



ODFJELL DRILLING

Odfjell Drilling Ltd.

Report for the 4th quarter of 2018 and preliminary results for the financial year ending 31 December 2018

Key figures for the Group

All figures in USD million

Key figures Odfjell Drilling Ltd. Group	Q4 18	Q4 17	FY 18	FY 17
Operating revenue.....	168	171	698	662
EBITDA.....	68	67	259	274
EBIT.....	28	27	99	112
Net profit (loss).....	19	14	27	35
EBITDA margin.....	40%	39%	37%	41%
Total assets.....			2,276	2,138
Net interest bearing debt.....			920	1,068
Equity.....			1,024	767
Equity ratio.....			45%	36%

Highlights Q4 2018

Odfjell Drilling Ltd. Group

- Operating revenue of USD 168 million compared to USD 171 million in Q4 2017.
- EBITDA of USD 68 million compared to USD 67 million in Q4 2017.
- EBITDA margin of 40% compared to an EBITDA margin of 39% in Q4 2017.
- The Group's contract backlog is USD 2.4 billion, whereof USD 1.4 billion is firm backlog. The comparable figure at the end of Q4 2017 was USD 2.6 billion, whereof USD 1.3 billion was firm backlog.

Mobile Offshore Drilling Units segment

- Operating revenue of USD 119 million compared to USD 118 million in Q4 2017.
- EBITDA of USD 60 million compared to USD 58 million in Q4 2017.
- EBITDA margin of 51% compared to 49% in Q4 2017.

Drilling & Technology segment

- Operating revenue of USD 37 million compared to USD 32 million in Q4 2017.
- EBITDA of USD 5 million compared to USD 3 million to Q4 2017.
- EBITDA margin of 15% compared to an EBITDA margin of 11% in Q4 2017.

Well Services segment

- Operating revenue of USD 25 million compared to USD 27 million in Q4 2017.
- EBITDA of USD 6 million compared to USD 9 million in Q4 2017.
- EBITDA margin of 22% compared to 32% in Q4 2017.

Extension of Drilling Services bank facility

Odfjell Drilling has, on 6 November 2018, entered into an amendment agreement (with its lenders in the Odfjell Drilling Services Ltd., facility) to extend the facility to November 2019. Additionally, the waiver consent regarding the debt service coverage ratio of the Odfjell Drilling Services group has been extended to the new maturity date of the facility. The amortisation profile of the loan will be unchanged with semi-annual instalments of USD 20 million in November 2018 and May 2019. The balloon will consequently be USD 250 million at the new maturity date.

Additional work secured for Deepsea Bergen

Odfjell Drilling has, on 16 November 2018, signed a drilling contract with MOL Norge for one exploration well in direct continuation of Deepsea Bergen's contract with OMV Norge, estimated to expire in Q3/Q4 2019. The expected duration is approximately 50 days plus possible well testing. The addition of the well with MOL Norge will keep Deepsea Bergen continuously employed during 2019. The contract value is estimated to be approximately USD 9 million plus potential incentive bonus.

Migration to the United Kingdom

Following a strategic review, the shareholders at a Special General Meeting, held on 11 December 2018, approved the Company's migration to the United Kingdom. This means that Odfjell Drilling Ltd., is now managed and controlled from the United Kingdom by a UK resident Board of Directors, with the Company's head office being in Aberdeen, United Kingdom.

Delivery of Deepsea Nordkapp

Odfjell Drilling has, on 7 January 2019, taken delivery of its latest newbuild, Deepsea Nordkapp, from Samsung Heavy Industries in Korea. The semi-submersible is an enhanced Moss Maritime CS-60 design, winterized and purposely built for harsh environment areas. The unit will meet Odfjell Drilling's requirements for delivering highly efficient operations. Deepsea Nordkapp is currently mobilising to the Norwegian Continental Shelf for its 2+2 year contract with AkerBP. Commencement of drilling operations is expected to take place in Q2 2019.

BP extends platform drilling services on the UK continental shelf

Odfjell Drilling will continue to provide platform drilling services on the UK continental shelf to BP. On 29 January 2019, BP awarded Odfjell Drilling a contract for platform drilling and maintenance services on three of its platforms in the UK North Sea. The contract period is for two years, with an additional two x one year options. The new contract commenced in February 2019 and the firm contract period has an estimated value of up to USD 50 million.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q4 2018

Operating revenue for Q4 2018 was USD 168 million (USD 171 million), a decrease of USD 3 million, mainly due to decreased external revenue in Drilling & Technology as well as in the Well Services segment, offset by increased revenue in the MODU segment from Q4 2017 to Q4 2018.

EBITDA in Q4 2018 was USD 68 million (USD 67 million), an increase of USD 1 million.

The EBITDA margin in Q4 2018 was 40% (39%).

EBIT in Q4 2018 was USD 28 million (USD 27 million), an increase of USD 1 million.

Net financial expenses in Q4 2018 amounted to USD 7 million (USD 15 million). The decrease of USD 8 million is explained by a USD 10 million gain from bonds and warrants in Golden Close Maritime Corp. Ltd. in 2018.

In Q4 2018 the tax expense was USD 2 million (tax income USD 3 million). Tax income in Q4 2017 was mainly related to utilised tax losses resulting from the sale of shares.

Net profit in Q4 2018 was USD 19 million (USD 14 million).

Profit & loss FY 2018

Operating revenue for FY 2018 was USD 698 million (USD 662 million), an increase of USD 36 million, mainly due to increased activity in Drilling & Technology, compared to FY 2017.

EBITDA in FY 2018 was USD 259 million (USD 274 million), a decrease of USD 15 million. The FY 2017 EBITDA was positively impacted by the gain on sale of the investment in Robotic Drilling Systems AS (RDS) of USD 9.5 million. The FY 2018 EBITDA was positively impacted by a pension adjustment of USD 6 million. The decrease in EBITDA was also explained by Deepsea Bergen entering into new contracts at a lower day rate as from mid 2017.

The EBITDA margin in FY 2018 was 37% (41%).

EBIT in FY 2018 was USD 99 million (USD 112 million), a decrease of USD 13 million.

Net financial expenses in FY 2018 amounted to USD 67 million (USD 74 million). The decrease of USD 7 million was mainly related to the gain of USD 10 million from bonds and warrants in Golden Close Maritime Corp. Ltd., in 2018.

In FY 2018 the tax expense was USD 4 million (USD 1 million).

Net profit in FY 2018 was USD 27 million (USD 35 million).

Balance sheet

Total assets as at 31 December 2018 amounted to USD 2,276 million (USD 2,138 million as at 31 December 2017), an increase of USD 138 million, mainly due to the newbuild in progress (Deepsea Nordkapp).

Equity as at 31 December 2018 amounted to USD 1,024 million (USD 767 million as at 31 December 2017) an increase of USD 257 million, mainly due to paid in capital.

The equity ratio was 45% as at 31 December 2018 (36% as at 31 December 2017).

Net interest bearing debt as at 31 December 2018 amounted to USD 920 million (USD 1,068 million as at 31 December 2017), a decrease of USD 148 million.

Cash flow

Net cash flow from operating activities in Q4 2018 was positive with USD 97 million. The Group paid USD 18 million in interest.

Net cash outflow from investing activities in Q4 2018 was USD 38 million. Net capital expenditures of USD 48 million, mainly due to the newbuild in progress, were partly offset by proceeds from financial investments of USD 10 million.

USD 60 million was used for instalments on existing credit facilities in Q4 2018 and USD 2 million was paid in dividends to preference shareholders.

Net cash flow from operating activities in FY 2018 was positive with USD 221 million. The Group paid USD 66 million in interest.

Net cash outflow from investing activities in FY 2018 was USD 293 million. Net capital expenditures of USD 303 million, mainly due to the newbuild in progress, were partly offset by proceeds from financial investments of USD 10 million.

USD 145 million was used for instalments on existing credit facilities in FY 2018.

Net proceeds from capital increases were USD 236 million and USD 2 million was paid in dividends to preference shareholders.

At 31 December 2018 cash and cash equivalents amounted to USD 175 million. There has been a total positive net change in cash and cash equivalents of USD 9 million since 31 December 2017.

Segments

The Group's internal reporting is prepared according to Norwegian GAAP. This gives rise to differences between the measurements of segment disclosures and comparable items disclosed in this report.

Mobile Offshore Drilling Units (MODU)

All figures in USD million

Key figures MODU segment	Q4 18	Q4 17	FY 18	FY 17
Operating revenue.....	119	118	476	481
EBITDA.....	60	58	226	244
EBIT.....	27	25	94	111
EBITDA margin.....	51%	49%	47%	51%

All revenue related to mobilisation, demobilisation and rig modification is recognised over time during the actual drilling periods.

Operating revenue for the MODU segment in Q4 2018 was USD 119 million (USD 118 million), an increase of MUSD 1. The change in revenue for Deepsea Bergen due to increased day rate and utilization compared to the corresponding period in 2017 was offset by lower revenue for Deepsea Atlantic and Deepsea Stavanger. The slight reduction in revenue for these units was due to commencement of SPS for Deepsea Atlantic in December 2018 and limited recognition of total revenue from the Total Brulpadda project for Deepsea Stavanger based on the number of days of actual drilling operation in 2018.

EBITDA for the MODU segment in Q4 2018 was USD 60 million (USD 58 million), an increase of USD 2 million. The change in EBITDA is due to the same reasons as mentioned above.

EBIT for the MODU segment in Q4 2018 was USD 27 million (USD 25 million), an increase of MUSD 2.

Operating revenue for the MODU segment FY 2018 was USD 476 million (USD 481 million), a decrease of USD 5 million. This change is explained by the decrease in revenue for Deepsea Bergen due to a lower average day rate compared to 2017. The decrease in revenue for Deepsea Bergen was partly offset by higher utilization for the fleet in 2018 compared to last year.

EBITDA for the MODU segment FY 2018 was USD 226 million (USD 244 million), a decrease of USD 18 million. The decrease in EBITDA relates mainly to the change in day rate and utilization as explained above.

EBIT for the MODU segment FY 2018 was USD 94 million (USD 111 million), a decrease of USD 18 million. The decrease in EBIT relates to the changes as explained above.

MODU - Financial utilisation

The financial utilisation for each of the Group's fully owned mobile offshore drilling units was as follows:

Financial Utilisation - MODU	Q4 18	Q4 17	FY 18	FY 17
Deepsea Stavanger.....	98.0 %	98.6 %	98.7 %	98.4 %
Deepsea Atlantic.....	96.9 %	96.4 %	98.4 %	97.6 %
Deepsea Bergen.....	98.0 %	86.9 %	98.2 %	97.6 %
Deepsea Aberdeen.....	98.7 %	90.8 %	98.4 %	95.5 %

- Deepsea Stavanger was in Q4 2018 operating for Aker BP on the NCS until 11 October. It thereafter started the preparation and mobilization to South Africa and commenced the one well contract with Total offshore South Africa on 14 December 2018.
- Deepsea Atlantic was in Q4 2018 operating for Equinor on the NCS until 12 December. The unit thereafter started its 5 year special periodic survey at CCB outside Bergen, Norway.
- Deepsea Bergen has been operating for Equinor on the NCS in Q4 2018.
- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q4 2018.

Drilling & Technology (D&T)

All figures in USD million

Key figures Drilling & Technology segment	Q4 18	Q4 17	FY 18	FY 17
Operating revenue.....	37	32	145	105
EBITDA.....	5	3	14	15
EBIT.....	5	3	13	14
EBITDA margin.....	15%	11%	9%	14%

Operating revenue for the D&T segment in Q4 2018 was USD 37 million (USD 32 million), an increase of USD 5 million. The increase in revenue was primarily attributable to increased activity in the Technology segment compared to Q4 2017.

EBITDA for the D&T segment in Q4 2018 was USD 5 million (USD 3 million), an increase of USD 2 million. The increase in the Q4 2018 EBITDA is mainly affected by higher volume within Engineering and Projects.

EBIT for the D&T segment Q4 2018 was USD 5 million (USD 3 million), an increase of USD 2 million. The increase in EBIT relates to the changes as explained above.

Operating revenue for the D&T segment FY 2018 was USD 145 million (USD 105 million), an increase of USD 39 million. The increase in revenue was primarily attributable to an increase of the number of drill strings in operation and increased activity for the engineering services for the year in total.

EBITDA for the D&T segment FY 2018 was USD 14 million (USD 15 million), a decrease of USD 1 million. The decrease is due to the gain on sale of USD 9.5 million from the disposal of the Company's shares in RDS included in 2017, partly offset by higher volume and increased margins within the portfolio.

EBIT for the D&T segment FY 2018 was USD 13 million (USD 14 million), a decrease of USD 1 million. The decrease in EBIT relates to the changes as explained above.

Well Services (OWS)

All figures in USD million

Key figures Well Services segment	Q4 18	Q4 17	FY 18	FY 17
Operating revenue.....	25	27	107	97
EBITDA.....	6	9	26	32
EBIT.....	(0)	2	2	4
EBITDA margin.....	22%	32%	24%	33%

Operating revenue for the OWS segment in Q4 2018 was USD 25 million (USD 27 million), a decrease of USD 2 million. The decrease in revenue for the OWS segment in Q4 2018 is explained by lower activity levels in the Norwegian and the Middle East/Africa/Asia (MEAA) markets, partially offset by higher activity in the continental Europe market.

EBITDA for the OWS segment in Q4 2018 was USD 6 million (USD 9 million), a decrease of USD 3 million. The EBITDA margin for the OWS segment in Q4 2018 was 22% (32%). The decrease in EBITDA is mainly attributable to the lower activity levels in the Norwegian and MEAA markets.

EBIT for the OWS segment in Q4 2018 was USD 0 million (USD 2 million).

Operating revenue for the OWS segment FY 2018 was USD 107 million (USD 97 million), an increase of USD 10 million. The increase in FY 2018 revenue is explained by volume growth in the Norwegian and Europe continental markets partly offset by a decrease in revenue in MEAA markets.

EBITDA for the OWS segment FY 2018 was USD 26 million (USD 32 million), a decrease of USD 6 million. The EBITDA margin for the OWS segment FY 2018 was 24% (33%). The decrease in EBITDA margin is mainly due to continued price pressure particularly in the Norwegian and MEAA markets.

EBIT for the OWS segment FY 2018 was USD 2 million (USD 4 million).

Outlook

Following the drop in oil prices in 2014, the drilling and oil service market has suffered a severe decrease in the total activity level. The downturn has resulted in major impairments across the sector and oil companies have been forced to reduce costs and establish more efficient operations. The efficiency programs carried out by the oil companies have led to substantial reduction in field development and production spending.

The global drilling and oil service market is currently growing at a steady pace; however with some regional differences. In harsh environments, we have observed a higher demand combined with a substantial number of mature units permanently withdrawn from the market. This has led to an increased utilization of the harsh environment fleet.

Based on the preference of new and more efficient units combined with a high reactivation cost, we believe that scrapping of older midwater and harsh environment drilling units will continue over the

next few years. In combination with a more healthy market environment, we believe this trend will bring the harsh environment market back into balance with improved day rates.

Odfjell Drilling is well positioned in this market with a fleet consisting mainly of 6th generation semi-submersibles tailored for efficient operations in harsh environments.

Deepsea Stavanger concluded its contract with Aker BP on 11 October 2018 and started thereafter the preparation and mobilization for the one well contract with Total in South Africa. After a successful pre-operation phase, Deepsea Stavanger commenced the Total contract on the Brulpadda field offshore South Africa on 14 December 2018. The unit concluded this contract with Total on 13 February 2019 and is currently demobilizing to Norway. We expect Deepsea Stavanger to commence its next 12 month contract with Aker BP during the first part of Q2 2019.

Deepsea Atlantic commenced its current drilling contract under the master frame agreement with Equinor on 24 January 2019, after a successful completion of its special periodic survey.

Deepsea Aberdeen is contracted until April 2022 for BP West of Shetland.

Deepsea Bergen will operate for Equinor until late February this year and will thereafter move to the UK continental shelf for a one well drilling contract for Ithaca starting end February/ early March 2019. Thereafter the unit will return to Norway and commence a one well contract for OMV in Q2 19 followed by a one well contract with MOL. This will keep Deepsea Bergen in operations throughout 2019.

Finally, the newbuild Deepsea Nordkapp was delivered from Samsung Heavy Industries 7 January 2019. The unit is currently mobilizing to Norway and is expected to commence a 2+2 year contract with Aker BP in May/June 2019.

OWS is still facing fierce competition for its services globally. We currently observe increased tender activity in the European and Middle East markets; however the over-supply of equipment continues to keep pressure on prices.

The slowdown in the North Sea market has led to a low activity level for development and upgrade projects over the last few years. Drilling & Technology has experienced an increased demand for its services and is well positioned to take part in the market recovery.

Risks and uncertainties

Factors that, in the Group's view, could cause actual results to differ materially from the outlook contained in this report are the following: volatile oil and gas prices, competition within the oil and gas services industry, changes in client's spending budgets and developments in the financial markets and within the Group. Furthermore, as the Group's fully owned fleet consists of only four units plus one newbuild delivered from shipyard 7 January 2019, 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.

The substantial reduction in market capitalisation for the oil and gas service providers has led the financial institutions to focus on contract backlog as the major criteria for debt financing. The market for rig financing is still challenging and additional funding sources may not be available to the Group in the future for refinancing existing facilities as they mature. Odfjell Drilling is currently working to conclude the re-financing of two facilities ahead of maturity dates in September and November 2019.

The uncertainties and volatility in today's financial markets represent a risk for the Group with respect to funding, and hence the going concern principle, should these market conditions continue over time. The market outlook and contract situation for the Group's mobile offshore drilling units may also affect covenant risk since reduced revenues from drilling operations directly affect the operating results and cash flow from operations. The Company monitors the total liquidity position and will take measures if necessary. The Group has, in recent years, implemented cost reduction and efficiency improvement programs and continued its focus on capital discipline in order to improve its competitiveness in this challenging market.

Quality, health, safety & environment (QHSE)

Key figures QHSE	FY 18	FY 17
Lost time incident frequency (as per 1 million working hours).....	1.0	0.3
Total recordable incident frequency (as per 1 million working hours).....	1.6	1.8
Sick leave (percentage).....	3.1	2.7
Dropped objects frequency (as per 1 million working hours).....	3.0	3.1
Number of employees.....	2,385	2,211

Aberdeen, United Kingdom
20 February 2019

Board of Directors of Odfjell Drilling Ltd.

Helene Odfjell, Chairman

Susanne Munch Thore, Director

Alasdair Shiach, Director

Thomas Marsoner, Director

Appendix 1: Definitions of alternative performance measures

Financial utilisation

Financial utilisation is measured on a monthly basis and comprises the actual recognised revenue for all hours in a month, expressed as a percentage of the full day rate for all hours in a month. Financial utilisation is only measured for periods on charter.

EBITDA margin

EBITDA/Operating revenue

EBIT margin

EBIT/Operating revenue

Net (loss) profit

Equal to Profit (loss) for the period after taxes

Equity ratio

Total equity/total equity and liabilities

Net interest-bearing debt

Non-current interest-bearing borrowings plus current interest-bearing borrowings less cash and cash equivalents

Contract backlog

The Company's fair estimation of revenue in firm contracts and relevant optional periods for MODU and Platform Drilling measured in USD - subject to variations in currency exchange rates.



Odfjell Drilling Ltd.

Condensed Consolidated
Financial Statements

4th quarter of 2018 and preliminary results for the
financial year ending 31 December 2018

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period and year ending 31 December 2018

Condensed Consolidated Income Statement

USD thousands	Note	Q4 18	Q4 17	FY 18	FY 17
Operating revenue	2,3	167,620	170,672	698,476	662,158
Other gains and losses		625	1,264	2,211	11,215
Personnel expenses		(61,868)	(66,165)	(303,669)	(260,815)
Other operating expenses	14	(38,568)	(39,084)	(137,871)	(138,838)
EBITDA		67,810	66,686	259,147	273,720
Depreciation, amortisation and impairment	5	(40,076)	(40,136)	(160,630)	(161,436)
Operating profit (EBIT)		27,733	26,550	98,517	112,285
Share of profit (loss) from other joint ventures		-	(0)	-	(1,485)
Net financial items	13	(6,961)	(15,473)	(67,377)	(74,111)
Profit/(loss) before tax		20,773	11,077	31,139	36,688
Income taxes	10	(2,043)	2,990	(3,789)	(1,335)
Profit/(loss) for the period		18,729	14,067	27,350	35,353
Earnings per share (USD)					
Basic earnings per share	8	0.07	0.07	0.10	0.18
Diluted earnings per share	8	0.07	0.07	0.10	0.18

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q4 18	Q4 17	FY 18	FY 17
Profit/(loss) for the period		18,729	14,067	27,350	35,353
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Actuarial gain / (loss) on post employment benefit obligations		(76)	(27)	479	(266)
Items that are or may be reclassified to profit or loss:					
Cash flow hedges		9	(126)	186	353
Currency translation differences		(8,111)	(3,437)	(5,597)	9,531
Other comprehensive income for the period, net of tax		(8,178)	(3,590)	(4,932)	9,618
Total comprehensive income for the period		10,551	10,477	22,419	44,971

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period and year ending 31 December 2018

Condensed Consolidated Statement of Financial Position

USD thousands	Note	31.12.2018	31.12.2017
Assets			
Deferred tax asset		1,271	3,566
Intangible assets	5	29,811	32,855
Property, plant and equipment	5	1,928,132	1,782,393
Financial non-current assets	4	769	551
Total non-current assets		1,959,983	1,819,365
Trade receivables		103,056	137,438
Contract assets		-	-
Other current assets	4	38,545	15,455
Cash and cash equivalents		174,761	165,970
Total current assets		316,363	318,863
Total assets		2,276,345	2,138,228
Equity and liabilities			
Total paid-in capital	12	564,959	328,841
Other equity	12	458,714	438,216
Total equity		1,023,673	767,057
Non-current interest-bearing borrowings	9	311,819	1,076,103
Post-employment benefits		9,934	18,084
Non-current contract liabilities		369	-
Other non-current liabilities		-	5,331
Total non-current liabilities		322,122	1,099,519
Current interest-bearing borrowings	9	782,980	157,472
Contract liabilities		27,584	-
Trade payables		42,047	35,214
Other current liabilities	4, 14	77,940	78,966
Total current liabilities		930,550	271,652
Total liabilities		1,252,672	1,371,171
Total equity and liabilities		2,276,345	2,138,228

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period and year ending 31 December 2018

Condensed Consolidated Statement of Changes in Equity

USD thousands	Total paid-in			Equity attributable to:		
	capital	Other equity	Total equity	Common shares	Preference shares	Total equity
Balance at 1 January 2017	328,841	393,245	722,086	722,086		722,086
Profit/(loss) for the period	-	-				
Profit/(loss) for the period	-	35,353	35,353	35,353		35,353
Other comprehensive income for the period	-	9,618	9,618	9,618		9,618
Total comprehensive income for the period	-	44,971	44,971	44,971		44,971
Balance at 31 December 2017	328,841	438,216	767,057	767,057		767,057
Profit/(loss) for the period	-	27,350	27,350	22,932	4,418	27,350
Other comprehensive income for the period	-	(4,931)	(4,931)	(4,931)		(4,931)
Total comprehensive income for the period	-	22,419	22,419	18,001	4,418	22,419
Capital increase common shares	171,794	-	171,794	171,794		171,794
Capital increase preference shares	75,000	-	75,000	-	75,000	75,000
Transaction costs	(10,676)	-	(10,676)	(10,676)		(10,676)
Dividend paid to preference share holders	-	(2,209)	(2,209)		(2,209)	(2,209)
Cost of Share-option plan	-	288	288	288		288
Transactions with owners	236,118	(1,921)	234,197	161,406	72,791	234,197
Balance at 31 December 2018	564,959	458,714	1,023,673	946,464	77,209	1,023,673

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period and year ending 31 December 2018

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q4 18	Q4 17	FY 18	FY 17
Cash flows from operating activities:					
Profit/(loss) before tax		20,773	11,077	31,139	36,688
Adjustment for provisions and other non-cash elements		44,414	54,555	212,003	222,878
Changes in working capital		50,048	4,752	44,384	(14,140)
Cash generated from operations		115,235	70,383	287,526	245,426
Interest paid		(18,166)	(17,255)	(65,805)	(64,688)
Net income tax (paid) / refunded		(368)	(218)	(1,191)	(14,900)
Net cash flow from operating activities		96,701	52,911	220,530	165,839
Cash flows from investing activities:					
Purchase of property, plant and equipment	5	(48,983)	(9,591)	(305,876)	(29,468)
Proceeds from sale of property, plant and equipment		752	1,390	2,590	2,036
Other long term receivables		54	(31)	56	64
Proceeds from financial investments incl. joint ventures		9,739	6,112	9,739	26,580
Net cash flow from investing activities		(38,438)	(2,120)	(293,491)	(787)
Cash flows from financing activities:					
Net (payments)/proceeds from borrowings financial institutions		-	-	-	(737)
Repayments of borrowings to financial institutions	9	(60,300)	(61,000)	(145,300)	(183,500)
Net proceeds from capital increases	12	-	-	236,118	-
Dividends paid to preference share holders		(2,209)	-	(2,209)	-
Net cash flow from financing activities		(62,509)	(61,000)	88,609	(184,237)
Effects of exchange rate changes on cash and cash equivalents		(4,613)	(1,572)	(6,858)	3,533
Net increase (decrease) in cash and cash equivalents		(8,859)	(11,782)	8,791	(15,653)
Cash and cash equivalents at beginning of period		183,620	177,752	165,970	181,623
Cash and cash equivalents at period end		174,761	165,970	174,761	165,970

Unaudited

Note 1 | Accounting Principles

General information

Odfjell Drilling Ltd. ('the Company') and its subsidiaries (together 'the Group') operate mobile offshore drilling units in addition to providing well services and drilling & technology services.

Odfjell Drilling Ltd., is incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. A special general meeting in Odfjell Drilling Ltd resolved 11 December 2018 to migrate its head office from Bermuda to Aberdeen, Scotland. The company is as a consequence of this migration a resident of United Kingdom.

These condensed interim financial statements were approved by the Board of Directors on 20 February 2019 and have not been audited.

Basis for preparation

These condensed interim financial statements for the twelve months period ended 31 December 2018 have been prepared in accordance with IAS 34, 'Interim financial reporting'. These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017.

Going concern

The Group has adopted the going concern basis in preparing its consolidated financial statements. When assessing the going concern assumption, the Directors and management have considered cash flow forecasts, funding requirements and order backlog.

The reduction in market capitalisation for the oil and gas service providers has led the financial institutions to focus on contract backlog as the major criteria for debt financing. The market for rig financing is still challenging and additional funding sources may not be available to the Group in the future for refinancing existing facilities as they mature. The uncertainties and volatility in today's financial market represent a risk for the Group with respect to funding, and hence the going concern principle, should these market conditions continue over time.

Taking all relevant risk factors into consideration, management has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

Accounting principles

The accounting principles adopted are consistent with those of the previous financial year, except for the following:

As of 1.1.2018 the group implemented IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* as of 1.1.2018. The implementation did not impact net retained earnings as at 1 January 2018. See further information in condensed interim financial statements for the 1st quarter of 2018 and in *Note 3 Revenues*.

As of 1.1.2019 the group will implement IFRS 16 *Leases* using a modified retrospective approach for adoption. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The group has reviewed the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of USD 61 million. Of these commitments, approximately USD 0.5 million relate to short-term leases and USD 0.5 million to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the group expects to recognise right-of-use assets of approximately USD 46 million on 1 January 2019 and lease liabilities of USD 46 million. Equity and overall net assets will not be affected, but net current assets will be approximately USD 8 million lower due to the presentation of a portion of the liability as a current liability. The group expects that net profit after tax will decrease by approximately USD 1 million for 2019 as a result of adopting the new rules. EBITDA is expected to increase by approximately USD 8 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Note 1 | Accounting Principles - cont.

Operating cash flows will increase and financing cash flows decrease by approximately USD 8 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Use of estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

There will always be uncertainty related to judgement and assumptions related to accounting estimates. Reference is made to *Note 5 Tangible and intangible fixed assets*, where assumptions and sensitivity analysis for goodwill and mobile drilling units are presented.

Income tax expense and deferred income tax liability is calculated by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction.

Odfjell Drilling Ltd.

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Note 2 | Segment summary

The Group provides drilling and related services to the offshore oil and gas industry and has three main business areas; the operation of mobile drilling units, drilling & technology and well services.

The Board is the Group's chief operating decision maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance. Mobile Offshore Drilling Units business segment (MODU), Drilling & Technology business segment (D&T) and Odfjell Well Services business segment (OWS) have been determined as the operating segments.

The Group's internal reporting is prepared according to Norwegian GAAP. This gives rise to differences between the measurements of segment disclosures and comparable items disclosed in this financial report. Such differences are identified and reconciled in the tables below.

- **MODU:** In the MODU segment, the Group operates drilling units owned by the Group and by third parties. The MODU segment also offers management services to other owners of semisubmersibles, drillships and jack-ups; mainly operational management, management of regulatory requirements, marketing, contract negotiations and client relations, preparations for operation and mobilisation.

- **D&T:** Within the D&T segment, the Platform Drilling business area provides integrated drilling and maintenance services for fixed platform drilling rigs in the North Sea. The Technology business area offers engineering services, including design, project management and operation and support.

- **OWS:** The OWS segment provides casing and tubular running services, wellbore cleaning in addition to drilling tool and tubular rental services both for exploration wells and for production purposes.

USD thousands	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	Q4 18	Q4 17	Q4 18	Q4 17	Q4 18	Q4 17	Q4 18	Q4 17	Q4 18	Q4 17
External segment revenue	118,690	116,782	28,689	30,114	19,569	20,106	672	3,670	167,620	170,672
Inter segment revenue	-	819	8,287	2,312	5,690	6,976	(13,977)	(10,107)	-	-
Total revenue	118,690	117,601	36,976	32,426	25,260	27,082	(13,305)	(6,437)	167,620	170,672
EBITDA	60,066	58,046	5,371	3,490	5,651	8,561	(3,277)	(3,411)	67,810	66,686
Depreciation and impairment	(33,292)	(33,315)	(20)	(236)	(5,793)	(6,556)	(972)	(28)	(40,076)	(40,136)
EBIT	26,774	24,731	5,351	3,254	(142)	2,005	(4,249)	(3,440)	27,733	26,550

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17
External segment revenue	476,450	478,443	130,457	97,798	77,449	74,764	14,121	11,152	698,476	662,158
Inter segment revenue	-	2,605	14,082	7,651	29,327	22,101	(43,410)	(32,356)	-	-
Total revenue	476,450	481,047	144,539	105,449	106,776	96,865	(29,289)	(21,204)	698,476	662,158
EBITDA	226,188	243,736	13,544	15,019	25,995	31,606	(6,580)	(16,642)	259,147	273,720
Depreciation and impairment	(132,675)	(132,243)	(71)	(912)	(24,151)	(27,972)	(3,734)	(309)	(160,630)	(161,436)
EBIT	93,513	111,493	13,473	14,107	1,845	3,634	(10,314)	(16,951)	98,517	112,285

Reconciliation:	Q4 18	Q4 17	FY 18	FY 17
EBIT for reportable segments	31,982	29,990	108,831	129,235
Corporate	(4,435)	(3,765)	(11,116)	(19,172)
Accounting differences	186	326	802	2,222
EBIT - Consolidated Group	27,733	26,550	98,517	112,285
Share of profit (loss) from joint ventures	-	(0)	-	(1,485)
Net financial items	(6,961)	(15,473)	(67,377)	(74,111)
Profit / (loss) before tax - Consolidated Group	20,773	11,077	31,139	36,688

Unaudited

Note 3 | Revenue

USD thousands	Q4 18	YTD 18
Revenue from contracts with customers (IFRS 15)	161,389	672,246
Other operating revenue (OWS Rental)	6,231	26,230
Operating revenue	167,620	698,476

Revenue recognition

As of 1.1.2018 the group implemented *IFRS 15 Revenue from contracts with customers*. This replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The implementation did not impact net retained earnings as at 1 January 2018. See further information in Condensed Consolidated Financial Statements for the 1st quarter of 2018.

Revenue is measured based on the consideration specified in the specific contract with a customer and excludes amounts collected on behalf of third parties. The group recognises revenue when it transfers control over rendered services to the customer.

The Group's revenues are derived from day-rate based drilling contracts and day-rates from management drilling contracts and other service contracts. We generally recognise revenue over time because of the continuous transfer of control to the customer.

Revenue is recognised up to the amount that the Group is entitled to for the services performed to date based on contracted rates. The Group estimates fees for variable or conditional service fee arrangements, such as bonuses, using a most likely amount approach on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success in each case. Variable consideration is included in revenue only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved (generally when the matter is concluded).

For services within the D&T and OWS segments, as well as management services provided within the MODU segment, the period for recognising revenue is generally equal to the contract period.

For day-rate based drilling contracts within the MODU segment, revenue is recognised when drilling operations are performed, as this is when control over the service is transferred to the customer. No revenue is recognised in the mobilisation and demobilisation period. The likelihood of options being exercised and thereby included in estimates for expected total revenue and period for drilling operations, is based on management's judgement.

Mobilisation costs incurred as part of a contract, as well as all costs in the mobilisation period of a contract, are capitalised and expensed over the drilling operations period as defined above.

Effects on 2018 Financial Statements

At 31 December 2018, Deepsea Stavanger was performing drilling operations under the one well contract with Total offshore South Africa. The unit started its mobilisation from Norway to South Africa around mid October 2018 and commenced drilling operations around mid December 2018. The unit will thereafter demobilise back to Norway (expected to start in February 2019) which will take approximately 2 months. If the group had applied IAS 18, revenue recognised in 2018 would have been USD 3 million higher in Q4 2018 and FY 2018 than revenue recognised under the applied IFRS 15. EBITDA would have been approximately USD 1 million higher.

None of the other contracts the group were operating under had any material mobilisation or demobilisation periods or fee, hence there were no other changes to the amounts the group has recognised as revenue and expenses in YTD 18 applying IFRS 15 versus revenue recognition using IAS 18.

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Note 3 | Revenue - cont.

Disaggregation of revenue

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	Q4 18	Q4 18	Q4 18	Q4 18	Q4 18
Primary geographical markets					
Norway	52,132	24,698	10,746	(12,561)	75,015
UK	39,462	12,278	2,760	(752)	53,748
Europe - other countries	-	-	5,542	35	5,577
Asia	1,176	-	6,128	(28)	7,276
Africa	25,920	-	53	2	25,975
Other countries	-	-	29	(0)	29
Total operating revenue	118,689,849	36,976	25,260	(13,305)	167,620

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	FY 18	FY 18	FY 18	FY 18	FY 18
Primary geographical markets					
Norway	284,291	91,111	54,518	(26,062)	403,859
UK	158,303	53,428	8,973	(3,454)	217,250
Europe - other countries	-	-	19,298	(356)	18,942
Asia	7,937	-	23,653	580	32,170
Africa	25,920	-	128	2	26,050
Other countries	-	-	205	(0)	205
Total operating revenue	476,450	144,539	106,776	(29,289)	698,476

Unaudited

Note 4 | Financial risk management and Financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's refinancing risk is diversified with each loan facility maturing at different times until January 2024 (including Deepsea Nordkapp bank facility and seller's credit, effective from the delivery of Deepsea Nordkapp), - see repayment schedule and additional information in note 9. The Group has two facilities maturing in 2019: the Odfjell Drilling Services facility matures in November 2019 and the Odfjell Invest facility matures in September 2019. At maturity, the outstanding amounts under the Drilling Services facility will be USD 250 million and the Odfjell Invest facility USD 387.5 million. Successful refinancing of each facility may be dependent on contract backlog, asset values and overall financial market conditions. The Deepsea Bergen facility matures 30 September 2020, subject to termination options for the lenders if the borrower is unable to document the necessary backlog for Deepsea Bergen. Should the Deepsea Bergen facility be repaid or prepaid with cash other than excess cash from the operation of the unit, then any Odfjell Invest lender may require the same amount prepaid under the Odfjell Invest facility.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; consequently they should be read in conjunction with the Group's annual audited financial statements as at 31 December 2017. There are no material changes compared to the descriptions in the year-end financial statements.

Calculation of the Group's sensitivity to interest rate fluctuations showed that the effect of an increase in interest rates by one percentage point (e.g. from 4.0% to 5.0%) is approximately USD 10 million for FY 2018 including interest rate swaps. There is no material change in the Group's interest rate sensitivity compared to year-end.

Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities, except changes in non-current liabilities as disclosed in note 9.

Credit risk

Included in the Trade receivables as at 31 December 2018 the Group has an outstanding amount of USD 4.6 million towards customers in Iran. The Group's activities in Iran ceased prior to reinforcement of US sanctions primo November 2018. No payments have been received after this date, due to no current efficient bank channels out of Iran. The Iranian customers are working on improving the liquidity situation and finding appropriate payment routes. The Group's Iranian customers have previously demonstrated that they prioritize supplier payments, and although delayed, they have historically paid their outstanding. No impairment loss have been accrued for these Trade receivables as at 31 December 2018.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3). For short term assets and liabilities at level 3, the value is approximately equal to the carrying amount.

Change in accounting principle

The group also implemented IFRS 9 Financial instruments applying the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. See further information in condensed interim financial statements for the 1st quarter of 2018.

Note 4 | Financial risk management and Financial instruments - cont.

Set out below, is an overview of financial assets, other than cash and cash equivalents, held by the Group:

USD thousands	Level	IFRS 9 31.12.2018	IAS 39 31.12.2017
Financial assets at fair value through profit or loss			
Derivatives not designated as hedging instruments			
- Interest rate swaps - Other non-current assets	2	599	318
- Interest rate swaps - Other current assets	2	-	102
Debt instruments at amortised cost			
- Other non-current receivables		170	233
- Trade and other current receivables		106,717	140,538
Total financial assets		107,486	141,190

USD thousands	Level	IFRS 9 31.12.2018	IAS 39 31.12.2017
Financial liabilities at fair value through profit or loss			
Derivatives designated as hedging instruments			
- Foreign exchange forward contracts - Other current liabilities	2	-	186
Financial liabilities at amortised cost			
- Trade and other payables		119,809	89,188
- Non-current interest-bearing borrowings		311,819	1,076,103
- Current interest-bearing borrowings		782,980	157,472
Total financial liabilities		1,214,607	1,322,950

Valuation techniques used to derive Level 2 fair values

Level 2 derivatives held at fair value through profit or loss and hedging derivatives comprise interest rate swaps and foreign exchange agreements. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Interest rate swaps and foreign exchange agreements are recognised according to mark-to-market reports from external financial institutions. The effects of discounting are generally insignificant for Level 2 derivatives.

Fair value of financial liabilities measured at amortised cost

The fair value of interest-bearing borrowings are as follows:

	31.12.2018	31.12.2017
Non-current	311,819	1,076,103
Current	782,980	157,472
Total	1,094,798	1,233,575

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Other non-current receivables
- Trade and other current receivables
- Cash and cash equivalents (excluding bank overdrafts)
- Trade and other payables

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Note 5 | Tangible and intangible fixed assets

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Machinery & equipment	Total fixed assets
Opening net book amount as at 1 January 2018	1,610,118	88,869	-	82,392	1,015	1,782,393
Additions	18,834	23,052	246,788	13,249	2,253	304,176
Disposals	-	-	-	(694)	(18)	(711)
Depreciation	(89,002)	(43,650)	-	(23,666)	(1,269)	(157,587)
Currency translation differences	-	-	-	(43)	(97)	(140)
Net book amount as at 31 December 2018	1,539,951	68,271	246,788	71,238	1,883	1,928,132
Opening net book amount as at 1 January 2017	1,680,965	124,892	-	105,027	1,870	1,912,754
Additions	17,017	6,466	-	4,672	247	28,401
Disposals	-	-	-	(466)	(74)	(539)
Depreciation	(87,863)	(42,672)	-	(26,926)	(1,100)	(158,561)
Currency translation differences	-	183	-	84	71	338
Net book amount as at 31 December 2017	1,610,118	88,869	-	82,392	1,015	1,782,393
Useful lifetime	5 - 37.5 yrs	5 years	-	3 - 10 years	3 - 5 years	
Depreciation schedule	Straight line	Straight line	-	Straight line	Straight line	

Newbuild in progress relates to the purchase of Deepsea Nordkapp, a 6G harsh environment semi-submersible. The rig was constructed at Samsung Heavy Industries, South Korea, and was delivered from the shipyard 7 January 2019.

Impairment tests on mobile drilling units

Odfjell Drilling performs impairment tests on a regular basis. When evaluating the potential impairment of its mobile offshore drilling units, the Group has assessed each unit's recoverable amount. The Group acknowledges that there may be both macroeconomic and industry specific challenges when looking at a longer period of time, which a rig's lifetime is. Estimated cash flows may for these reasons vary over time and different scenarios have therefore been accounted for. The Group has in its calculations accounted for different scenarios when it comes to assumptions related to day rate, operating expenses, financial utilisation and market recovery.

In the sensitivity analysis, rig broker estimates of fair value in a hypothetical transaction between a willing buyer and a willing seller is used as a basis for fair value less cost to sell. The estimated impairment in the different scenarios is based on the assumption that the asset will be written down to the highest of value in use and fair value less costs to sell.

Based on impairment tests performed as at 31 December 2018, no impairment has been identified for any of the rigs.

Note 5 | Tangible and intangible fixed assets - cont

The following key assumptions have been used when conducting impairment tests for mobile drilling units:

Key assumptions	Deepsea Atlantic 6G Semi	Deepsea Stavanger 6G Semi	Deepsea Aberdeen 6G Semi	Deepsea Bergen 3G semi
Weighted Average Cost of Capital (WACC)	10.7%	10.7%	10.7%	10.5%
Firm contract days	547	398	1,186	323
Firm contract day rates (weighted average)	294	293	430	165
Future normalised base case day rates - at full market recovery	435	435	435	225
Financial utilisation in normalised period	95%	95%	95%	95%

Sensitivity analysis mobile drilling units		Deepsea Atlantic	Deepsea Stavanger	Deepsea Aberdeen	Deepsea Bergen
Estimated impairment write-down if:					
- WACC increased by	1 pp	35,000	39,000	-	-
- WACC increased by	2 pp	66,000	73,000	36,000	1,000
- Day rate level decreased by	5%	48,000	52,000	-	2,000
- Day rate level decreased by	10%	95,000	103,000	33,000	4,000
- Normalised opex level increased by	5%	23,000	24,000	-	2,000
- Normalised opex level increased by	10%	47,000	49,000	-	4,000
- Financial utilisation in normalised period decreased	1 pp	10,000	10,000	-	1,000
- Financial utilisation in normalised period decreased	2 pp	20,000	21,000	-	1,000
- Financial utilisation in normalised period decreased	3 pp	29,000	31,000	-	2,000

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Note 5 | Tangible and intangible fixed assets - cont

USD thousands	Goodwill	Software and other intangible assets	Total intangible assets
Opening net book amount as at 1 January 2018	19,736	13,119	32,855
Additions	-	1,700	1,700
Amortisation	-	(3,044)	(3,044)
Currency translation differences	(1,098)	(603)	(1,701)
Net book amount as at 31 December 2018	18,638	11,173	29,811
Opening net book amount as at 1 January 2017	18,786	14,223	33,009
Additions	-	1,067	1,067
Amortisation	-	(2,875)	(2,875)
Currency translation differences	950	704	1,654
Net book amount as at 31 December 2017	19,736	13,119	32,855

Impairment tests for goodwill

Goodwill is monitored by management at the operating segment level. The Drilling & Technology segment, as well as the Well Services segment, only consist of one Cash Generation Unit (CGU) each. The Mobile Offshore Drilling Units segment consist of Owned rigs and Management of other rigs. Only cash flow from Management of other rigs is used in the impairment test of goodwill, as the cash flow from Owned rigs is allocated to fixed assets.

The recoverable amount of the CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on prognoses made by management covering a five-year period. The prognosis for the EBITDA margin in 2019 and the following years is based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax weighted average cost of capital and reflect specific risks relating to the relevant operating segments.

These assumptions have been used for the analysis of each CGU within the operating segment. Impairment tests performed for goodwill within respective CGU's do not indicate any impairment requirement as at 31 December 2018.

The key assumptions used for value-in-use calculations as per Q4 2018 are as follows:

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services
EBITDA margin in prognosis period	15 %	5% - 6%	26% - 35%
Growth rate year 6 and forward	0.0%	0.0%	0.0%
Weighted Average Cost of Capital (WACC)	8.4 %	8.5%	9.1%

Sensitivity analysis for goodwill impairment test

The Group has performed sensitivity analysis for the goodwill impairment test by reducing operating income by one, five and ten percent and EBITDA margin by one, five and ten percentage points respectively for each of the segments. Reducing EBITDA margin by both five and ten percentage points indicated an impairment write-down of USD 11 million in the Drilling & Technology segment. None of the other scenarios indicated any impairment write-down of goodwill as at 31 December 2018.

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Note 6 | Commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

USD thousands	31.12.2018	31.12.2017
Newbuild in progress	317,936	-
Rig investments	22,727	4,674
Rental and casing equipment, due in 1 year	1,927	2,814
Total	342,590	7,489

Newbuild in progress is related to Deepsea Nordkapp.

Rig investments as per 31 December 2018 are mainly for Deepsea Atlantic investments related to periodic maintenance.

Note 7 | Paid dividends and acquisition of own shares

At 30 November 2018 the Group paid cash dividends of USD 1.9 million and at 31 December 2018 the Group paid dividends of USD 0.3 million to the holders of the preference shares. Refer to note 12 Equity for more information about the preference shares.

The Group has not acquired any of its own shares in the interim quarter and year ending 31 December 2018.

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Note 8 | Earnings per share

The basic earnings per share are calculated as the ratio of the profit for the year that is due to the shareholders of the parent divided by the weighted average number of common shares outstanding.

When calculating the diluted earnings per share, the profit that is attributable to the common shareholders of the parent and the weighted average number of common shares outstanding are adjusted for all the dilution effects relating to warrants and share options.

The calculation takes account of all the warrants and share options that are "in-the-money" and can be exercised. In the calculations, warrants and share options are assumed to have been converted/ exercised on the first date in the fiscal year. Warrants and share options issued this year are assumed to be converted/ exercised at the date of issue/ grant date. The dilution effect on warrants and share options are calculated as the difference between average fair value in an active market and exercise price or the sum of the not recognised cost portion of the options.

USD thousands	Q4 18	Q4 17	YTD 18	FY 17
Profit/(loss) for the period	18,729	14,067	27,350	35,353
Adjustment for dividends on preference shares	(1,890)	-	(4,418)	-
Profit/(loss) for the period due to holders of common shares	16,839	14,067	22,932	35,353
Adjustment related to warrants and share option plan	-	-	-	-
Diluted profit/(loss) for the period due to the holders of common shares	16,839	14,067	22,932	35,353
	Q4 18	Q4 17	YTD 18	FY 17
Weighted average number of common shares in issue	236,783,202	198,736,900	222,599,942	198,736,900
Effects of dilutive potential common shares:				
Warrants	-	-	-	-
Share option plan	-	-	-	-
Diluted average number of shares outstanding	236,783,202	198,736,900	222,599,942	198,736,900
	Q4 18	Q4 17	YTD 18	FY 17
Basic earnings per share	0.07	0.07	0.10	0.18
Diluted earnings per share	0.07	0.07	0.10	0.18

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Note 9 | Interest-bearing borrowings

USD thousands	31.12.2018	31.12.2017
Non-current	311,819	1,076,103
Current	782,980	157,472
Total	1,094,798	1,233,575

Movements in non-current borrowings are analysed as follows:	31.12.2018	31.12.2017
Carrying amount as at 1 January	1,076,103	1,208,180
Cash flows:		
Paid transaction costs related to amendments and new bank loan	-	(737)
Non-cash flows:		
Reclassified to current portion of non current borrowings	(767,565)	(137,500)
Change in transaction cost, unamortised	3,280	6,160
Carrying amount as at end of period	311,819	1,076,103

Movements in current borrowings are analysed as follows:	31.12.2018	31.12.2017
Carrying amount as at 1 January	157,472	204,058
Cash flows:		
Repayment bank loan	(145,300)	(183,500)
Non-cash flows:		
Reclassified to current portion of non current borrowings	767,565	137,500
Change in transaction cost, unamortised	2,717	-
Change in accrued interest cost	525	(586)
Carrying amount as at end of period	782,980	157,472

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining payments due at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual cash flows.

Repayment schedule for interest-bearing borrowings	31.12.2018	31.12.2017
Maturity within 3 months	19,500	12,500
Maturity between 3 and 6 months	65,500	57,500
Maturity between 6 and 9 months	407,000	16,000
Maturity between 9 months and 1 year	283,000	62,000
Maturity between 1 and 2 years	82,200	775,000
Maturity between 2 and 3 years	237,000	79,500
Maturity between 3 and 4 years	-	237,000
Maturity between 4 and 5 years	-	-
Maturity beyond 5 years	-	-
Total contractual amounts	1,094,200	1,239,500

Note 9 | Interest-bearing borrowings - cont

Extension of Odfjell Drilling Services bank facility

Odfjell Drilling has, on 6 November 2018, entered into an amendment agreement to extend the facility to November 2019. Additionally, the waiver consent regarding the debt service coverage ratio of the Odfjell Drilling Services group has been extended to the new maturity date of the facility. The amortisation profile of the loan will be unchanged with semi-annual instalments of USD 20 million in November 2018 and May 2019. The balloon will consequently be USD 250 million at the new maturity date.

Debt financing of Deepsea Nordkapp

Odfjell Drilling accepted on 28 August 2018 a firm offer for a USD 325 million senior secured term loan facility for Deepsea Nordkapp. The facility agreement was signed on 30 October 2018. The facility includes a 10-year tranche of USD 162.5 million guaranteed by K-SURE and a commercial bank tranche of USD 162.5 million that falls due 4 years, 11 months and 2 weeks after drawdown. The K-SURE tranche shall be prepaid at the final maturity date of the commercial tranche if the commercial tranche at that time has not been refinanced or prolonged at terms reasonably acceptable to K-SURE and the lenders funding the K-SURE tranche. The loan facility was fully drawn on 4 January 2019 in relation to the delivery of Deepsea Nordkapp that took place on 7 January 2019.

The facility shall be repaid by quarterly installments of USD 8.55 million, with the first instalment 9 months after drawdown of the facility.

As part of the financing of Deepsea Nordkapp, Odfjell Drilling was granted a 5-year seller's credit of USD 43.25 million from Samsung Heavy Industries, effective on delivery of the rig. The seller's credit is non-amortising and interest is to be accumulated to the loan balance at a floating rate of 3-months LIBOR + 200 basis points and shall be paid together with the principal at maturity in January 2024.

The group has no other available undrawn facilities as per 31 December 2018.

Covenants

At the balance sheet date, the debt service coverage ratio covenant in Odfjell Drilling Services Ltd., had been waived from 31 December 2017 until and including the compliance reporting for the quarter ending 31 December 2018. During the same period, the minimum liquidity requirement of the Odfjell Drilling Services Ltd., group is raised from USD 25 million to USD 35 million.

The amendment agreement entered into on 6 November 2018 extended the waiver consent and liquidity requirement until maturity of the facility, being November 2019.

The Group is compliant with all financial covenants as at 31 December 2018.

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Condensed Consolidated Financial Statements for the interim period and year ending 31 December 2018

Note 10 | Income taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

USD thousands	Q4 18	Q4 17	FY 18	FY 17
Withholding tax paid / payable	(78)	(361)	(1,349)	(1,334)
Tax payable	(700)	2,077	(349)	(900)
Change in deferred tax	(1,265)	1,274	(2,091)	899
Total tax expense	(2,043)	2,990	(3,789)	(1,335)
Average tax rate	10%	(27%)	12%	4%

Tax payable is the best estimate of tax payable based on ordinary profit and loss in the respective jurisdictions with applicable tax rates. Withholding tax is the tax withheld on border-crossing gross income, generated in the Middle East and some other countries. Withholding tax is presented as tax expense in the income statement as this is a major, and often the total, part of the corporate income tax.

Note 11 | Contingencies

See note 12 regarding outstanding warrants.

There are no other material contingencies to be disclosed as per 31 December 2018.

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Note 12 | Equity & shareholder information

	No. of shares	Nominal value	Share capital USD thousands
Listed shares			
Common shares issued as at 1 January 2018	198,736,900	USD 0.01	1,987
New shares issued at 16 May 2018	38,000,000	USD 0.01	380
New shares issued at 11 July 2018	46,302	USD 0.01	0
Common shares issued as at 31 December 2018	236,783,202		2,368
Preference shares			
New preference shares issued at 30 May 2018	16,123,125	USD 0.01	161
Total issued preference shares as at 31 December 2018	16,123,125		161

The preference shares are issued to an affiliate of Akastor ASA. The preference shares do not carry any voting rights. The Preference Shares will entitle the holder(s) to a preferred payment in kind dividend of 5% per annum capitalised semi-annually, as well as a cash dividend of 5% per annum paid semi-annually. The Company may elect to postpone the payment of the cash dividend in return for a 5% increase per annum. From 30 May 2024 there will be a dividend step-up, provided that the preference capital and dividends have not been repaid. The Company does not have any obligation to repay the Preference Shares, but have the right to call a portion, or all of the preference shares in exchange for a cash consideration. If the Preference Shares are called before six years after the issue the company will have to pay a premium.

As at 31 December preferred payment in kind dividend of USD 2.2 million was capitalised.

On 30 May 2018 the company issued warrants for 5,925,000 common shares to an affiliate of Akastor ASA for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024. A tranche which has become exercisable may also be exercised on the exercise dates for the subsequent tranches if the conditions for such subsequent exercise(s) are satisfied. Each tranche may be exercised if the price of the Shares has increased by a defined percentage over NOK 36 on the relevant exercise date (i.e. 31 May in 2019, 2020, 2021, 2022, 2023 and 2024 respectively), being NOK 43.20 for tranche 1, NOK 51.84 for tranche 2, NOK 62.21 for tranche 3, NOK 74.65 for tranche 4, NOK 89.58 for tranche 5 and NOK 107.50 for tranche 6. After 2024, any unexercised Warrants will, to the extent the thresholds have not been met, be exercisable on a linear prorata basis.

For each Warrant held, the holder shall be entitled to subscribe for one new common Share in the Company at a subscription price of USD 0.01.

Odfjell Drilling Ltd.

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Note 12 | Equity & shareholder information - cont

Largest common shareholders at 31 December 2018	Holding	% of shares
Odfjell Partners Ltd.	142,000,000	59.97%
Deutsche Bank AG	7,680,000	3.24%
Goldman Sachs & Co. LLC	7,671,555	3.24%
J.P.Morgan Chase Bank N.A. London	5,450,046	2.30%
Goldman Sachs International	3,249,256	1.37%
J.P.Morgan Chase Bank N.A. London	2,335,848	0.99%
Fidelity Select Portfolios: Energy	2,107,082	0.89%
J.P.Morgan Bank Luxembourg S.A.	2,053,573	0.87%
State Street Bank and Trust Co.	1,945,315	0.82%
Citybank, N.A.	1,900,000	0.80%
J.P.Morgan Bank Luxembourg S.A.	1,844,673	0.78%
The Bank of New York Mellon SA/NV	1,605,816	0.68%
Fondsfinans Norge	1,600,000	0.68%
Schroder International Selection	1,411,559	0.60%
BNP Paribas Securities Services	1,258,359	0.53%
State Street Bank and Trust Co.	1,213,014	0.51%
Cape Invest AS	1,177,952	0.50%
VPF Nordea Kapital	1,164,701	0.49%
Citybank, N.A.	1,124,846	0.48%
J.P.Morgan Securities LLC	1,041,826	0.44%
Total 20 largest common shareholders	189,835,421	80.17%
Other common shareholders	46,947,781	19.83%
Total common shareholders	236,783,202	100.00%

Unaudited

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Note 13 | Net financial items

USD thousands	Q4 18	Q4 17	FY 18	FY 17
Interest income	660	743	2,060	1,535
Interest expense	(17,339)	(16,335)	(68,368)	(65,636)
Other borrowing expenses	(1,499)	(1,566)	(5,997)	(6,392)
Gain/(loss) on interest rate swaps	(358)	298	180	520
Gain other financial investments	9,739	-	9,739	
Net currency gain/(loss)	2,000	1,670	(3,017)	(3,087)
Other financial items	(164)	(284)	(1,973)	(1,051)
Net financial items	(6,961)	(15,473)	(67,377)	(74,111)

Note 14 | Related-party transactions

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 59.97% of the common shares. Chairman of the Board, Helene Odfjell, controls Odfjell Partners Ltd.

Simen Lieungh (CEO, Odfjell Drilling AS) controls 0.40% of the common shares in the company as per 31 December 2018.

The company entered at 16 May 2018 into a long term incentive share option programme with the CEO, Odfjell Drilling AS, Simen Lieungh, granting him options to purchase 960,000 common shares at a subscription price of NOK 36 per share. On 19 November 2018 the subscription price in the programme was amended to NOK 26.65 per share. The options can only be exercised in three tranches of 320,000 options each, with vesting periods of two, three and four years. The options may be exercised during the subsequent year. Any options not exercised in the first two tranches can be rolled forward to the next tranches. Any options not exercised within 16 May 2023 will be terminated.

The Group had the following material transactions with related parties:

USD thousands	Q4 18	Q4 17	FY 18	FY 17
Sales of services:				
- Robotic Drilling System AS	-	-	-	20
- Deep Sea Metro Ltd. Group	-	-	-	3,770
Total	-	-	-	3,791
Operating expenses:				
- Kokstad Holding AS group (related to main shareholder)	1,398	1,578	6,293	6,392
Total	1,398	1,578	6,293	6,392

At 31 December 2017 and 31 December 2018 the group has no shares in Robotic Drilling System AS, nor in Deep Sea Metro Ltd. Transactions up until divestments in 2017 are included in the table above.

The Group had the following receivables and liabilities with related parties:

USD thousands	31.12.2018	31.12.2017
Current liabilities:		
- Kokstad Holding AS group (related to main shareholder)	-	647
Total	-	647

Note 15 - Important events occurring after the reporting period

Delivery of Deepsea Nordkapp

Odfjell Drilling has, on 7 January 2019, taken delivery of its latest newbuild, Deepsea Nordkapp, from Samsung Heavy Industries in Korea. The semi-submersible is an enhanced Moss Maritime CS-60 design, winterized and purposely built for harsh environment areas. The unit will meet Odfjell Drilling's requirements for delivering highly efficient operations. Deepsea Nordkapp is currently mobilising to the Norwegian Continental Shelf for its 2+2 year contract with AkerBP. Commencement of drilling operations is expected to take place in Q2 2019.

In relation to the delivery of Deepsea Nordkapp, the loan facility was fully drawn on 4 January 2019. In addition a 5-year seller's credit of USD 43.25 million from Samsung Heavy Industries was granted. See further information in note 9 *Borrowings*.

BP extends platform drilling services on the UK continental shelf

Odfjell Drilling will continue to provide platform drilling services on the UK continental shelf to BP. On 29 January 2019, BP awarded Odfjell Drilling a contract for platform drilling and maintenance services on three of its platforms in the UK North Sea. The contract period is for two years, with an additional two x one year options. The new contract commenced in February 2019 and the firm contract period has an estimated value of up to USD 50 million.

There have been no other events after the balance sheet date with material effect on the quarterly financial statements ended 31 December 2018.