
SEADRILL PARTNERS LLC (SDLP) - FIRST QUARTER 2018 RESULTS

Highlights

- Operating revenue of \$194.3 million.
- Operating income of \$18.2 million.
- Net loss of \$16.3 million.
- Adjusted EBITDA¹ of \$96.9 million.
- Cash and cash equivalents of \$859.6 million.
- Economic utilization² of 93%. Excluding downtime for planned maintenance, utilization was 98%.
- Order backlog of \$1.3 billion as of May 24, 2018.
- 10 cent per common unit distribution for the first quarter of 2018.

Financial Results Overview

Total operating revenues for the first quarter were \$194.3 million (4Q17: \$256.3 million). The decrease was primarily due to a full quarter of idle time for the West Polaris, the West Vencedor becoming idle during the quarter and idle time on the West Auriga related to planned maintenance. These were partially offset by a full quarter of operations for the West Capella in Gabon.

Total operating expenses for the first quarter were \$176.1 million (4Q17: \$200.8 million). The decrease was primarily due to fewer rigs in operation and lower amortization expenses related to the conclusion of the West Polaris contract.

Operating income was \$18.2 million (4Q17: \$60.1 million). The decline was primarily related to the movements referred to above and a gain from the reduction in West Polaris contingent liabilities recognized in the fourth quarter of 2017 not being repeated in the first quarter.

Net financial items resulted in an expense of \$25.9 million (4Q17: expense of \$27.6 million). The decrease in the expense was primarily due a gain on the mark to market valuation of derivatives of \$29.0 million (4Q17: gain of \$12.8 million), partially offset by an increase in interest expense and advisory fees related to the amendments on our Term Loan B.

Loss before tax was \$7.7 million (4Q17: income of \$32.5 million). Income tax expense was \$8.6 million (4Q17: credit of \$0.6 million), reflecting taxes payable in the first quarter and provisions taken for the expected tax expense for the year.

Net loss was \$16.3 million (4Q17: net income of \$33.1 million). Seadrill Partners LLC Members had a net loss for the quarter of \$3.2 million (4Q17: net income of \$26.5 million).

While there was no Distributable Cash Flow for the quarter, the Company declared a 10 cent per common unit distribution based upon improving activity in the offshore drilling market, our liquidity position and the recent conclusion of the TLB leverage covenant waiver and maturity extensions of the bank facilities.

¹ Adjusted EBITDA refers to earnings before interest, other financial items, taxes, non-controlling interest, depreciation and amortization and including deferred consideration payable to Seadrill Partners. Additionally, in any given period the Company may have significant, unusual or non-recurring items which it may exclude from its Non US Generally Accepted Accounting Principles ("US GAAP") earnings for that period. Please see Appendix A for a reconciliation of Adjusted EBITDA to net income, the most directly comparable US GAAP financial measure.

² Economic utilization is calculated as total revenue, excluding bonuses, as a proportion of the full operating dayrate multiplied by the number of days on contract in the period.

New Contracts

1. In March, the West Capella secured a one well contract with Repsol Aruba, B.V in Aruba. The contract is expected to commence in June 2018 and backlog is expected to be approximately \$6.4 million.

Financing and Liquidity

As of March 31, 2018, cash and cash equivalents were \$859.6 million (4Q17: \$848.6 million). Total liquidity for the Company was \$909.6 million at the end of the quarter, including \$50 million of available undrawn amounts under our revolving credit facility.

Interest bearing debt was \$3.3 billion as of March 31, 2018 (4Q17: \$3.4 billion).

Net debt as at March 31, 2018 was therefore \$2.5 billion (4Q17: \$2.6 billion) giving a ratio of net debt to trailing twelve month adjusted EBITDA³ of 4.4:1.

As of March 31, 2018, Seadrill Partners had interest rate swaps outstanding on principal debt of \$2.8 billion, representing approximately 83% of gross debt obligations as of March 31, 2018. The average swapped rate, excluding fixed margins, is approximately 2.49%.

Outlook

Adjusted EBITDA⁴ for the second quarter is expected to be slightly higher than the first quarter at around \$105 million, based on operating income of around \$24 million, reflecting:

- A full quarter of operations for the West Aquarius,
- Offset by fewer days on contract and startup costs for the West Capella and a full quarter of idle time for the West Vencedor.

May 24, 2018
The Board of Directors
Seadrill Partners LLC
London, UK

Questions should be directed to:
Mark Morris: Chief Executive Officer
John T. Roche: Chief Financial Officer

³ Twelve month adjusted EBITDA: Twelve month trailing adjusted EBITDA means adjusted EBITDA for the twelve month period immediately prior to balance sheet date. Please see Appendix A for adjusted EBITDA definition.

⁴ Refer to appendix A

FORWARD LOOKING STATEMENTS

This news release includes forward looking statements. Such statements are generally not historical in nature, and specifically include statements about the Company's plans, strategies, business prospects, changes and trends in its business and the markets in which it operates. In particular, statements regarding offshore drilling markets, the Company's ability to make cash distributions, the expected performance of the drilling units in the Company's fleet, estimated duration of customer contracts, contract dayrate amounts, contract backlog, forecasts of operating income and Adjusted EBITDA and the ability of the Company and Seadrill Limited to negotiate with lenders are considered forward-looking statements. These statements are made based upon management's current plans, expectations, assumptions and beliefs concerning future events impacting the Company and therefore involve a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, which speak only as of the date of this news release. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to offshore drilling market conditions including supply and demand, dayrates, customer drilling programs and effects of new rigs on the market, contract awards and rig mobilizations, contract backlog, the performance of the drilling units in the Company's fleet, delay in payment or disputes with customers, the outcome of any pending litigation, our ability to successfully employ our drilling units, procure or have access to financing, liquidity and adequacy of cash flow from operations, fluctuations in the international price of oil, changes in governmental regulations that affect the Company or the operations of the Company's fleet, increased competition in the offshore drilling industry, and general economic, political and business conditions globally. Important additional factors include our operational dependency on Seadrill Limited for certain management and technical support services and our ability to continue to comply with loan covenants. At present uncertainty remains with respect to these additional factors. Consequently, no forward-looking statement can be guaranteed. When considering these forward-looking statements, you should keep in mind the risks described from time to time in the Company's filings with the SEC. The Company undertakes no obligation to update any forward looking statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, the Company cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward looking statement.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(in \$ millions)</i>	Three months ended	
	March 31, 2018	March 31, 2017
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating revenues		
Contract revenues	185.5	258.6
Reimbursable revenues	7.7	5.0
Other revenues	1.1	63.9
Total operating revenues	194.3	327.5
Revaluation of contingent consideration	—	21.3
Total other operating income	—	21.3
Operating expenses		
Vessel and rig operating expenses	76.4	75.8
Amortization of favorable contracts	11.3	17.5
Reimbursable expenses	7.3	4.6
Depreciation and amortization	70.2	67.0
General and administrative expenses	10.9	10.5
Total operating expenses	176.1	175.4
Operating income	18.2	173.4
Financial and other items		
Interest income	4.5	3.2
Interest expense	(56.3)	(42.4)
Gain/(loss) on derivative financial instruments	29.0	(6.2)
Foreign currency exchange loss	—	(0.2)
Other financial items	(3.1)	(0.5)
Net financial items	(25.9)	(46.1)
(Loss)/income before taxes	(7.7)	127.3
Tax expense	(8.6)	(20.4)
Net income	(16.3)	106.9
Net income attributable to Seadrill Partners LLC members	(3.2)	56.8
Net income attributable to the non-controlling interest	(13.1)	50.1
Total units outstanding at the end of the period (in thousands):		
Common units (basic and diluted)	75,278	75,278
Subordinated units (basic and diluted)	16,543	16,543

CONSOLIDATED BALANCE SHEETS

<i>(in \$ millions)</i>	March 31, 2018	As at December 31, 2017
	<i>(Unaudited)</i>	<i>(Audited)</i>
ASSETS		
Current assets		
Cash and cash equivalents	859.6	848.6
Accounts receivables, net	172.2	254.1
Amount due from related party	26.3	24.2
Other current assets	95.0	86.8
Total current assets	1,153.1	1,213.7
Non-current assets		
Drilling units	5,120.6	5,170.9
Goodwill	3.2	3.2
Deferred tax assets	10.1	9.5
Other non-current assets	115.8	133.5
Total non-current assets	5,249.7	5,317.1
Total assets	6,402.8	6,530.8
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	187.9	162.9
Current portion of long-term related party debt	20.3	24.7
Trade accounts payable	42.8	37.4
Current portion of deferred and contingent consideration to related party	37.3	41.7
Related party payables	163.4	157.0
Other current liabilities	74.0	121.8
Total current liabilities	525.7	545.5
Non-current liabilities		
Long-term debt	3,102.0	3,180.2
Long-term deferred and contingent consideration to related party	40.0	46.0
Deferred tax liability	1.4	1.5
Other non-current liabilities	61.2	55.8
Total non-current liabilities	3,204.6	3,283.5
Total liabilities	3,730.3	3,829.0
Members' capital:		
Common unitholders (issued 75,278,250 units as at March 31, 2018 and as at December 31, 2017)	1,198.7	1,208.9
Subordinated unitholders (issued 16,543,350 units as at March 31, 2018 and as at December 31, 2017)	94.3	94.8
Seadrill member interest	—	—
Total members' capital	1,293.0	1,303.7
Non-controlling interest	1,379.5	1,398.1
Total equity	2,672.5	2,701.8
Total liabilities and equity	6,402.8	6,530.8

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended	
	March 31, 2018	March 31, 2017
<i>(in \$ millions)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash flows from operating activities		
Net income	(16.3)	106.9
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	70.2	67.0
Amortization of deferred loan charges	3.1	2.9
Amortization of favorable contracts	11.3	17.5
Unrealized gain on derivative financial instruments	(36.5)	(3.2)
Unrealized foreign exchange gain	0.5	(1.3)
Payment for long term maintenance	(13.0)	(17.1)
Net movement in taxes	(0.7)	5.4
Revaluation of contingent consideration	—	(21.3)
Accretion of discount on deferred consideration	1.7	4.1
<i>Changes in operating assets and liabilities, net of effect of acquisitions</i>		
Trade accounts receivable	81.4	23.1
Prepaid expenses and accrued income	1.0	(3.1)
Trade accounts payable	5.4	1.7
Related party balances	3.9	(15.7)
Other assets	4.4	10.1
Other liabilities	(11.4)	(15.9)
Changes in deferred revenue	(1.6)	(1.4)
Net cash provided by operating activities	103.4	159.7
Cash flows from investing activities		
Additions to drilling units	(6.9)	(9.3)
Payment received from loans granted to related parties	—	26.7
Net cash (used in)/ provided by investing activities	(6.9)	17.4

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Three months ended	
	March 31, 2018	March 31, 2017
<i>(in \$ millions)</i>	<i>Unaudited</i>	<i>Unaudited</i>
Cash flows from financing activities		
Repayments of long term debt	(56.3)	(26.3)
Repayments of related party debt	(4.1)	(30.8)
Contingent consideration paid	(11.9)	(10.0)
Cash distributions	(13.0)	(15.0)
Net cash used in financing activities	(85.3)	(82.1)
Effect of exchange rate changes on cash	(0.2)	(0.2)
Net increase in cash and cash equivalents	11.0	94.8
Cash and cash equivalents at beginning of the period	848.6	767.6
Cash and cash equivalents at the end of period	859.6	862.4

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

(in \$ millions)

	Members' capital			Total members' capital	Non-controlling interest	Total equity
	Common units	Subordinated units	Seadrill member			
Balance at December 31, 2016 (audited)	1,123.2	69.4	—	1,192.6	1,343.2	2,535.8
Net income	46.6	10.2	—	56.8	50.1	106.9
Cash distributions	(7.5)	—	—	(7.5)	(7.5)	(15.0)
Balance at March 31, 2017 (unaudited)	1,162.3	79.6	—	1,241.9	1,385.8	2,627.7
Balance at December 31, 2017 (audited)	1,208.9	94.8	—	1,303.7	1,398.1	2,701.8
Net income	(2.7)	(0.5)	—	(3.2)	(13.1)	(16.3)
Cash distributions	(7.5)	—	—	(7.5)	(5.5)	(13.0)
Balance at March 31, 2018 (unaudited)	1,198.7	94.3	—	1,293.0	1,379.5	2,672.5

APPENDIX A - RECONCILIATION OF NON GAAP FINANCIAL MEASURES

Distributable Cash Flow (“DCF”)

DCF represents Adjusted EBITDA less tax payments, interest payments and an allowance for maintenance and replacement capital expenditures. The allowance for maintenance and replacement capital expenditures reflects the estimated capital expenditures required to maintain the long-term operating capacity of Seadrill Partners’ revenue generating capital assets. These estimates are determined in accordance with our operating agreement.

DCF is a quantitative standard used by investors in publicly traded partnerships and limited liability companies to assist in evaluating such entities’ ability to make quarterly cash distributions. DCF is a non-GAAP financial measure and should not be considered as an alternative to net income or any other indicator of Seadrill Partners’ performance calculated in accordance with the US GAAP.

Under US GAAP Seadrill Partners is required to recognize changes in the market valuations of certain financial items in its statement of operations. These include the change in the fair value of its derivative instruments, principally interest rate swaps. These are non-cash gains or losses and will only become realized as the derivative matures or is terminated. These non-cash gains or losses are recorded in the statement of operations within financial items, and do not affect cash flow or the calculation of DCF.

The below table reconciles net income to DCF.

	Three months ended	
	March 31, 2018	December 31, 2017
<i>(in \$ millions)</i>	<i>Unaudited</i>	<i>Unaudited</i>
Net (loss)/income attributable to Seadrill Partners LLC members	(3.2)	26.5
Net (loss)/income attributable to non-controlling interest ⁵	(13.1)	6.6
Income tax (expense)/benefit	8.6	(0.6)
Interest income	(4.5)	(4.7)
Interest expense	56.3	45.1
Gain on derivative financial instruments	(29.0)	(12.8)
Other financial items	3.1	—
Depreciation and amortization	70.2	68.9
Revaluation of contingent consideration	—	(4.6)
Amortization of favorable contracts	11.3	21.7
Mobilization fees recognized in income	(1.9)	(1.9)
Mobilization fees billed during quarter	2.6	2.6
Deferred consideration falling due in quarter	(3.5)	(8.9)
Adjusted EBITDA	96.9	137.9
Interest receipts	4.3	4.6
Interest payments (includes interest rate swap net settlements and payment of other financial items)	(58.7)	(46.9)
Income tax payments	(11.7)	(4.8)
Allowance for long term maintenance expenditure ⁶	(18.7)	(18.7)
Allowance for replacement capital expenditure ⁶	(35.5)	(33.1)
Distributable cash flow before allocation to non-controlling interest	(23.4)	39.0
Allocation to non-controlling interest	11.4	(14.0)
Distributable cash flow	(12.0)	25.0
Distribution declared in respect of quarter	7.5	7.5

⁵ The non-controlling interest comprises (i) the 42% Seadrill Limited Partner interest in Seadrill Operating LP, which owns an approximate 56% interest in the entity that owns and operates the West Capella and a 100% interest in the entities that own and operate West Aquarius, West Leo, West Vencedor and West Polaris (ii) the 49% Seadrill Limited Liability Company interest in Seadrill Capricorn Holdings LLC, which owns 100% entities that own and operate the West Capricorn, West Sirius, West Auriga and West Vela. There is no non-controlling interest existing for the T-15 rig and T-16 rig.

⁶ Our operating agreement requires that an estimate of the maintenance and replacement capital expenditures necessary to maintain our asset base be subtracted from operating surplus each quarter, as opposed to amounts actually spent. Seadrill Partners operating companies must make substantial capital and operating expenditures to maintain the operating capacity of its fleet, which will reduce cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unit holders than if actual maintenance and replacement capital expenditures were deducted.

Adjusted EBITDA

Adjusted EBITDA represents earnings before interest, other financial items, taxes, non-controlling interest, depreciation and amortization and including deferred consideration payable to Seadrill Limited. Additionally, in any given period Seadrill Partners may have significant, unusual or non-recurring items which it may exclude from Adjusted EBITDA for that period. When applicable, these items are fully disclosed and incorporated into the reconciliation provided below.

Adjusted EBITDA is a non-GAAP financial measure used by investors to measure our ongoing financial and operating strength. Seadrill Partners believes that Adjusted EBITDA assists its investors by excluding the potentially disparate effects between periods of interest, other financial items, taxes and depreciation and amortization, which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which may significantly affect operating income between periods.

Adjusted EBITDA should not be considered as an alternative to operating income or any other indicator of Seadrill Partners' performance calculated in accordance with the US GAAP.

The table below reconciles operating income to Adjusted EBITDA.

<i>(in \$ millions)</i>	Three months ended		
	June 30, 2018	March 31, 2018	December 31, 2017
	<i>Forecast</i>	<i>Unaudited</i>	<i>Unaudited</i>
Operating income	24.1	18.2	60.1
Depreciation and amortization	69.7	70.2	68.9
Revaluation of contingent consideration	—	—	(4.6)
Amortization of favorable contracts	11.3	11.3	21.7
Mobilization fees recognized in income	(6.8)	(1.9)	(1.9)
Mobilization fees billed during quarter	10.3	2.6	2.6
Deferred consideration falling due in quarter	(3.6)	(3.5)	(8.9)
Adjusted EBITDA	105.0	96.9	137.9

Net debt

Net debt is total interest bearing debt (gross of loan fees) net of cash and cash equivalents.

<i>(in \$ millions)</i>	As at March 31, 2018	As at December 31, 2017
	<i>Unaudited</i>	<i>Audited</i>
	Interest bearing debt (gross of loan fees)	3,345.4
Cash and cash equivalents	(859.6)	(848.6)
Net debt	2,485.8	2,557.2