October 11, 2018

To Whom It May Concern,

Notice of the Submission of a Written Report of the Examination

We have prepared a written report of the examination pursuant to Article 84, Paragraph 1 of the Corporate Reorganization Act and made a submission thereof. Please find a summary attached.

We very much appreciate your continued understanding and cooperation with the corporate reorganization proceedings. Thank you.

Japan Drilling Co., Ltd., the Reorganization Company
Japan Drilling (Netherlands) B.V., the Reorganization Company
Yasuro Yasui, Trustee
Eiji Katayama, Trustee

<u>Attachment</u>

<u>Summary of the Written Report of the Examination</u>

1. <u>Description of the Reorganization Companies</u>

(1) Japan Drilling Co., Ltd., the Reorganization Company

Trade name: Japan Drilling Co., Ltd. ("**<u>JDC</u>**")
Purpose: To conduct drilling, construction and other work for oil and natural gas exploration and development.
Established: April 1968
Stated capital: 7,572,000,000 Yen
Number of shares issued: 18,000,000 shares
Number of shareholders: 10,612 (as of March 31, 2018)
Number of employees: 304 (including secondment to subsidiaries; excluding temporary employees) (as of July 31, 2018)
Subsidiaries, etc.: Japan Drilling (Netherlands) B.V.（100%）, Hakuryu 5, Inc.（100%）, Sagadril, Inc.（100%）, Sagadril 2, Inc.（100%） and others（ownership percentage of voting rights in parentheses）

(2) Japan Drilling (Netherlands) B.V., the Reorganization Company

Trade name: Japan Drilling (Netherlands) B.V. ("**<u>JDN</u>**")
Purpose: To conduct business activities and the like concerning offshore drilling and the related business thereof for the purpose of exploration and development of oil and natural gas as well as fossil resources related thereto.
Established: March 2010
Stated capital: 18,000 Euros
Number of shares issued: 18 shares
Number of shareholders: 1 (JDC only)
Number of employees: 37 (consisting only of secondment from JDC; excluding temporary employees) (as of July 31, 2018)

2. <u>Background to the Filing of the Petition for the Commencement of Reorganization Proceedings</u>

(1) Listing of Shares and Capital Investment

In order to strengthen its operating base and realize sustainable improvement of its corporate value, JDC considered the enhancement of its rig fleet (e.g. equipment maintenance for the existing offshore drilling rigs, purchase of new offshore drilling rigs) as one of the issues to be addressed by its management.

The ordinary shares of JDC were listed on the First Section of the Tokyo Stock Exchange in December 2009. Accordingly, JDC conducted a public offering and third party allotment, and procured a part of the funds for investment in the maintenance of equipment and the enhancement of facility of the existing offshore drilling rigs. Meanwhile, JDN was established as a wholly owned subsidiary of JDC in March 2010 to smoothly undertake drilling projects within the EU and eventually be awarded subsequent drilling projects outside of the EU.

JDC agreed on the construction of the offshore drilling rig, HAKURYU-11 (“**<u>H11</u>**”), with a shipyard in Singapore in March 2011, and agreed on the construction and lease of the offshore drilling rig, HAKURYU-12 (“**<u>H12</u>**”), with BOT Lease Co., Ltd. (“**<u>BOTL</u>**”) in May 2013 (H11 was transferred from JDC to JDN after completion of the construction, and regarding H12, a lease agreement was executed by designating JDN as the lessee.).

JDC further entered into a project initiatives agreement in September 2014 with BOTL which provided that BOTL would place orders respectively for the construction of offshore drilling rigs, namely HAKURYU-14 (“**<u>H14</u>**") and HAKURYU-15 (“**<u>H15</u>**”), to a shipyard, and that JDC or JDC’s affiliates would conduct operation thereof under a lease. This was a major contract which provided that the estimated value of the leased assets were USD 267 million for H14 and USD 276 million for H15 respectively.

(2) Worldwide Clash in Crude Oil Prices and Stagnation of the Offshore Drilling Rig Market

The price of crude oil started to decline after reaching its peak at USD 107.95 per barrel on June 20, 2014. After the Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) held on November 27 of the same year, the price fell sharply, down to USD 26.19 per barrel in February 2016, which was about 24% of the peak price.

Under the influence of the said decline of the crude oil price, oil and natural gas exploration and production companies began to rapidly slow down their exploration and development activities. Specifically, it became clear that there was a trend for oil and natural gas exploration and production companies to suspend, postpone or scale down drilling operation plans to reduce the scale of their investments, which resulted in a decrease in the number of new drilling projects. Similarly, with respect to the existing drilling contracts, non-exercise of options (the options held by an oil and natural gas exploration and production company to extend the contract period of drilling work) or early termination took place, which resulted in a decline in the utilization rate of offshore drilling rigs. The average utilization rate of offshore drilling rigs worldwide, which was approximately 85.0% in the year ending March 2014 and approximately 81.3% in the year ending March 2015, plunged to approximately 68.2% in the year ending March 2016 and approximately 56.6% in the year ending March 2017. Moreover, the situations in which oil and natural gas exploration and production companies requested a reduction in day rates occurred even for long-term drilling projects, leading to a deterioration in profitability for drilling companies.

The offshore drilling rigs operated by the JDC Group were no exception; the utilization rate started to go down from the year ending March 2015, and in the year ending March 2016, there were instances of contracts not being executed for drilling work for which an award was had already been received, suspension of drilling work for projects in which a contract was already concluded, as well as cancellation of projects. Receiving awards for new drilling work became harder, and the utilization rate of the rigs operated by the JDC Group, which was approximately 97.0% in the year ending March 2014, plunged to approximately 73.6% in the year ending March 2015 and approximately 64.6% in the year ending March 2016. The utilization rate was drastically reduced to approximately 18.6% in the year ending March 2017. There were also instances where a reduction of day rates was imposed due to requests from the clients, and the profitability of ongoing drilling work also went down.

As a result of the decline in the utilization rate of the offshore drilling rigs and the lowering of profitability due to the drop in day rates as described above, the performance of the JDC Group deteriorated. The JDC Group recorded a consolidated ordinary loss of about 3.2 billion yen in the year ending March 2016 and about 11.5 billion yen in the year ending March 2017; the consolidated ordinary loss for the year ending March 2018 was about 12 billion yen.

(3) The Insolvency, etc.

The project initiatives agreement concluded between JDC and BOTL provided that a special purpose company established by BOTL would be the owner of H14 after its completion of the construction, and that JDC or a JDC affiliate would conclude a lease agreement with the said special purpose company and operate H14.

However, due to the unprecedented worldwide stagnation of the offshore drilling rig market described above, JDC was unable to conclude the said lease agreement for reasons including its failure to obtain drilling contracts for H14 before the completion of the construction and delivery thereof. The contract provided that JDC would succeed the position of BOTL in the rig construction contract in cases such as described above, so JDC consulted with BOTL and concluded an installment sale agreement with a special purpose company established by BOTL which provided that JDC would purchase H14 for about 27.8 billion yen and receive the delivery thereof in January 2018. JDC was supposed to make the initial payment of 10 billion yen by January 31, 2018 and make another payment of about 17.8 billion yen by July 31 of the same year according to the said installment sale agreement. However, even though JDC managed to pay 10 billion yen, it found it difficult to make payment of the remaining amount solely through its own capital.

With JDC in the situation described above, a note was provided in JDC’s quarterly report for Q3 dated February 14, 2018, that there is a material uncertainty related to JDC’s ability to continue as a going concern.

Additionally, against the background of the unprecedented worldwide clash in the offshore drilling market as described above, since there were signs of an impairment loss due to no profitability being likely for H14 or other offshore rigs operated by the JDC Group, JDC decided to record an impairment loss of approximately 15.1 billion yen (among which the impairment loss for H14 accounted for about 12.6 billion yen) as a consolidated extraordinary loss for the year ending March 2018. Furthermore, due to the heightened possibility of a loss caused by the future operation of H15, which is yet to be completed, a provision of reserve for a construction project loss of approximately 17.1 billion yen was recorded as the consolidated extraordinary loss for the same year. In addition to the above, a provision of reserve for the loss from the lease contract of 5.1 billion yen was recorded as the consolidated sales cost for the same year with respect to H12, which is operated on lease.

During this period, in addition to further intensifying its business activities to obtain new drilling contracts, the JDC Group promoted all-out measures to reduce expenses which primarily consisted of the reduction of the costs of sales such as labor costs, repair costs, commodity costs, and local expenses as well as the reduction of general and administrative costs in order to improve cash flow and cope with the harsh business environment. However, these initiatives were unable to make up for the profit losses due to the clash in the offshore drilling market.

As a result, JDC’s debt exceeded its assets by approximately 15.5 billion yen on a consolidated basis as of March 31, 2018. Similarly, on a non-consolidated basis, JDC’s debt exceeded its assets by approximately 16.4 billion yen, and JDN’s by approximately 1.08 billion yen.

(4) Filing of the Petition for the Commencement of Reorganization Proceedings

Due to the background described above, JDC and JDN became insolvent (Article 17, Paragraph 1, Item 1 of the Corporate Reorganization Act). Therefore, JDC and JDN filed the petition for the commencement of reorganization proceedings with the Tokyo District Court on June 22, 2018.

3. <u>The Events that Took Place between the Filing of the Petition for the Commencement of Reorganization Proceedings to the Commencement Order</u>

JDC and JDN received temporary restraining orders to prohibit repayments and comprehensive prohibition orders from the Tokyo District Court on June 22, 2018.

Since both JDC and JDN had the intention to pursue “DIP-type” reorganization proceedings, in which a management team would continue to be in charge of the management as trustees or deputy trustees after the commencement of the reorganization proceedings, the two parties filed petitions with the Tokyo District Court on the same day for supervision orders and examination orders. In response, supervision orders and examination orders were issued by the Tokyo District Court on the same day, and Eiji Katayama, attorney at law, was appointed as a supervisor and an examiner. Eiji Katayama conducted an examination to find out whether there were grounds for commencement of the reorganization proceedings and the like, as well as to determine whether the management team would be suitable as trustees.

At 5 pm on July 25, 2018, JDC and JDN received orders of the commencement of reorganization proceedings from the Tokyo District Court. At the same time, Yasuro Yasui, the director of both companies, and Eiji Katayama, who served as the supervisor and examiner, were appointed as the trustees for both companies.

4. The Development and the Current Status of the Businesses and the Property

The business of the JDC Group has been carried out normally after the filing of the petition for the reorganization proceedings and the commencement order thereof were made. Financing is going well without any problems. The details are as follows:

(1) Status of the Businesses

(i) Offshore Drilling Business

With respect to the offshore drilling rigs held by the JDC Group (SAGADRIL-1, SAGADRIL-2, HAKURYU-5, HAKURYU-10, H11 and H12), after the filing of the petition or the issue of the commencement order, no business partner has suspended the delivery of goods and services that are necessary for the operation of the rigs, and no client has demanded the termination of contracts based on termination due to bankruptcy clauses. The JDC Group continues the operation of the offshore drilling rigs as it did before the filing.

Also, with regard to H14, which had no drilling project assigned thereto prior to the filing of the petition, an order for a drilling project was placed after the issuance of the commencement order, and the operation is expected to start in the future.

(ii) Undertaking of the Operation and Management of "CHIKYU"

The JDC Group undertakes the operation and management of "CHIKYU," a deep-sea drilling vessel owned by the Japan Agency for Marine-Earth Science and Technology (JAMSTEC), through Mantle Quest Japan Company, Ltd., a JDC subsidiary. The JDC Group continues the operation of such business similarly as it did prior to the filing of the petition.

(iii) Business Related to Drilling Technology

In addition to the above, JDC undertakes the business pertaining to engineering services as entrusted by Japan Methane Hydrate Operating Co., Ltd. JDC continues the operation of such business in a similar manner as it did prior to the filing of the petition.

(2) Various Responses to the Parties Concerned

Various responses are made to the parties concerned as follows:

(a) Notices to creditors and clients;

(b) Conducting briefing sessions for creditors;

(c) Conducting briefing sessions for employees;

(d) Setting up points of contact for inquiries and responding to inquiries; and

(e) Obtaining approvals for repayment of small claims and making repayments thereof.

(3) Procedure in Singapore

In order to make the reorganization proceedings in Japan also effective in Singapore, JDC has applied to the High Court of Singapore for its decision to recognize the reorganization proceedings for JDC as a foreign main proceeding in Singapore, and obtained an approval from the same court.

(4) Sponsorship Selection Process

In order to strengthen the financial base, JDC and JDN are consulting with sponsor candidates to obtain support from sponsors for the JDC Group business.

(5) Appraisal of Property

Necessary preparations are underway for appraisal of property with the help of certified public accountants.

(6) Avoidance

Examinations and reviews are underway to identify any actions which took place prior to the filing of the petition for the commencement of corporate reorganization proceedings that should be avoided by the trustees (Article 86 and onwards, Corporate Reorganization Act).

5. <u>Circumstances Requiring an Assessment Order on Liability of an Officer, etc.</u>

The background that lead to the filing of the petition by JDC and JDN for the commencement of reorganization proceedings is as stated above. To date, no misconduct and the like by officers have been found, nor have any other facts been identified regarding which legal liability of any officer should be pursued. The investigation will continue to take place.

6. Going Forward

(1). Necessity of the Reorganization

JDC was established in 1968 as a corporation dedicated to the undertaking of well drilling for offshore oil and natural gas exploration and development, of which know-how used to be possessed only by Western countries back then, in order to achieve the accumulation of offshore drilling technology in Japan. For 50 years since then, the JDC Group has furnished offshore drilling services not only in the waters of Japan but also around the world and accumulated advanced offshore drilling technology, marine operation know-how and the like. The experience and technical strength of the JDC Group have been highly acclaimed and gained trust internationally and are the foundation of the JDC Group's advantage in the offshore drilling business industry.

Additionally, ever since its establishment, the JDC Group has been part of Japan's initiatives to develop energy resources and conduct various marine resources development projects and research projects as the country's sole corporate group providing offshore drilling services. The business of the JDC Group, which is supported by Japanese-developed operation technique, is extremely important to the development of marine resources domestically available in Japan, such as methane hydrate, and at the same time plays a role to protect the precious marine interests of Japan, a maritime nation, from expansions and invasions by foreign countries.

As mentioned above, the significance of the JDC Group is high in light of the business it conducts, and once such business is lost, the re-entry thereto would be difficult, and even if re-entry were realized, the further accumulation of technologies would be required. Considered from this aspect, as well as from the perspective of energy resources development in Japan, the necessity to reorganize the businesses of the JDC Group is extremely high.

Furthermore, JDC has 304 employees including those on secondment but excluding temporary employees (among which 37 employees are seconded to JDN) as of July 31, 2018, so should the reorganization of the JDC Group business be difficult, many jobs would be sacrificed. Therefore, the necessity to reorganize the business of the JDC Group is high also from the viewpoint of maintaining employment.

As mentioned previously, the JDC Group is the sole corporate group in Japan offering offshore drilling services, and its experience and technical strength have been highly acclaimed and gained trust internationally. In light of the uniqueness of the its business and its good reputation in the industry, it is believed that there is a substantial likelihood that sponsors to support the businesses of the JDC Group will be selected and that the reorganization of the businesses will be realized.

(2) Issues in the Future

(i) Maintaining the Continued Operation, etc.

Since all of the offshore drilling rigs held by the JDC Group are currently in operation or have received an award for a project, it is necessary to continue or start the operation thereof by maintaining good relationships with the business partners and clients. In addition, with respect to the rigs for which contract terms will reach maturity in the near future, market activities should be carried out early on to secure the awards of the contracts.

(ii) Selection of Sponsors

As previously mentioned, JDC and JDN are consulting with sponsor candidates to obtain support from sponsors for the JDC Group business. Going forward, selection of appropriate sponsors and execution of appropriate sponsorship agreements to proceed with the reconstruction of the business will need to take place.

(iii) Pursuit of the Reorganization Proceedings

In the future, trustees will need to conduct the appraisal of properties and the investigation of claims in a fair and reasonable manner under the supervision of the Tokyo District Court. After going through the processes above, appropriate coordination of the interests of interested parties such as creditors, and formulation of a reorganization plan for proposal will be required.

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