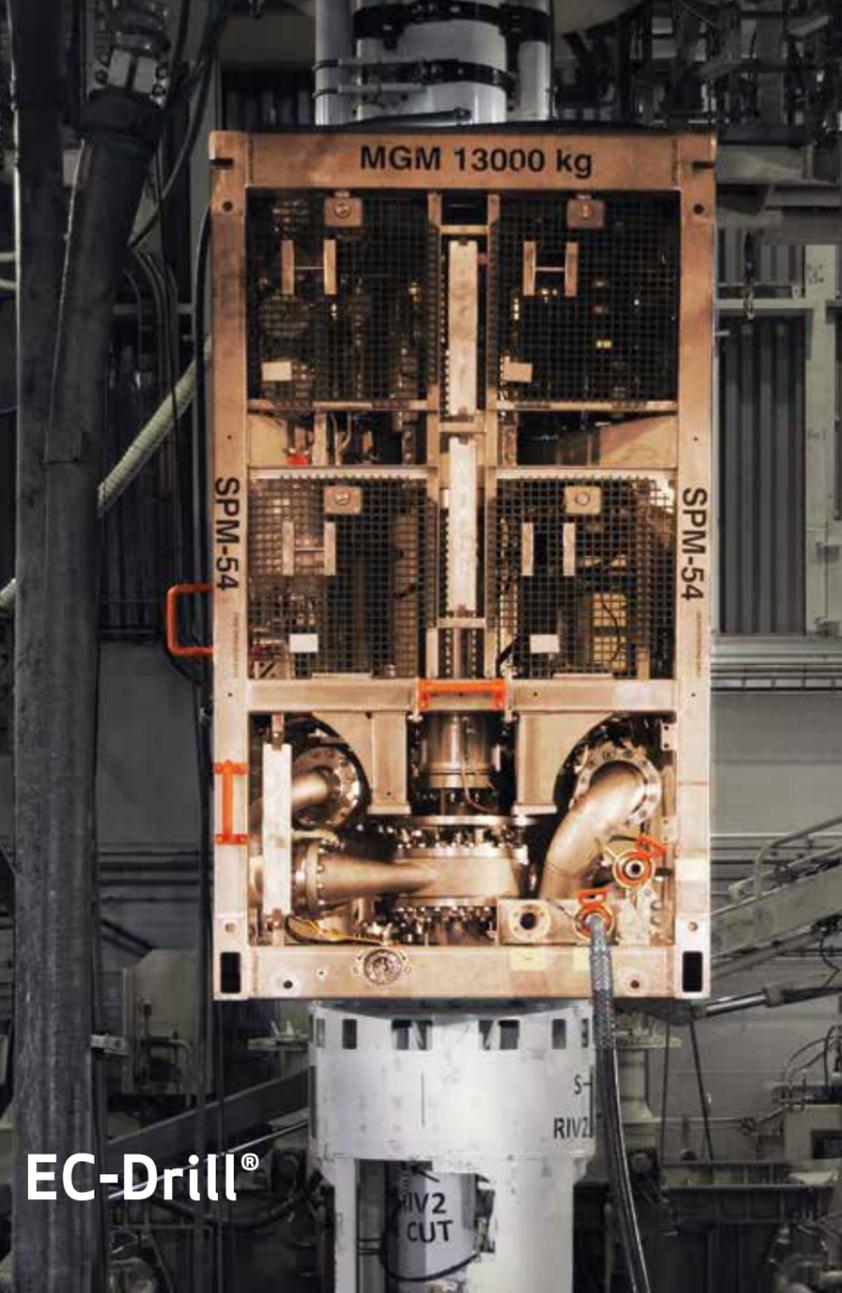


Pål Stampe  
Board member

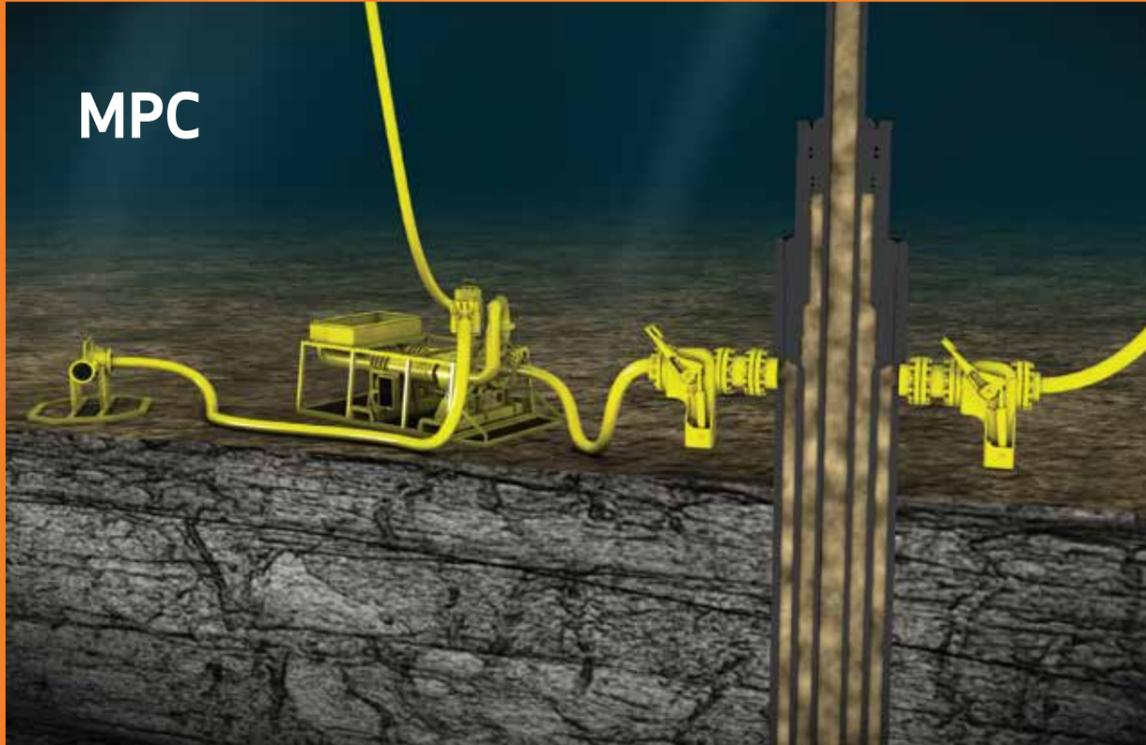
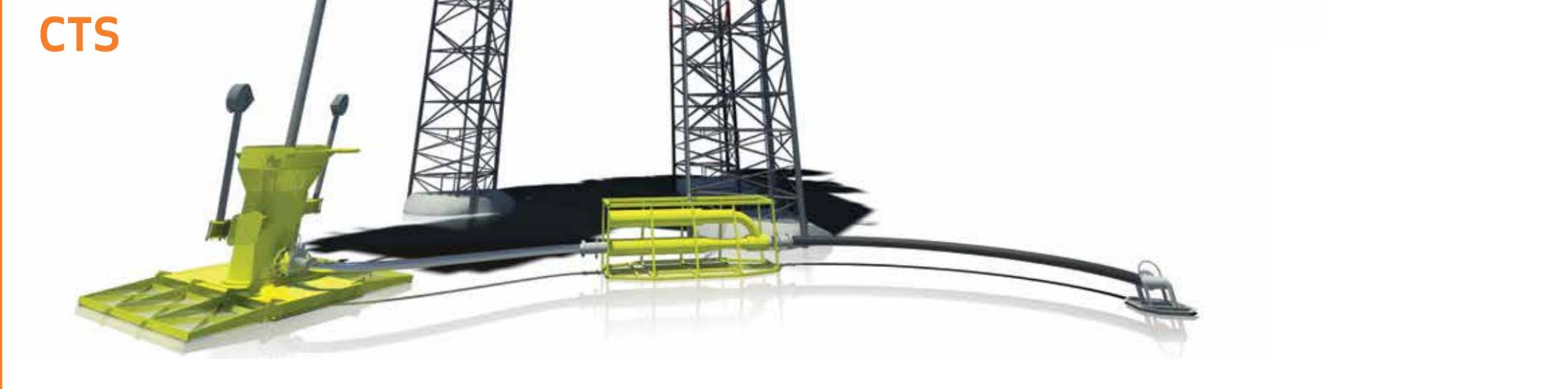
Eivind Reiten  
Chairman

Maria Tallaksen  
Board member

David Maurice Hine  
CEO



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## CONTACT

### NORWAY

Head office:  
Smålonane 16, P.O.Box 351  
5343 Straume  
Tel: +47 56 15 40 00  
Fax: +47 56 15 40 01

### AZERBAIJAN

Garadagh District,  
Salyan Highway 22km,  
Baku AZ 1063  
Tel: +994 51 984 6000

### UNITED KINGDOM

Broadfold Road, Bridge Of Don  
Aberdeen, AB23 8EE  
Tel: +44 1224 826124

### AUSTRALIA

Level 2,  
16 Milligan Street,  
Perth, WA 6000.  
Tel: +61 (0) 8 9360 4000  
Fax: +61 (0) 8 9360 4089

### CANADA

16420 Park Ten Place,  
Suite 300,  
Houston, TX 77084.  
Tel: +1 281 616 0400  
Fax: +1 281 616 0444.

### USA

16420 Park Ten Place,  
Suite 300,  
Houston, TX 77084.  
Tel: +1 281 616 0400  
Fax: +1 281 616 0444.

### MALAYSIA

Level 21, Tower 2, Etiqa Twins  
11 Jalan Pinang,  
Kuala Lumpur 50450  
Tel: +603 2732 2300

