ANNUAL REPORT

18

ODFJELL DRILLING

Disciplined growth

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ANNUAL REPORT

18

Content

4 CEO Letter
6 Odfjell Drilling in brief
10 An integrated partner
11 Key Figures
12 Milestones 2018
14 MODU – Another yellow drilling rig added to the fleet
16 The Fleet
18 State-of-the-art platform drilling in the North Sea
20 Management Team
22 45 years drilling experience - 100 years maritime history
24 Business Segment
27 QHSE
28 Corporate Governance
36 Corporate Social Responsibility Report
41 The Board of Directors
42 The Board of Directors Report

FINANCIAL STATEMENTS & NOTES

GROUP FINANCIAL STATEMENTS 2018
58 Consolidated Income Statement
59 Consolidated Statement of Comprehensive Income
60 Consolidated Statement of Financial Position
61 Consolidated Statement of Changes in Equity
62 Consolidated Statement of Cash Flows
63 Notes to the Consolidated Financial Statements

PARENT COMPANY FINANCIAL STATEMENTS 2018
112 Income Statement
113 Statement of Financial Position
114 Statement of Cash Flows
115 Notes to the Parent Company Financial Statements

124 Responsibility statement
125 Auditor's Report

131 Appendix 1: Definitions of alternative performance measures

Disciplined growth

In 2017 we introduced a new programme (EDGE) to facilitate growth by adopting a systematic approach to performance management in all areas. Although we have still to see a real upturn in the market, we have succeeded in growing our business in 2018 and have created an increased foundation upon which to build the Company further.

Towards the end of last year, we announced an exclusive framework agreement with Aker BP, which has already proven very successful as we have signed two drilling contracts for Deepsea Stavanger and Deepsea Nordkapp. In May 2018, we signed a Master Frame Agreement with Equinor and the first call under this agreement was a drilling contract for Deepsea Atlantic for six firm wells plus options.

One of the major milestones in 2018 was our investment in a new sixth generation deep-water drilling unit; Deepsea Nordkapp. This investment was of great importance both to meet the short term requirements under the Aker BP alliance and as an investment in achieving the company's long term goals for the future. The project was successfully funded with valuable support from K-SURE and relationship banks, in addition to a yard seller's credit and a combination of common and preferred equity capital. This funding strategy allowed the Company to diversify its funding sources and broaden its investor base.

The positive trend in activity level that we experienced in 2017 has continued through 2018. For Odfjell Drilling it has been a hectic year, wherein we have implemented many important measures and made investments that will be of great significance to the Company for many years to come.

The shift from survival and consolidation (CURE), to a growth strategy (EDGE), entails both investments in people and in equipment, however, with a full focus on not incurring unnecessary expenses. With increasing activity, our goal is for indirect costs to be reduced further and the savings we have identified and developed through the CURE programme must be retained and further improved.

Another major factor that is needed to stay competitive is to continue producing a world class HSE performance results. I am therefore pleased to see that our high level of safety has been maintained and improved in 2018. Our ambition is to continuously strengthen safety processes and to improve quality and efficiency in all our business areas. Dropped objects and maintenance of pressurized systems are still a major area of concern for high potential incidents and will continue to receive special attention.

Odfjell Drilling will, through energy management, digitalization and operational improvements, continue to have a high focus on environmental performance and emission controls to meet or exceed national and international standards.

In 2018, a number of rather significant changes have been made to our rig portfolio. The management agreements for the operation of Island Innovator and Deepsea Metro I have been brought to an end. Deepsea Metro I was sold to Turkish Petroleum and we are still discussing possible scenarios for a continuous management agreement for the unit. Deepsea Nordkapp has been added to the rig owning fleet and will commence the Aker BP drilling contract in Q2 2019. At the same time, agreements have been signed that ensure new work and longer horizons for Deepsea Stavanger, Deepsea Atlantic and Deepsea Bergen. Given that options are declared, all units, with the exception of Deepsea Bergen, have so far secured work until at least 2023. Finally, we managed to secure a management contract (with a purchase option) for Beacon Atlantic providing an important capacity to our fleet going forward.

Platform drilling marked two major milestones in 2018; drilling start on the large Johan Sverdrup field for Equinor and for BP in the UK on the Clair Ridge platform. Both of these are developments that are very important for oil production in Norway and the UK respectively, and for Odfjell Drilling with the newest and most sophisticated fixed drilling platforms on both sides of the North Sea. At the end of 2018, the platform portfolio comprised 14 units on the Norwegian and British continental shelves.

All this has been achieved mainly because of the company's ability to deliver safe and highly efficient operations over time.

To a large extent we have succeeded in maintaining and increasing our service activity within OWS, but we are still experiencing high pressure on rates. Several measures have been implemented to ensure that we adapt to this situation and we believe we are in a good position for future growth in core markets, new markets and in new technologies that are now being tested.

Odfjell Drilling Technology has been through some very tough years, however in 2018, we have seen a significant increase in the number of projects. Although the market is far from being back to the level it was some years ago, we are optimistic and well positioned to deliver both independent projects and integrated services to our customers going forward.

In 2018 we decided to move the main office from Bermuda to the UK. It was also decided to locate the main office of our listed owner company to our existing premises in Aberdeen, a decision I support wholeheartedly as it puts us closer to our main market in the North Sea and feels more suitable for business purposes. This move has, however, no bearing on our daily operating activities which continue in the respective market entities located in various countries.

In a market that is far from being fully recovered, it is with great satisfaction I can note the growth and positive development within all our business areas. I am proud to be leading an organization that has shown that they can deliver when it counts the most. I expect tough competition and tough markets also in 2019 - and there is little we can do about the market. But I believe we have laid a solid foundation for the company going forward, and we have significant ambitions for 2019 which are within our ability to meet.

Simen Lieungh
President & CEO, Odfjell Drilling AS

ANNUAL REPORT

18

In brief

Worldwide activities

- Nearly 2,400 employees approx. 20 countries
- Highly specialized engineers supporting all business segments
- Highly committed and experienced work force within all business areas

- Operates five highly advanced offshore drilling rigs and one drillship
- Modern fleet with five 6th generation state-of-the-art drilling units delivered 2009 – 2019
- Integrated world class supplier of well services across the globe

- 45 years of experience from worldwide drilling and well service operations
- Continuing investments in the latest and best technological solutions
- Multiple revenue sources from complementary business areas

«I believe we have laid a solid foundation for the company going forward, and we have significant ambitions for 2019 wich are within our ability to meet.”

Simen Lieungh, President & CEO, Odfjell Drilling AS

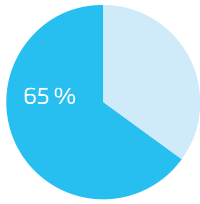
An integrated partner

for high quality drilling and well services

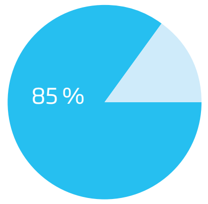
Mobile Offshore Drilling Units

Performed drilling operations in Norway, UK, and South Africa in 2018. Deepsea Stavanger started drilling operations for Total offshore South Africa in December 2018 and returned to NCS under the alliance agreement with Aker BP in Q2 2019. The latest delivery Deepsea Nordkapp will commence drilling operations under the Aker BP alliance agreement in Q2 2019 while Deepsea Atlantic continues to drill for Equinor under the Master frame Agreement. Deepsea Aberdeen is on long term contract with BP in UK while Deepsea Bergen has been performing drilling operations for several clients in 2018 and with current contracts running through to 2020.

Revenue



EBITDA



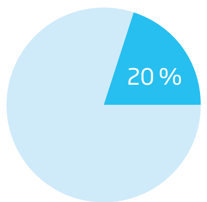
In depth, see page 24

- Modern fleet of UDW and harsh environment drilling units with proven excellent efficiency
- Extensive drilling experience
- Provision of integrated management services for drilling units

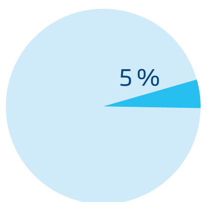
Drilling & Technology

Deliver integrated drilling and engineering services in Norway and the UK. Engineering and project management services, expertise in upgrades and modifications, subsea operations, well management and well control and rig inspection services from offices in Bergen, Stavanger, Aberdeen and Manila.

Revenue



EBITDA



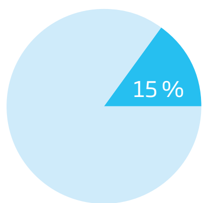
In depth, see page 25

- Providing integrated platform drilling services on 14 installations in the North Sea
- Conceptual engineering and engineering design
- Construction and commissioning support, modifications and upgrades
- Compliance assurance and maintenance management
- Marine and operational support
- Rig inspection services

Well Services

A significant player within tubular running, rental and well intervention services established in Europe, the Middle East, South East Asia and Africa with several hundreds of skilled, highly qualified and engaged employees working around the globe.

Revenue



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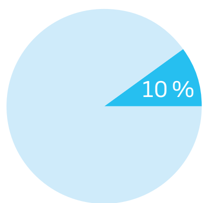


In depth, see page 26

- Conventional and TopDrive casing and tubular running services
- Casing while drilling
- Drill tool and tubular rental
- Well intervention services, fishing and wellbore clean-up
- Services in more than 20 countries from 11 bases in Europe, the Middle East and Asia

Key Consolidated Figures

	2018	2017	2016	2015	2014
Profit and loss (USD million)					
Operating revenue	698	662	657	927	1,088
Operating profit before depreciation (EBITDA)	259	274	285	78	272
Operating profit (EBIT)	99	112	34	(242)	131
Net profit before tax	31	37	(39)	(335)	79
Net profit	27	35	(64)	(319)	42
Balance sheet (USD million)					
Non-current assets	1,960	1,819	1,957	2,189	2,657
Current assets	316	319	307	428	435
Total assets	2,276	2,138	2,264	2,617	3,093
Equity	1,024	767	722	792	1,116
Non-current liabilities	322	1,100	1,227	925	1,561
Current liabilities	931	272	314	900	416
Total equity and liabilities	2,276	2,138	2,264	2,617	3,093
Key ratios					
Equity to asset ratio (as a percentage of total capital)	45%	36 %	32 %	30 %	36 %
EBITDA margin	37%	41 %	43 %	8 %	25 %
EBIT margin	14%	17 %	5 %	-26 %	12 %
Profit margin (pre-tax)	4%	6 %	-6 %	-36 %	7 %
Profit margin (after-tax)	4%	5 %	-10 %	-34 %	4 %
Earnings per share (USD)	0.10	0.18	-0.32	-1.61	0.21

ODFJELL DRILLING

ANNUAL REPORT 18

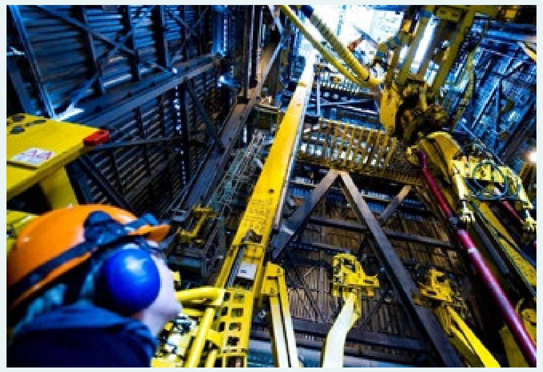
Milestones 2018

Deepsea Nordkapp

On 27 April Odfjell Drilling was awarded a 2 year firm drilling contract with 1 + 1 year optional periods from Aker BP. At the same day, to fulfill its obligations towards the new contract, the company announced a USD 505 million purchase agreement of a new 6th generation dynamically positioned harsh environment and winterized semi-submersible of Moss enhanced CS 60E design. Under a naming ceremony at Samsung Heavy Industries (SHI) in South Korea on 2 October, the unit was named Deepsea Nordkapp. Deepsea Nordkapp will meet Odfjell Drilling's requirements for delivering highly efficient operations to Aker BP and possible other clients in the North Sea.

Master Frame Agreement

During ceremony in Stavanger on 25 May, Odfjell Drilling has signed a Master frame Agreement with Equinor. The Master Frame Agreement (MFA) is a long term agreement to be utilized to call off any future drilling unit requirements by Equinor based on market terms. The first call off under the MFA was a contract award with Deepsea Atlantic for 6 firm wells with an estimated total duration of 18 months, scheduled to commence in first quarter 2019, back-to-back with the current contract.
The contract also contains the option to continue operations for Equinor after the firm period.



Migration to the United Kingdom

Following a strategic review, 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. Some of the key reasons behind the migration are the size of the Group's existing operations and presence in the United Kingdom, the location of certain key personnel in the United Kingdom, the proximity to the North Sea basin and the fact that the UK is well established as a holding company jurisdiction for international groups.

Deepsea Bergen

In 2018 Odfjell Drilling secured several new drilling contracts for Deepsea Bergen that will take the rig through to 2020. In addition to several options exercised under the Statoil contract awarded in May 2017, Deepsea Bergen was in 2018 awarded drilling contracts with OMV Norge, Ithaca Energy in UK and MOL Norge. In August the unit started drilling of well # 200 since the first well for Statoil was spudded on 22 February 1983.

Platform Drilling

Platform Drilling could mark two prestigious milestones in 2018. On 6 December BP announced first oil from the Clair Ridge platform. Odfjell Drilling has been involved in this multi-billion-pound project, the largest platform drilling project in the UK in the last two decades, since 2010. Drilling crew started tie-back in August and four months later the production started. On 31 December, three and a half year after contract award with heavy involvement from planning and design phases to commissioning, the drilling operations could commence on the huge Johan Sverdrup field for Equinor in Norway.

Odfjell Well Services – progress in a tough market

During 2018, OWS has managed to turn around and expanded their activity both geographically and product wise through a number of important achievements from the award with Kuwait Oil Company (KOC) in January to provide TRS, drilling tools, drillpipe, pressure control equipment and WBC, to contracts with Ophir Energy in Thailand and Dragon oil in Turkmenistan in May and August respectively to the ConocoPhillips award in December for tubular rental in Norway.

ODFJELL DRILLING

MODU

Another yellow drilling rig added to the fleet

Odfjell is expanding its fleet of rigs to meet Aker BP's increased capacity requirements. And its ambition is clear: Deepsea Nordkapp will be one of the world's safest and most efficient rigs.

With the acquisition of Deepsea Nordkapp, Odfjell has increased the number of rigs it owns from four to five.

"This means a great deal to us", says EVP MODU Kjetil Gjersdal.

The new rig is on a two-year fixed contract with Aker BP, with an ongoing option to extend for a year at a time. The aim is for drilling to start in May/June 2019.

"Under our alliance agreement, Odfjell performs drilling operations for Aker BP that require a semi-submersible rig. We have an obligation to provide the required capacity, and through conversations with Aker BP we discovered that they now needed additional capacity".

Challenging process

Following a lengthy process, Deepsea Nordkapp was bought from Samsung. Odfjell initially spent a lot of time examining various solutions to meet Aker BP's capacity requirements. One alternative was to commission the building of a brand-new rig. However, a new rig would not have been completed for at least three years, and the company did not have that amount of time. So the Company spent a lot of time travelling the world, looking at alternatives.

"We began with technical studies, to see what we liked and what we didn't," Gjersdal explains. "Then we had to find commercial solutions and opportunities to get a good deal. It was a challenging process. It has taken us over a year, and it is a good feeling to have finally reached our goal".

Important lessons learned from the oil sector downturn

It has been almost five years since Odfjell took delivery of its last rig, Deepsea Aberdeen. Although the situation has now improved, Gjersdal would prefer the market to be moving faster.

"We learned a lot during the downturn, and know which concepts work well and what customers are looking for. This experience was important when we were choosing which rig to go for. Of all the rigs available, we chose the unit we felt had the best design and the best equipment package, and therefore the best prospects".

Deepsea Nordkapp will make its mark on the drilling industry

Deepsea Nordkapp has a robust design, which allows it to operate safely in harsh weather conditions. It has an equipment package similar to that on the rigs already owned by Odfjell, particularly in the area of drilling equipment. Experience has shown this equipment to be extremely good, and the company's ambition regarding the new rig is clear.

"Deepsea Nordkapp is a very fine, modern and efficient rig, which we think will make its mark on the drilling industry going forward. It will be one of the safest and most efficient rigs in the North Sea, and among the best in the world in its segment", says Gjersdal.

ANNUAL REPORT

18

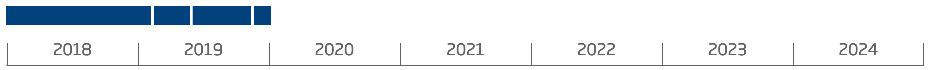
A modern fleet of advanced mobile offshore drilling rigs and drillships

DEEPSEA BERGEN / Ownership: 100 %

The semisubmersible drilling rig Deepsea Bergen is a self propelled semisubmersible unit of enhanced Aker H-3.2 design, commissioned in February 1983 and has since launch operated mainly in the Norwegian sector of the North Sea.

Deepsea Bergen will operate for Equinor, OMV and MOL on the Norwegian continental shelf and Ithaca on the UK continental shelf during 2019.

Operational areas	Midwater, harsh environment
Owner	Odfjell Drilling
Design	Aker H-3.2 modified
Location and client	Norway for Equinor, OMV and MOL and UK for Ithaca

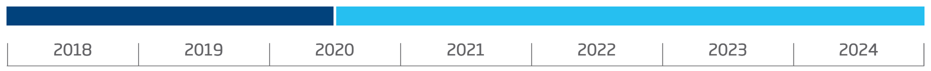


DEEPSEA ATLANTIC / Ownership: 100 %

Deepsea Atlantic is a sixth generation ultra deepwater and harsh environment semisubmersible. This unit, alongwith its sister rigs Deepsea Stavanger and Deepsea Aberdeen, is a state of the art dual derrick, dynamically positioned unit of enhanced GVA 7500 design.

Deepsea Atlantic is currently operating for Equinor on the Norwegian continental shelf until mid 2020.

Operational areas	Ultra deepwater, midwater, harsh environment
Owner	Odfjell Drilling
Design	Enhanced GVA 7500
Location and client	Norway for Equinor



DEEPSEA ABERDEEN / Ownership: 100 %

Deepsea Aberdeen is a sixth generation ultra deepwater and harsh environment semi-submersible. This unit, along with its sister rigs Deepsea Atlantic and Deepsea Stavanger, is a state of the art dual derrick, dynamicallypositioned unit of enhanced GVA 7500 design.

It was delivered from DSME in November 2014 and started drilling operations for BP West of Shetland in April 2015. The contract ends in April 2022.

Operational areas	Ultra deepwater, midwater, harsh environment
Owner	Odfjell Drilling
Design	Enhanced GVA 7500
Location and client	West of Shetland (UK) for BP

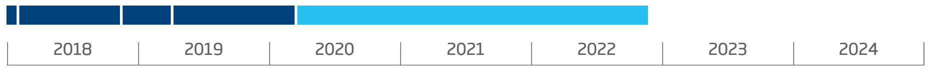
Contract · Option · Continued optionality under frame agreement · Contract Preparations/Mobilization

DEEPSEA STAVANGER / Ownership: 100 %

Deepsea Stavanger is a sixth generation ultra deepwater and harsh environment semi-submersible. This unit, along with its sister rigs Deepsea Atlantic and Deepsea Aberdeen, is a state of the art dual derrick, dynamically positioned unit of enhanced GVA 7500 design.

Deepsea Stavanger will operate for Total in South Africa and thereafter for Aker BP on the Norwegian continental shelf during 2019. The contract ends in April 2020.

Operational areas	Ultra deepwater, midwater, harsh environment
Owner	Odfjell Drilling
Design	Enhanced GVA 7500
Location and client	South Africa for Total and Norway for Aker BP



DEEPSEA NORDKAPP/ Ownership: 100 %

Deepsea Nordkapp is of the enhanced Moss Maritime CS-60 harsh environment design and is the last addition to the Odfjell Drilling fleet.

It was delivered from Samsung Heavy Industries in January 2019 and will operate for Aker BP on the Norwegian continental shelf from Q2 2019. The contract has a 2 years firm period plus 1+1 year option.

Operational areas	Deepwater
Owner	Odfjell Drilling
Design	Enhanced Moss Maritime CS-60
Location and client	Norway and Aker BP

Contract · Option · Continued optionality under frame agreement · Contract Preparations/Mobilization

ODFJELL DRILLING

ANNUAL REPORT 18

State-of-the-art
platform drilling in the North Sea

Odfjell Drilling commenced drilling on the Clair Ridge platform in the UK and Johan Sverdrup platform on the Norwegian Continental Shelf (NCS) in 2018. Both installations are the most up-to-date on their respective continental shelves. Technology-wise, they represent a giant leap into the future.

"Both the Clair Ridge and Johan Sverdrup platforms have been equipped with the most advanced drilling rigs ever delivered to fixed field installations," explains Ole Fredrik Maier, Executive Vice President of Platform Drilling at Odfjell Drilling. "The Johan Sverdrup Drilling Platform (JSDP) has some of the newest mechanical engineering technology and control systems. The JSDP has also been designed to keep carbon emissions as low as possible. While the global average for carbon emissions is around 17 kg per barrel of oil equivalent produced, the Johan Sverdrup field will emit just 0.67 kg of carbon dioxide per barrel produced."

Odfjell Drilling's staff on both platforms have undergone extensive training to enable them to operate the equipment safely and efficiently, as well as to carry out maintenance in a way that effectively safeguards the installation's uptime.

"We have developed our own competence programme to tailor work processes and optimise use of the new equipment," says Maier.

Long process

Getting drilling operations underway at the Johan Sverdrup and Clair Ridge platforms has been a challenging and lengthy process.

Odfjell Drilling has been involved in the Clair Ridge project since 2010, first in London and then in South Korea.

"This has been a long journey, but one that has resulted in the successful start-up of operations in 2018. We have already performed two tie-back operations, and have embarked on the remainder of the drilling programme," Maier reports.

The semi-submersible Deepsea Atlantic was Odfjell Drilling's first involvement with the Johan Sverdrup field. The crew started a pilot hole drilling programme as early as March 2016. However, Odfjell Drilling has been involved in the JSPD installation since August 2015, from design to operational start-up.

"We started with the tie-back operations on 31 December 2018," explains Maier. "In my view, the challenges we encountered in the project were probably the result of its twin mottos: 'No Change' and 'Good Enough'. This meant that some of our suggestions for creating an even more efficient drilling rig were discounted. Nevertheless, the Odfjell Drilling team did win acceptance for a long list of proposed improvements, which have given the rig a more orderly layout and made it easier to maintain. Examples include the relocation of the driller's cabin, additional surveillance cameras, easier ways to skid the rig using the catwalk, and making the sludge facility easier to operate."

Bright outlook

According to Maier, the outlook for the two platforms is bright. "The Johan Sverdrup and Clair fields are going to be in production for decades to come. When the Johan Sverdrup field reaches maximum output, it has been calculated that it will account for some 25 per cent of all production on the NCS. For its part, Clair Ridge in the UK is expected to attain a peak production of 120,000 barrels. Both platforms have long drilling programmes ahead of them. For Odfjell Drilling it is important to provide safe and efficient services that meet both our own and the client's expectations. In that way, we can continue providing our services for many years to come," he says.

ODFJELL DRILLING

Our Management Team

Simen Lieungh

President & Chief Executive Officer

Mr. Lieungh was appointed President and Chief Executive Officer of Odfjell Drilling in 2010. He holds a MSc in Mechanical Engineering from the Norwegian University of Science and Technology. He has held various management positions in the oil and gas industry and was previously CEO of Aker Solutions.

Atle Sæbø

EVP & Chief Financial Officer

Mr. Sæbø holds a Msc. in Business Administration from Norwegian School of Economics (NHH). He has previous held leading positions with Fred. Olsen Offshore, Geco and Nevi Corporate. Mr. Sæbø has been working with Odfjell Drilling since 1993.

Ole Fredrik Maier

EVP Platform Drilling & Technology

Mr. Maier holds a Bachelor degree in Engineering and Finance/administration from Vestfold University College (Horten ingeniørskole). He held various offshore postions in the drilling industry before he joined Odfjell Drilling in 2002.

Jone Torstensen

EVP Chief of Staff

Mr. Torstensen is educated in business economics and administration at the University of Stavanger and the University of Bergen. During 18 years in Aker Kværner and Aker Solutions Mr. Torstensen has held various management positions in finance, project management and business development. Mr. Torstensen joined Odfjell Drilling in 2012.

Michael Boysen Nielsen

EVP & Chief Commercial Officer

Mr. Boysen Nielsen holds a Bachelor degree in Marketing from Copenhagen Business School and exams in Strategy and Management from IMD Business School and London Business School. He has worked more than 20 years as business development and marketing professional in Maersk and Ocean Rig. Before joining Odfjell Drilling in 2015, Michael Boysen Nielsen was SVP, Contracts & Marketing of Ocean Rig.

Bengt A. Olsen

SVP Communication and Information

Mr. Olsen started his education in the Royal Norwegian Navy and served 4 years before he was engaged in the offshore industry. He has education in personnel administration and marketing management from the Norwegian School of Economics and Business Administration (NHH) and executive management program from the Norwegian Business School (BI). He has more than 40 years experience from the shipping and offshore markets and has been with Odfjell Drilling since 1979.

George Taggart

EVP Well Services

Mr. Taggart has 29 years' experience in the drilling systems and equipment industry and joined the company in October 2017. Mr. Taggart spent almost 20 years with Aker Solutions and MHWirth in business development, operations and regional management positions and on international assignments. Mr Taggart has technical qualifications in electrical & mechanical engineering.

Kjetil Gjersdal

EVP Mobile Drilling Units

Mr. Gjersdal has 20 years experience in the drilling and well industry. After joining Odfjell Drilling in 2000, he has held various positions within operations management, such as Rig Manager, Operations Manager and SVP MODU International. He holds a Bachelor of Science in Marine & Offshore technology from Ålesund University College.

Janike A. Myre

SVP QHSE

Ms. Myre is a business graduate from BI Norwegian Business School, and has completed master programs as well as executive management courses at BI. Ms. Myre has more than 29 years experience from leading positions in Gulf, Chevron, Sonat Offshore and Transocean. Ms. Myre has been with Odfjell Drilling since 2002.

Kurt Werner Holsæter

SVP HR

Mr. Holsæter is an officer from the Norwegian Army, a registered nurse from the national school of nursing and has college education within innovation, IT and technology. Mr. Holsæter served 15 years in the army in various administrative and management positions. Prior to joining Odfjell Drilling, Mr. Holsæter has been a part of the management team in NOV Norway with strategic and operational responsibility for HR in Norway, Denmark and Poland.

Per Lund

CTO/Digital Transformation

Mr. Lund holds a Master of Science in Marine Technology from the Norwegian University of Science and Technology (NTNU). He has a broad background from the oilfield industry in roles related to technology development, project and operational management, business development and management, in Norway and internationally. Mr. Lund joined Odfjell Drilling in 2013 as EVP OWS. Prior to this he held managerial positions in NCA and Oceaneering.

Kurt Meinert Fjell

EVP Odfjell Drilling Technology

Mr. Fjell holds a Bachelor degree in Mechanical Engineering from Bergen University College. In addition to his degree, he has also studied project management and leadership. He has 20 years of experience from the offshore industry and has been working in Odfjell Drilling since 2002.

45 years drilling experience

- 100 years maritime history

On 8 February 2018, Odfjell Drilling could celebrate its 45th anniversary. The foundation of Odfjell Drilling & Consulting Company A/S on 8 February 1973 was, however, the culmination of a bold initiative in an area that was practically unknown territory in a Norwegian context. But the history of Odfjell goes back a long further; four generations ago, in 1914 when the two Odfjell brothers, both captains, went ashore and established their first Odfjell shipping company. And already in the mid-sixties Abraham Odfjell took the first steps to enter the offshore industry which later led to the formation of Odfjell Drilling.

THE ROOTS

1914 - The first Odfjell shipping company is registered
1921 - The first entry into the tanker trade
1960 - Delivery of the world's first stainless steel tanker
1965 - Participating in the first licensing round on the Norwegian Continental Shelf through the Norwegian Oil Consortium (NOCO)

THE PIONEERING YEARS

1971 - On behalf of K/S Deep Sea Drilling Company A/S, Odfjell sign contract for the very first H3 rig, later named Deep Sea Driller at a total cost of NOK 150 million
1973 - The first drilling contract is signed with ELF in Paris on 15 January
- The second H3 rig Deepsea Saga is ordered on 30 January
- Odfjell Drilling & Consulting Company A/S is formally registered on 8 February
1975 - Odfjell Rental established (today Odfjell Well Services)
1977 - Odfjell Drilling UK is established
1978 - Sign contract with Mobil Exploration for delivering drilling facilities to Statfjord "B" and the first production drilling contract ever to a Norwegian company

BUSINESS EXPANSION

1980 - Starting drilling contract with semisubmersible Gulnare offshore Libya for AGIP
1981 - Starting drilling contract with jack-up STC Cicero for Shell UK
1982 - Troms Oilfield Services established (Today casing/tubular running within OWS)
1984 - Starting floating production contract with Deepsea Pioneer for Hamilton Brothers on UK Continental Shelf.
1987 - Awarded production drilling contract with Statoil on Gullfaks "C"
1989 - Awarded production drilling contract with BP on Gyda
- Established Odfjell Drilling Singapore with management for 10 drillships and semisubmersibles
1990 - Awarded production drilling contracts for Sleipner A (Statoil) and Brage (Norsk Hydro
1994 - Expanding into Well Intervention/snubbing market
1995 - Acquired all shares in Norwegian Drilling Management AS and started production drilling for ConocoPhillips on the Greater Ekofisk Area
- Purchased Deepsea Trym and warded 5 years drilling contract with Statoil
- Awarded field contract for production drilling on five installations for Norsk Hydro

TECHNOLOGY INNOVATION AND FLEET RENEWAL

2001 - Purchased Deepsea Delta and started drilling contract for Norsk Hydro
2002 - Awarded 9 year production drilling contract on The Greater Ekofisk Area
2003 - Awarded 5 year field production drilling contract with Talisman in the UK
2004 - Awarded Tampen production drilling contract with Statoil for 4 installations
- Established listed company Odfjell Invest for jack-up newbuild
2005 - Entered into a Pan-European casing and rental contract with Shell
2006 - Odfjell Invest II established for building of semisubmersibles
2009 - Delivery of fist 6th generation deep-water semisubmersible Deepsea Atlantic
- Awarded 5 year platform drilling contract with BP (UK) for five installations
2010 - Delivery of second 6th generation deep-water semisubmersible Deepsea Stavanger
2011 - Delivery of first 6th generation deep-water drillship Deepsea Metro I
- Delivery of second 6th generation deep-water drillship Deepsea Metro II
2012 - Management agreement for semisubmersible Island Innovator
2014 - Delivery of third 6th generation deep-water semisubmersible Deepsea Aberdeen
2015 - Awarded production drilling contract with Statoil for Johan Sverdrup
2017 - Awarded production Drilling Contract with TAQA Bratani UK for 5 installations
- Odfjell Drilling enters into drilling and well alliance with Aker BP to deliver semisubmersible drilling services at company's request
2018 - OWS contract with Kuwait Oil Company for TRS and drilling rental
- Purchase of fourth 6th generation deep-water semisubmersible Deepsea Nordkapp
- Odfjell Drilling enter into a Master Frame Agreement with Equinor to deliver semisubmersible drilling services at company's request
- OWS contract with Dragon Oil in Turkmenistan for TRS and rental
- Awarded production drilling contract with Serica Energy in UK
- OWS contract with Ophir Thailand for tubular running services (TRS)
- In December 2018 the Board of Directors decided to migrate the holding companies to Aberdeen, UK

BUSINESS SEGMENT

Mobile Offshore Drilling Units

The business segment "Mobile Offshore Drilling Units" (MODU) is responsible for the operations of mobile drilling units wholly or partly owned by the Group and units owned by other companies.

Since its foundation in 1973 Odfjell Drilling has been involved in the design and construction of more than 30 offshore drilling units and the operation of more than 50 fixed and mobile installations.

During 2018 Odfjell Drilling owned and operated four semi-submersible drilling rigs in addition to the management of one semisubmersible rig and one drillship. A purchase agreement for a newbuild 6th generation ultra-deep-water and harsh environment rig was entered into during April 2018 and it was delivered from the yard to Odfjell Drilling on 7 January, 2019.

All semisubmersible drilling operations have been performed in the North Sea on both the Norwegian and the UK continental shelves. The drillship had been laid up in Malaysia until late fall when the unit was sold and sailed towards Europe with Odfjell Drilling as manager for the new owner.

DEEPSEA BERGEN, built in 1983, was drilling for OMV Norge and Equinor on the Norwegian continental shelf during 2018 and up until March 2019 when it commenced on a new one-well contract for Ithaca Energy in the UK. It will return to Norwegian waters for a HPHT drilling campaign for OMV Norge, estimated to begin in Q2/Q3 2019. In August 2018 the rig reached a milestone when it began drilling its 200th well.

DEEPSEA ATLANTIC, delivered in 2009, is a sixth generation ultra-deep-water and harsh environment semisubmersible rig, which in 2018 was drilling appraisal end exploration wells for Equinor on various fields on the Norwegian Continental Shelf. Following the signing of a Master Frame Agreement with Equinor on 25 May 2018, Deepsea Atlantic was awarded a new drilling contract for 6 firm wells with an estimated total duration of 18 months, scheduled to commence in first quarter 2019, back-to-back with the current contract. The contract also contains the option to continue operations for Equinor after the firm period based on market pricing. The rig completed its 10 year SPS during December 2018/January 2019.

DEEPSEA STAVANGER is a sixth generation ultra-deep-water and harsh environment semisubmersible rig delivered from the DSME yard in July 2010. After completed a drilling program for Wintershall in February, the unit commenced drilling for Aker BP on the Norwegian Shelf until October when she went to CCB for upgrading and preparation prior to the start of drilling the Brulpadda project, for Total South Africa, in December. The unit thereafter demobilized to Norway and commenced its current 12 months contract with Aker BP in April 2019.

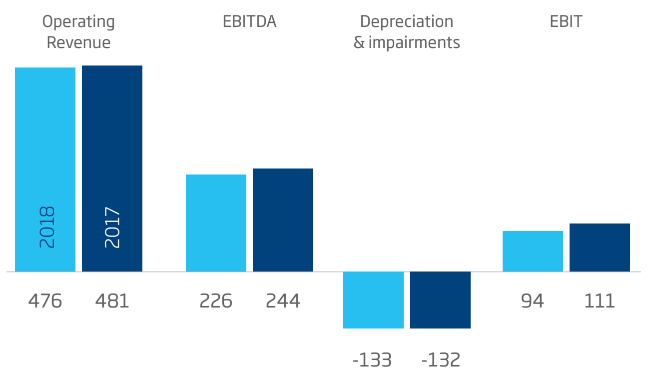
DEEPSEA ABERDEEN is a sister rig of Deepsea Atlantic and Deepsea Stavanger – which was delivered from the DSME yard in November 2014 and started drilling for BP on the UKCS under a 7 year firm contract on April 21, 2015. The drilling contract also includes three years options. The rig has performed very well and delivered results beyond expectations.

DEEPSEA NORDKAPP is a deep-water semi-submersible rig of enhanced Moss Maritime CS-60 design, winterized and purposely built for harsh environment areas. The unit was purchased from Samsung on 27 April, named under a ceremony in October 2018 and delivered from the yard on 7 January, 2019. Deepsea Nordkapp will commence its 2+1+1 contract with Aker BP in Q2 2019.

ISLAND INNOVATOR is a GM4000 Enhanced Version rig that the company operated under a management agreement until 31 October when the agreement came to an end. In 2018 the unit performed drilling operations for Spirit Energy and DEA Norway.

DEEPSEA METRO I is an ultra-deep-water drillship delivered from Hyundai Heavy Industries in South-Korea in June 2011. Deepsea Metro I was laid up in Malaysia until sold to Turkish Petroleum in November.

KEY FIGURES (USD million)



BUSINESS SEGMENT

Drilling & Technology

Odfjell Drilling's business segment Drilling & Technology consists of three business areas that, as at 31 December 2018, employed 677 people:

- **Platform Drilling Services**
- **Engineering and Project Management Services**
- **Rig Inspection Services**

PLATFORM DRILLING SERVICES

Odfjell Drilling is a major provider of drilling services on oil and gas production facilities for international E&P companies. The Platform Drilling business area provides integrated drilling services including onshore support, production drilling and completion, well maintenance, plugging and abandonment, facility maintenance planning and project management for maintenance and modifications. The business area was, at the end of the year, responsible for drilling services on 14 fixed installations on the Norwegian and the UK continental shelves.

In 2018 Odfjell Drilling provided platform drilling services to the following E&P companies in Norway and UK: Equinor, Wintershall, BP, Taqa Bratani, EnQuest and Serica Energy.

During 2018 Odfjell Drilling (UK) Ltd., performed drilling and maintenance operations on the five TAQA installations: Cormorant Alpha, North Cormorant, Eider, Tern Alpha and Harding and for BP on the three installations: Andrew, Clair and Clair Ridge in addition to Magnus and Bruce for EnQuest and Serica Energy respectively. The contract with Serica Energy for the Bruce installation was awarded in September. In 2018 offshore manning of the huge Mariner installation for Equinor started, preparing for two parallel drilling operations from summer 2019. In November, following successful drilling and tie-back operations, BP was able to announce first oil on the Clair Ridge platform

In May 2018 Odfjell Drilling was awarded a production drilling contract with Equinor for the Heidrun installation. The contract is for 4 years with 3 x 2 years options. The platform drilling contract with Equinor on the Grane field came to an end by 30 September 2018. The first drilling campaign for Wintershall on Brage was completed on 1 March following a maintenance and upgrading period prior to starting a new drilling campaign commenced in September. On 31 December 2018 we could mark the production drilling commencement date on Equinor's Johan Sverdrup field.

ENGINEERING AND PROJECT MANAGEMENT SERVICES

The Drilling & Technology business area provides a wide range of engineering, technology support and project management services to the company's other business areas and external clients. This business segment is providing engineering services to mobile drilling units, fixed platforms, core business support services and project management. Drilling & Technology operates from offices in Bergen, Stavanger and Aberdeen.

After several years of downsizing within the Project and Engineering areas, the market started to stabilize in 2017 and in 2018 we have seen proof of recovery and growth in the number of projects and an increasing backlog. Following this increased activity, in 2018 it was decided to re-establish Odfjell Drilling Technology as a separate business unit within the group. Thanks to the strategic decision in 2016 to retain the key engineering and technology resources as an integrated part of MODU, the re-establishment was successfully completed in a very short time late in 2018.

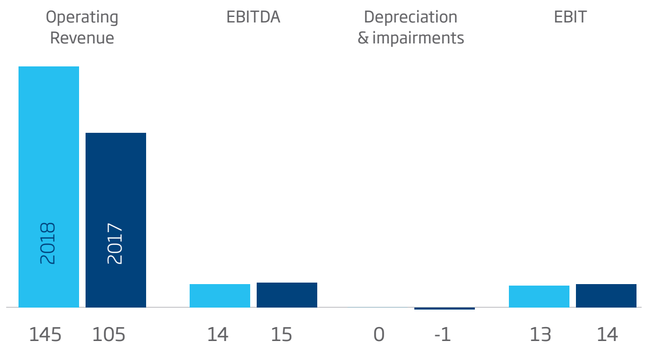
In 2018 we have seen that the scope of work in the huge Johan Sverdrup project has increased further and contributed positively to our portfolio. A number of MODU projects have been of great value to ODT during 2018 whereof the preparation of Deepsea Stavanger for the South African drilling program for Total and the SPS for Deepsea Atlantic have been the most challenging and time consuming projects.

By the end of 2018 we had a resource base of 80 engineers with a very high utilization during the year. As more projects are coming up on both sides of the North Sea, we will gradually grow and expand our business both in Norway and the UK.

RIG INSPECTION SERVICES

Rig Inspection Services (RIS) had its 4th year of operation in 2018 and has had a steady growth during all these years. In 2018 we had about 120 hired operators in RIS in addition to the employed staff and are today a major player within inspection, access and installation services to the offshore drilling industry. Following the re-establishment of the technology division, RIS are now fully integrated under the Odfjell Drilling Technology umbrella with synergies across both business areas. From the establishment of RIS in 2015 where we mainly served fixed and mobile drilling units operated by Odfjell Drilling, rig inspection services have expanded to participate in a number of projects for external clients and in 2018 nearly 40 % of the services were delivered to external clients.

KEY FIGURES (USD million)



BUSINESS SEGMENT

Well Services

Well Services, which operates under the brand "Odfjell Well Services" (OWS), has operations in more than 20 countries worldwide and a history spanning over more than 40 years. The business area aims at continued growth through expanding into new service areas as well as geographical expansion.

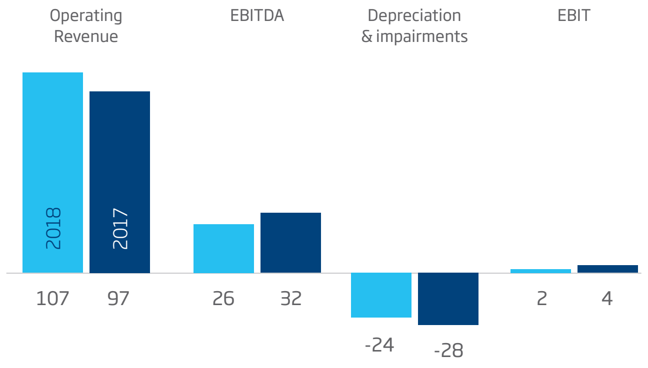
With a strong international presence, OWS employed, as per 31 December 2018, 504 people across 13 bases in 11 countries, and conducts operations in more than 20 countries. Services are provided to onshore and offshore drilling operations in the North Sea (Norway, UK and the Netherlands), mainland Western and Eastern Europe, Black Sea, Middle East, South East Asia and Africa. Well Services' strategy is to be recognized as; an employer of choice, having competent and creative employees, a true international well service company providing world class customer service, the safest and most efficient provider of well services within our product lines, meeting the highest quality standards and as the preferred partner for our internal and strategic external clients.

OWS is a highly differentiated service provider with an in-house engineering department which designs new products and provides support to ongoing operations. OWS has a strong technology focus and a diversified portfolio of proprietary tools and equipment capable of operating in all major oil & gas regions worldwide, including harsh and ultra-deep-water environments.

OWS continually monitors and strengthens customer relationships and tracks future developments, ensuring that it can proactively pursue any new potential opportunities. A high level of innovation and technology development is crucial to support both existing business activities and entry into new areas. Well Services is already a technology leader in the field of remote-operated equipment that is designed to enhance both safety and efficiency.

In 2018 OWS has managed to increase the activity level both geographically and with new products through a number of new contracts with both existing and new clients, including expansion into several new countries. OWS has a clear ambition to continue to further develop the rental portfolio and the Well Intervention segment in addition to growth within tubular services and advanced casing deployment tools. In 2018 OWS re-organized the operating structure along with strengthening the Management Team to improve competitiveness in a still very competitive and challenging market.

KEY FIGURES (USD million)



Quality, Health, Safety & Environment

Odfjell Drilling has an overall zero fault philosophy related to incidents and failures. This concept also includes prevention of pollution of the environment.

The company works continually to maintain the highest safety standard and protect the health of our employees and other associated with our operations. Safety is a cornerstone in Odfjell Drilling and Safety Conscious one of our five Core Values.

Leadership, good risk understanding and continuous focus on safety are essential. The systematic work of improving HSE never ends and we are working purposefully and relentlessly to maintain a high HSE within all our activities. A safe operation is also an efficient one, and it is important and necessary to work with safety as an integrated part of our operations.

Operations are conducted according to sound and environmental principles and in a manner to minimize any adverse environmental impact.

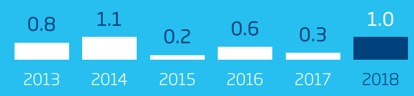
In 2018 Odfjell Drilling has managed to maintain a high level of safety within all our activities. The H1, TRIF and dropped object parameters have remained on a steady low frequency. New continuous improvement measures are initiated through the Safety Step-Up initiatives in all business areas.

Odfjell Drilling is certified to ISO 9001 and ISO 14001, and the Quality and HSE policy along with the Company Management System, defines requirements and expectations in order to operate in a quality manner.

Odfjell Drilling will continue in 2019 to focus on Quality and HSE including environmental performance and energy management in accordance with the company's environmental principles.

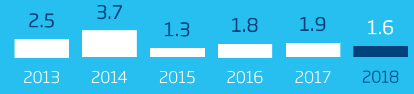
Lost Time Incident Frequency (H1)

As per 1 million working hours



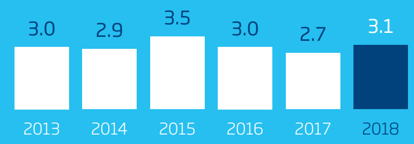
Total Recordable Incident Frequency (H2)

As per 1 million working hours



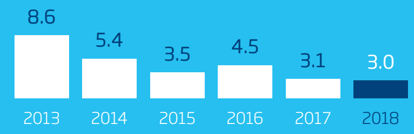
Sickness Absence

Percentage



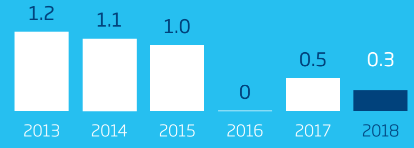
Dropped Objects Frequency < 40 joule

As per 1 million working hours



High potential incidents frequency

As per 1 million working hours



Corporate Governance

Odfjell Drilling Ltd. ("Odfjell Drilling" or the "Company") is incorporated in Bermuda and is subject to Bermuda law. Its shares are listed at Oslo Børs. The Company is managed and controlled from the United Kingdom, with the Company's new head office being in Aberdeen, resulting in the Company being resident in the United Kingdom for tax purposes.
The Company seeks to comply with the applicable legal framework for companies listed on Oslo Børs and endorses the Code of Practice for Corporate Governance (Norwegian: "Norsk anbefaling for eierstyring og selskapsledelse") issued by the Norwegian Corporate Governance Board, most recently revised 17 October 2018 (the "Code"). This review is prepared in accordance with section 1 of the Code and any deviations from the recommendations set out in the Code are described in the following.

On 14 April 2015, the Board of Directors of the Company (the "Board of Directors" or the "Board") adopted the corporate governance policy described herein (the "Corporate Governance Policy") for and on behalf of the Company to reflect the Company's commitment to good corporate governance.

Through good governance of the business, the Company intends to create profitability and increased shareholder value. This Corporate Governance Policy contains the measures that are, and will be, implemented to ensure effective management and control over the Company's activities. The primary objective is to have systems for communication, monitoring and allocation of responsibility, as well as appropriate incentives, which contribute to increasing and maximising the Company's financial results, long-term success and returns to shareholders on their investments in the Company. The Company aims to have good control and governance procedures to ensure equal treatment of all shareholders, thereby providing a foundation for trust and positive development of values.

A description of the most important corporate governance principles of the Company, as well as its core values, is also made available on www.odfjelldrilling.com.

THE COMPANY'S BUSINESS ACTIVITIES

In accordance with common practice for Bermuda incorporated companies, the Company's objects as set out in its memorandum of association are wider and more extensive than recommended by the Code. Accordingly, this represents a deviation from section 2 of the Code. However, the Company's and its subsidiaries' (collectively, the "Odfjell Drilling Group" or the "Group") objectives and strategy are further described in the following:

"The Odfjell Drilling Group is a Bermuda incorporated drilling contractor, managed and controlled from the United Kingdom, with more than 40 years of operational experience on the harsh environment Norwegian Continental Shelf (NCS), which has gradually expanded internationally by offering a state-of-the-art fleet of mobile offshore drilling units to the harsh environment and ultra-deepwater markets along with engineering services, well services and platform operations.

Odfjell Drilling Group's vision is to become a leading supplier of drilling units and drilling services designed to the highest environmental and safety standards in the offshore oil and gas industry, mainly for the ultra-deepwater and for the harsh environment markets. The Odfjell Drilling Group has a zero fault philosophy and shall be the trusted and leading partner for its blue chip customers.

By utilising its substantial 40-year track record of experience from operations in harsh environment and deepwater areas and its ability to implement best practices based on experience and lessons learned, the Odfjell Drilling Group shall become a preferred partner for drilling operations, engineering projects and well services in its selected business regions."

The Board of Directors is responsible for the Company's strategic planning, and defines clear objectives, strategies and risk profile for the business that form the basis for the Company's creation of value for its shareholders. The Board of Directors evaluates the Company's objectives, strategies and risk profile at least once each year. Considerations related to the Company's various stakeholders are an integrated part of the Company's decision-making processes and value-creation.

EQUITY AND DIVIDENDS

The Company had book equity of USD 1,024 million and a book equity ratio of 45 % as of 31 December 2018. The Company regards the Group's present capital structure as appropriate and tailored to its objectives, strategy and risk profile.

The Company's long-term objective is to make distributions of net income in the form of dividends, and the Company targets a long-term annual pay-out representing 30-40% of its net profit on a consolidated basis. The payment of any dividends will depend on a number of factors, including the market outlook, contract backlog, cash flow generation, capital expenditure plans and funding requirements whilst maintaining adequate financial flexibility, as well as restrictions on the payment of dividends under Bermuda law and financial covenants, along with other factors the Board of Directors may consider relevant.

Pursuant to Bermuda law and common practice for Bermuda incorporated companies, the Board of Directors has wide powers to issue any authorised but unissued shares of the Company on such terms and conditions as it may decide, and any shares or class of shares may be issued with preferred, deferred or other special rights or such restrictions, whether with regard to dividend, voting, return on capital, or otherwise as the Company may, by resolution of the shareholders, prescribe. Accordingly, this represents a deviation from section 3 of the Code. However, such issuance of shares by the Company from the authorised, but unissued, share capital is subject to prior approval given by resolution of the general meeting of shareholders. Pursuant to Bermuda law and common practice for Bermuda incorporated companies, the Board of Directors also has the power to authorise the Company's purchase of its own shares, whether for cancellation or acquiring as treasury shares and the power to declare dividends. These powers are neither limited to specific purposes nor to a specified period as recommended in the Code.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSELY-RELATED PARTIES

The Company has two classes of shares: common shares and preference shares, of which the common shares are listed. Each common share in the Company carries one vote, and all common shares carry equal rights, including the right to participate in general meetings. All holders of common shares shall be treated on an equal basis, unless there is just cause for treating them differently.

The preference shares are redeemable and do not carry any voting rights, provided, however, that they may be given voting rights as a result of an event of default under the agreement between the Company and the preference shareholder pertaining to the issuance of the preference shares. Further, the preference shares entitle the holder to receive a preferred cash dividend and a cumulative Payment in Kind (PIK) dividend per annum.

As is common practice for Bermuda companies, no shares in the Company carry pre-emption rights. This constitutes a deviation from section 4 of the Code.

In the event of not insignificant transactions between the Company and its shareholders, a shareholder's parent company, members of the Board of Directors, executive personnel or closely-related parties of any such parties, the Board of Directors shall arrange for a valuation to be obtained from an independent third party. An independent valuation shall also be carried out in the event of transactions between companies within the same group where any of the companies involved have minority shareholders.
Members of the Board of Directors and employees must notify the Board of Directors if they have a significant, direct or indirect, interest in a transaction carried out by the Company. Any transactions the Company carries out in its own shares shall be carried out either through Oslo Børs or at prevailing stock exchange prices if carried out in another way. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

Other than as set out above, the Company does not deviate from section 4 of the Code.

FREELY NEGOTIABLE SHARES

The Company's constituting documents do not impose any transfer restrictions on the Company's common shares and the Company's common shares are freely transferable in Norway, provided, however that the Bye-laws include a right for the Board of Directors to decline to register a transfer of any share in the register of members, or if required, refuse to direct any registrar appointed by the Company to transfer any interest in a share where such transfer would result in 50% or more of the Company's shares or votes being held, controlled or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares or votes being effectively connected to a Norwegian business activity. The purpose of this provision is to avoid the Company being deemed a Controlled Foreign Company pursuant to Norwegian tax rules. This represents a deviation from section 5 of the Code, but the Company does not foresee that this provision will impact on the free transferability of its shares.

The Company's preference shares, which are not listed at Oslo Børs, are subject to a one-year lock-up ending 29 May 2019, and may for a five-year period thereafter only be transferred all together, subject to certain conditions (unless transferred to an affiliate of the preference share investor). As per the agreement with the preference share investor, the preference shares do not carry voting rights in the Company.
Other than this, the Company does not deviate from section 5 of the Code.

GENERAL MEETINGS

The Board of Directors seeks to ensure that the greatest possible number of shareholders may exercise their voting rights in the Company's general meetings and that the general meetings are an effective forum for the views of shareholders and the Board.

Among other things, the Board of Directors will ensure that:
- the notice and the supporting documents and information on the resolutions to be considered at the general meeting are available on the Company's website no later than 21 days before the general meeting is held;
- the resolutions and supporting documentation, if any, are detailed enough to allow shareholders to understand and form a view on matters that are to be considered at the general meeting;
- the registration deadline, if any, for shareholders to participate at the general meeting is set as closely as practically possible to the date of the general meeting and pursuant to the provisions in the Bye-laws;
- the Board of Directors and the person who chairs the meeting shall ensure that the shareholders have the opportunity to vote separately on each candidate nominated for election to the Company's Board of Directors and committees, if applicable;
- the members of the Board of Directors and the auditor must

attend the general meeting; and
- there are routines to ensure the independent chairing of the general meeting. The Chairman of the Board of Directors will, in principle, chair the Company's general meetings. This is mainly due to the fact that the Bye-laws of the Company provides, as is common under Bermuda law, that the Chairman of the Board shall, as a general rule, chair the general meetings. Accordingly, in this respect the Company deviates from section 6 of the Code.

Shareholders who cannot be present at the general meeting will be given the opportunity to vote using proxies. The Company will in this respect:
- provide information about the procedure for attending via proxy;
- nominate a person who will be available to vote on behalf of a shareholder as their proxy; and
- prepare a proxy form which shall, insofar as this is possible, be formulated in such a manner that the shareholder can vote on each item that is to be addressed and vote for each of the candidates that are nominated for election.

Other than as mentioned above, the Company does not deviate from section 6 of the Code.

NOMINATION COMMITTEE

The Board of Directors is of the opinion that a nomination committee is superfluous in light of the current shareholder structure. The Annual General Meeting resolved the dissolution of the Nomination Committee on 18 June 2015. This represents a deviation from section 7 of the Code. In terms of nominations to the Board of Directors, the Board of Directors will seek to consult with key shareholders and carry out a careful review of suitable candidates.

THE BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors shall ensure that it can act independently of any special interests. A majority of the shareholder-elected members of the Board of Directors must be independent of the Company's executive personnel and material business connections of the Company. In addition, at least two of the members of the Board of Directors must be independent of the Company's major shareholder(s). For the purposes of this Corporate Governance Policy, a major shareholder shall mean a shareholder that owns 10% or more of the Company's common shares or votes, and independence shall entail that there are no circumstances or relations that may be expected to be able to influence independent assessments of the person in question.

The chairman of the Board of Directors is elected by the general meeting so long as the applicable laws do not require that the chairman must be appointed by the Board of Directors. The term of office for members of the Board of Directors shall not be longer than two years at a time.

As of 31 December 2018, the Board of Directors consisted of four members, possessing the relevant expertise, capacity and diversity as set out in the Code. The Board can act independently of the executive management of the Company and exercise proper supervision of the management of the Company and its operations. The Board held a total of 15 meetings in 2018. The absence percentage was approximately 4% in total. All of the members of the Board of Directors are independent of the management and material business connections of the Company. Further, all of the members of the Board of Directors (except for Helene Odfjell) are independent of the main shareholders of the Company.

The members of the Board of Directors are encouraged to own shares in the Company.

The Company does not deviate from section 8 of the Code.

THE WORK OF THE BOARD OF DIRECTORS

The Board seeks to schedule in advance physical meet¬ings seven to nine times per calendar year, depending on the level of activity of the Company. Interim meetings may be convened if a Director so requires.

The Board meetings are chaired by the Chairman unless otherwise agreed by a majority of the Directors attend¬ing. If the Chairman is not present, the Directors shall elect among themselves a Chair for the Board meeting.

The Board of Directors issues instructions for its own work, as well as for the executive personnel, with particular emphasis on clear internal allocation of responsibilities and duties. The Board of Directors is responsible for the Company's strategic planning, and defines clear objectives, strategies and risk profile for the business by (inter alia):
- identifying and establishing the Company's overriding goals, objectives and strategies, including approval and endorsement of plans and budgets;
- determining policies, monitoring and supervising the day-to-day management of the Company and the busi¬ness carried out by the Company;
- ensuring that the business of the Company, the accounts and the management of the assets of the Company are subject to adequate supervision and are conducted in accordance with applicable legislation;
- monitoring and reviewing the annual and interim financial reporting, assessing the performance of internal control and external auditors and overseeing legal and regulatory compliance;
- taking decisions, endorsing decisions or authorising decisions to be taken, as appropriate, in matters that are of an unusual nature or of importance to the Company;
- assessing the effectiveness of the Company's policies on ethics, conflicts of interest and compliance with competition law; approving various decision guidelines for the Board and any other such manuals as the Board from time to time may adopt.

The Board has established an Audit Committee whose duties include supervising and reviewing the Company's annual and interim financial reporting. This committee consists of two Board members.

The Company has not established a Remu¬neration Committee, but it should in this respect be noted that no member of the executive management is represented at the Board of Directors and all of the members of the Board of Directors are independent of the management of the Company. Accordingly, the Board of Directors has not considered such committee to be necessary.

The Board of Directors annually evaluates its performance and expertise.

The Company does not deviate from section 9 of the Code.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises its responsibility to secure appropriate risk management systems and internal controls.

The Company has comprehensive corporate manuals and procedures, which provide detailed descriptions of procedures for all aspects of managing the operational business. The procedures and manuals are continuously revised to incorporate best practice derived from experience or adopted through regulations.

Routines have been established to secure frequent and relevant management reporting on operational matters, in order to ensure adequate information for decision-making and to respond quickly to changing conditions and requirements. The Company has established clear and safe communication channels between the employees and management to ensure effective reporting of any illegal or unethical activities in the Company, as such activities may be detrimental to the Company's reputation and financial well-being, as well as to the Company's various stakeholders.

Similarly, the Board receives frequent and relevant reports on financial matters, and management reports covering both operational and financial matters are pro¬vided to the Board on a monthly basis. This ensures that the Board is continuously updated on both the capital and liquidity situation and the scope of the activities, and able to immediately take any action deemed necessary.

These measures (and others) ensure that considerations related to the Company's various stakeholders are an integrated part of the Company's decision-making processes and value-creation.

The Board also recognises the responsibilities with regards to the Company's values and guidelines for ethics and corporate responsibilities. The core values reflect the Company's focus on commitment, safety conscious¬ness, creativity, competency and result orientation, and guidelines for the behaviour of Company representatives are described in detail in the Company's Code of Business Conduct. The core values and Code of Business Conduct are available on www.odfjelldrilling.com.The Board of Directors annually reviews the Company's most important areas of exposure to risk and internal control arrangements, as well as its own performance and expertise.

The Company does not deviate from section 10 of the Code.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the Board is decided by the shareholders at the annual general meeting of the Company. The level of compensation to the members of the Board shall reflect the responsibility of the Board, its expertise and the level of activity in both the Board and any Board committees. The remuneration shall not be linked to the Company's performance. The Company shall not grant share options to members of the Board of Directors.

None of the members of the Board of Directors and/or companies with whom the members are associated have taken on specific assignments for the Group in addition to their appointments as members of the Board of Directors with the exception of management and accounting services agreements between Pin High Limited (controlled by Kirk Davis, who was a member of the Board of Directors until 11 December 2018) and Odfjell Drilling Services Ltd., and Odfjell Rig Owning Ltd., respectively, under which Pin High Limited performs certain management and account services for Odfjell Drilling Services Ltd., and Odfjell Rig Owning Ltd. The annual fee for the services provided under each agreement is USD 20,000.
The remuneration to the members of the Board of Directors will be specifically identified in the annual report.

Except for the above mentioned agreements with Pin High Limited, the Group did not deviate from section 11 of the Code in 2018. As Kirk Davis is no longer a member of the Board of Directors, the Company no longer deviates from section 11 of the Code.

REMUNERATION OF THE EXECUTIVE MANAGEMENT

The Board of Directors shall prepare guidelines for the remuneration of the executive personnel of the Company. These guidelines shall be communicated to the annual general meeting. Performance-related remuneration of the executive personnel in the form of share options, bonus programmes or the like shall be linked to value creation for the shareholders or

Corporate Governance

the Company's earnings performance over time.
The remuneration of the Company's Chief Executive Officer and Chief Financial Officer will be specifically identified in the annual report.

The Company does not deviate from section 12 of the Code other than the provisions of the Code that are of a Norwegian company law specific nature.

INFORMATION AND COMMUNICATION

The Company has established guidelines for reporting to the market, and is committed to provide timely and precise information to its shareholders, Oslo Børs and the financial markets in general (through Oslo Børs' information system). Such information will be given in the form of annual reports, quarterly reports, press releases, notices to the stock exchange and investor presentations in accordance with what is deemed most suitable. The Company will attempt to clarify its long-term potential, including strategies, value drivers and risk factors. The Company will maintain an open and proactive policy for investor relations.

The Company is publishing an annual, electronic finance calendar with an overview of the dates of important events such as the annual general meeting, publishing of interim reports, open presentations and payment of dividends. Unless exceptions apply and are invoked, the Company will disclose all inside information. In all circumstances, the Company will provide information about certain events, e.g. by the Board of Directors and general meeting(s) concerning dividends, amalgamations, mergers/demergers or changes to the share capital, the issuing of subscription rights, convertible loans and all agreements of major importance that are entered into by the Company and related parties.
The Company has procedures for communication with shareholders to enable the Board of Directors to develop a balanced understanding of the circumstances and focus of the shareholders. Such communication is carried out in compliance with the provisions of applicable laws and regulations.

Information to the Company's shareholders is posted on the Company's website at the same time that it is sent to the shareholders.

The Company does not deviate from section 13 of the Code.

TAKE-OVERS

The Company has established key principles for how to act in the event of a take-over offer. In the event of a take-over process, the Board of Directors will ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The Board of Directors will also ensure that the shareholders have sufficient information and time to assess the offer

In the event of a take-over process, the Board of Directors will abide by the principles of the Code, and also ensure that the following take place:

- the Board of Directors shall ensure that the offer is made to all shareholders, and on the same terms;
- the Board of Directors shall not undertake any actions intended to give shareholders or others an unreasonable advantage at the expense of other shareholders or the Company;
- the Board of Directors shall strive to be completely open about the take-over situation;
- the Board of Directors shall not institute measures which have the intention of protecting the personal interests of its members at the expense of the interests of the shareholders; and
- the Board of Directors must be aware of the particular duty the Board of Directors carries for ensuring that the values and interests of the shareholders are safeguarded.

The Board of Directors shall not attempt to prevent or impede the take-over bid unless this has been decided by the general meeting in accordance with applicable laws. The main underlying principles shall be that the Company's common shares shall be kept freely transferable and that the Company shall not establish any mechanisms which can prevent or deter take-over offers unless this has been decided by the general meeting in accordance with applicable law.

If an offer is made for the Company's common shares, the Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether or not the shareholders should accept the offer. If the Board of Directors finds itself unable to give a recommendation to the shareholders on whether or not to accept the offer, it should explain the reasons for this. In the statement, the Board of Directors should make it clear whether the views expressed are unanimous, and if this is not the case, explain the reasons why specific members of the Board of Directors have excluded themselves from the statement.

The Board of Directors shall consider whether to arrange a valuation from an independent expert. If any member of the Board of Directors, or close associates of such member, or anyone who has recently held a position but has ceased to hold such a position as a member of the Board of Directors, is either the bidder or has a particular personal interest in the bid, the Board of Directors shall arrange an independent valuation. This shall also apply if the bidder is a major shareholder (as defined herein). Any such valuation should either be enclosed with the Board of Directors' statement, or reproduced or referred to in the statement.

The Company does not deviate from section 14 of the Code.

AUDITOR

The Company's auditor is elected by the shareholders at the general meeting. The shareholders shall authorise the Board of Directors or the audit committee to determine the auditor's annual remuneration.

The auditor will annually submit the main features of the plan for the audit of the Company to the Board of Directors, or, if relevant, the audit committee.

The auditor will participate in meeting(s) of the Board of Directors that deal with the annual accounts, accounting principles, assess any important accounting estimates and matters of importance on which there has been disagreement between the auditor and the executive personnel of the Company and/or the audit committee.

The auditor will at least once a year present to the Board of Directors, or the audit committee, a review of the Company's internal control procedures, including identified weaknesses and proposed improvements.

The Board of Directors will hold a meeting with the auditor at least once a year at which no representative of the executive personnel of the Company is present.

The Board of Directors will specify the right of the executive personnel to use the auditor for purposes other than auditing.

The Board of Directors will inform the shareholders at the annual general meeting of the remuneration paid to the auditor, including details of the fee paid for auditing work and any fees paid for other specific assignments.

The Company does not deviate from section 15 of the Code.

Corporate Social Responsibility Report

ANNUAL REPORT 18

Corporate Social Responsibility Report

Health and safety
Odfjell Drilling shall maintain the highest safety standard and protect the health of our employees and others associated with our operations.

Environment and sustainable development
Respect for the environment is fundamental to assuring a sustainable future. Odfjell Drilling aims to minimize harmful effects whenever we can and will work through a continuous improvement process.

Integrity and anti-corruption
Odfjell Drilling shall maintain high standards of integrity and conduct our operations with honesty, fairness and transparency. Corruption or bribery is not tolerated in our business or with our business partners.

Diversity and labour standards
Odfjell Drilling will not discriminate on the basis of gender, religion, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion. Odfjell Drilling will not use any form of forced labour or child labour. The Group will maintain the freedom of association and the right to collective bargaining.

The Group shall comply with internationally recognised labour standards covering the following areas: wages, working hours, disciplinary practices, employment contracts and working conditions. The same applies for any suppliers, business partners or agents working with Odfjell Drilling.

Respecting human rights and contribution to local communities
Odfjell Drilling's commitment to respecting human rights wherever we operate is embodied in our Corporate Management System and our Code of Business Conduct. We believe that Odfjell Drilling has a responsibility to respect human rights and that we are able to play a positive role in the communities we operate. Our global operations are consistent with the spirit and intent of the United Nations Universal Declaration of Human Rights; the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work, where applicable to our business; and other applicable international principles.

Odfjell Drilling aims to play a part in the progress and development of local communities through focusing on local content by developing skills and opportunities in the communities which we operate.

Our Corporate Social Responsibility principles are sought to be promoted by:

a) Communicating and monitoring our principles within our organization and in our operations.
The Corporate Social Responsibility Policy was adopted on December 1st 2013, and has since been implemented in our Corporate Management System.

Our Code of Business Conduct is also implemented in our Company Management System and is the main reference document in the ethics domain. All new employees receive a copy of the Code of Business Conduct, and a mandatory e-learning course has been established and is under continuous revision.

Furthermore, ethics and business conduct has been an important issue on the agenda of all Leadership Training and Business Management courses held over the years.

Overall, Odfjell Drilling is working continuously on raising awareness of our values.

The Odfjell Drilling group is certified to ISO-14001 Environment Management.

Operations are conducted according to sound and environmental principles and in a manner to minimize any adverse environmental impact.

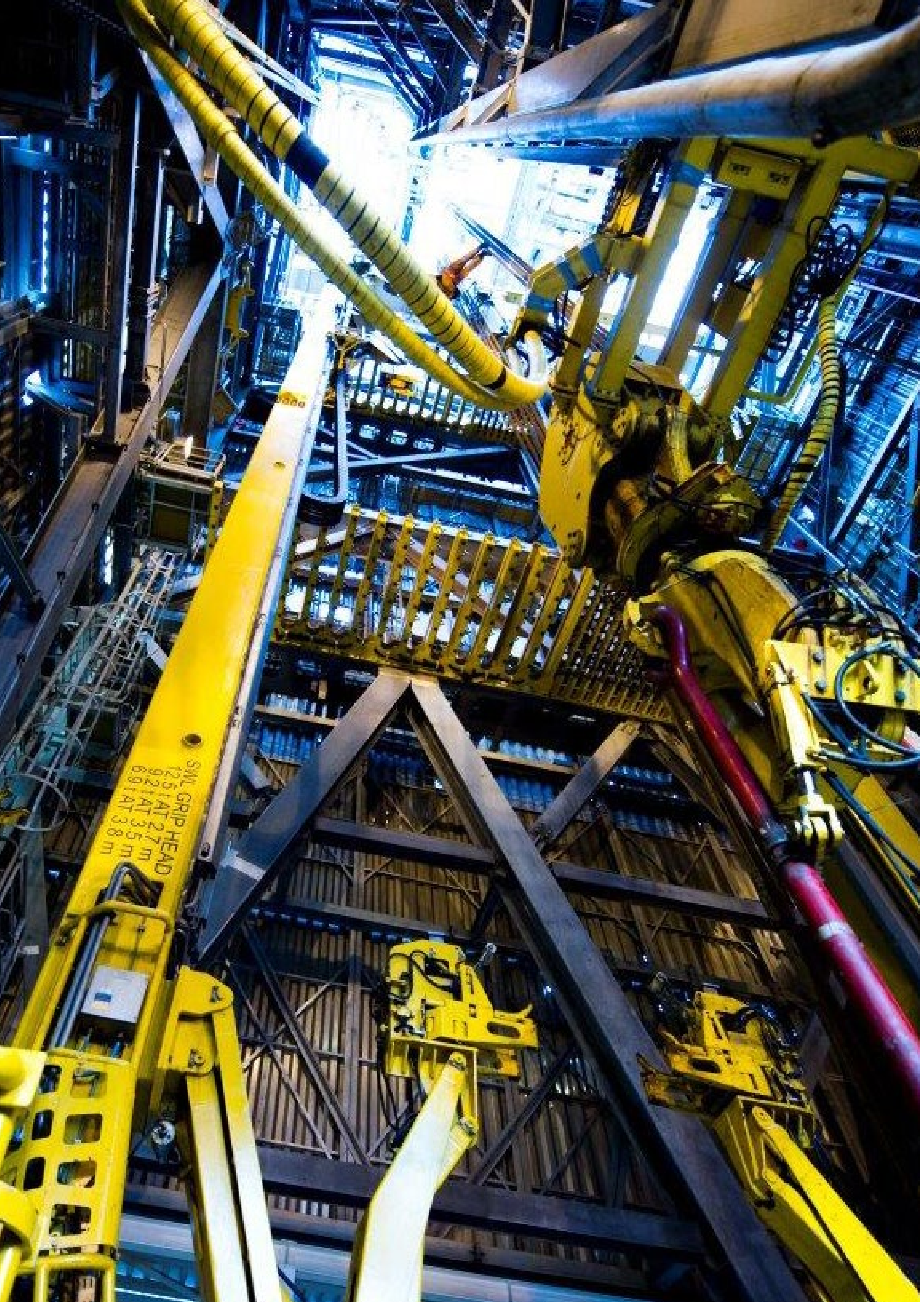
Corporate Risk Committee meetings are held to ensure satisfactory risk analysis on new material projects and/ or countries, including integrity checks on agents and contractual partners.

b) Assessing the social and environmental impact of our operations and being attentive to any internal or external reports indicating that our principles have not been respected.
Environmental principles supporting the HSE Policy are defined and communicated.

c) Designating persons within our organization with a special responsibility for promoting and monitoring our principles.
In order to ensure that our principles are being promoted and adhered to, Odfjell Drilling has designated persons throughout our organization with responsibility to promote and monitor the principles. This has been done both with regards to HR, QHSE, legal and finance issues.

Odfjell Drilling also has a Compliance Officer and a Case handling portal to handle questions or reports related to board positions, closely related parties, and notification of infringements.

d) Looking to contribute to organizations that are making remarkable efforts to promote the principles in the communities we operate.
As an overall assessment of Odfjell Drilling's CSR related work in 2018, our CSR focus have been maintained and we will continue our contribution in the area of Corporate Social Responsibility in 2019 though specific actions and monitoring development.



The Board of Directors

Helene Odfjell
Chairman of the Board

Helene Odfjell has a Master of Business Administration from the Norwegian School of Economics (NHH), a Master of Business Administration from London Business School and is a Chartered Financial Analyst. Mrs. Odfjell has many years of experience in business and management and holds many board and management positions in the affiliates of the Company. Mrs. Odfjell has been Chairman of the Board for several periods over the last years. She was elected Director in September 2013. Mrs. Odfjell controls 142.000.000 shares in the Company.

Susanne Munch Thore
Director

Susanne Munch Thore has a law degree (cand. jur.) from University of Oslo. In addition, she holds a Diploma of International Affairs from John Hopkins School of Advanced International Studies, Bologna and a Master of Laws (L.L.M.) from Georgetown University, Washington D.C. Mrs. Munch Thore was until May 2018 a partner in Wikborg Rein's Oslo office and part of the firm's Corporate Finance and Tax group. Mrs. Munch Thore has also been Legal Officer at the Oslo Stock Exchange. Mrs. Munch Thore has assisted both foreign and Norwegian entities in connection with mergers and acquisitions (M&A), capital market transactions including stock exchange listings, as well as transactions pertaining to company law and securities law. She also has extensive experience from various boards and is currently inter alia chair of Oslo Areal, a Norwegian real estate company.

Thomas Marsoner
Director

Thomas Marsoner holds a doctorate in Law from the University of Vienna, Austria, and a Master of Business Administration from Columbia Business School, New York. Mr Marsoner has over 30 years of experience in Investment Banking, having worked at S. G. Warburg, Salomon Brothers, Lehman Brothers and Nomura. He has extensive knowledge of M&A advisory and financing matters in a number of industries, including but not limited to, Financial Institutions, Retailing and Energy. He is Chief Executive of M&M Capital Ltd, an M&A advisory boutique he controls together with an Italian partner.

Alasdair Shiach
Director

Alasdair Shiach has a Bachelor's degree in Business Studies from Robert Gordon's University (formerly RGIT) in Aberdeen, Scotland. Mr Shiach has 38 years of international experience in the Oilfield Service sector having worked for Dresser Industries and then Baker Hughes Inc. Prior to his retirement in May 2016, Mr Shiach held senior executive leadership positions at Baker Hughes, including President of the Drilling Fluids product line, President of the Russia Caspian region as well as assignments in USA, UAE, Saudi Arabia and Norway. Mr Shiach is also on the Board of Welltec International.

The Board of Directors Report

ANNUAL REPORT 18

The Board of Directors Report

Odfjell Drilling Ltd., ("Odfjell Drilling", the "Company" or the "Group") is an integrated offshore drilling, well service and engineering company with more than 45 years' experience owning and operating a fleet of high quality mid-water to ultra-deep-water harsh environment mobile offshore drilling units. In addition the Group has significant activity in platform drilling, engineering and well services. The Company was listed on the Oslo Stock Exchange in 2013 and had nearly 2,400 employees at the end of 2018. Odfjell Drilling is present in several regions worldwide, supporting a client base consisting primarily of major oil and gas companies. The Odfjell Drilling Group generated operating revenues of USD 698 million and a net profit of USD 27 million in 2018.

GROUP STRUCTURE

Odfjell Drilling Ltd., is the Parent Company of the Odfjell Drilling Group.

The Company head office was located in Hamilton, Bermuda from November 2005 until December 2018. Following a Special General Meeting on 11 December 2018, it was – in light of the Board of Directors' strategic view and recommendation - resolved to migrate the Company and other Bermuda registered subsidiary holding companies in the Group to the United Kingdom with a new head office based in our offices at Altens in Aberdeen.

Some of the main reasons behind this conclusion were the size of the Group's existing operations and presence in the UK, the location of certain key personnel in the UK, the proximity to the North Sea basin and the fact that the UK is well established as a holding company jurisdiction for international groups because of its globally recognized legal system and tax framework. The migration will ultimately result in the Company, and certain of its subsidiaries, becoming tax resident in the United Kingdom. The Board of Directors believes the migration to be beneficial to the Company.

Moving of the listed owner company from Bermuda to the United Kingdom will not affect our operational activities. The operating entities within the Group are based in Norway, the UK, the Netherlands, Brazil, UAE, Romania, Thailand, Vietnam, Saudi Arabia and the Philippines.

Odfjell Drilling has organised its activities into three business segments:

- Mobile Offshore Drilling Units (MODU)
- Drilling & Technology (D&T)
- Well Services (OWS)

IMPORTANT DEVELOPMENTS IN 2018

In recent years Odfjell Drilling has been responsible for building and mobilising six modern high quality drilling units including two drillships. The latest addition to the Company's fleet of mobile drilling units, Deepsea Nordkapp, was delivered from the yard on 7 January 2019 and will commence drilling operations for Aker BP in Q2 2019.

The signs of market recovery that we saw in 2017 continued in 2018, although at a rather slow pace. We do, however, expect the positive trend to continue in 2019 but probably with no major upturn before 2020. We saw a turning point in 2018 with regard to increased activity. Although there is still an oversupply in most markets, the harsh environment market is closer to a supply/demand balance. In 2018 we have managed to keep all our mobile offshore units continuously working and we have grown all segments of the Company with a number of new contracts.

A series of measures to reduce our cost base and improve competitiveness have been implemented over the last 4 to 5 years and these cost awareness programs will continue, together with the EDGE programme, contributing to the development of the growth initiatives launched in 2017. The EDGE programme was established to facilitate disciplined growth by adopting a systematic approach from analysis and planning through delivery.

In 2018, we achieved some remarkable operating results with our MODU fleet delivering an operating performance result of 98.5 % in financial uptime. D&T has continued and further strengthened its positive trend from 2017 and OWS has increased its turnover and entered into new markets both geographically and with new products. The contract backlog within MODU and Platform Drilling by year end is approximately USD 2.4 billion.

We have increased our workforce from around 2,200 to approx. 2,400 this year, all due to new contracts.

In OWS we have seen improvements in most areas this year. OWS is still exposed to fierce competition and pressure on rates, but has managed to keep up a good margin due to more cost-effective operations. In 2018, following the awarding of a number of new contracts both with new and existing clients, OWS commenced operations in several new countries and added new products and services to their portfolio. The largest contracts were with Valeura & Schlumberger in Turkey, Hess in Malaysia, Dragon Oil in Turkmenistan and ConocoPhillips in Norway. In 2018 OWS re-organized their operating structure and strengthened their management team.

Platform Drilling has further improved its results in 2018 and has entered into two new long-term contracts in Norway and the UK that will secure future work. Platform Drilling also marked two major milestones in 2018, with the successful commencement of drilling operations on the new Clair Ridge installation for BP in the UK and on the Johan Sverdrup field for Equinor in Norway. Both installations are prestige projects for the clients and important for advancement of oil production over the next decades on the United Kingdom Continental Shelf (UKCS) and the Norwegian Continental Shelf (NCS) respectively.

In MODU, all the units have delivered efficient operations beyond expectations. Deepsea Aberdeen has continued its work under the 7 year contract with BP in the UK and has delivered outstanding results both with regard to QHSE and performance. Deepsea Stavanger completed the Maria program for Wintershall at around 50 % of budgeted time followed by a drilling campaign for Aker BP on NCS before mobilizing for Total's Brulpadda drilling program in South Africa which started in mid-December. Deepsea Atlantic completed the Johan Sverdrup drilling contract with Equinor 3 months before time, after having drilled 28 wells compared to the original plan of 14 to 17 wells. The unit is now on a new contract with Equinor under a Master Frame Agreement.

Deepsea Bergen has been drilling for OMV Norge and Equinor in 2018 and in August 2018 the unit completed well number 200, since delivery in February 1983. Deepsea Bergen was awarded three new contracts in 2018 that take the rig through 2019.

GOING CONCERN ASSUMPTION

The financial statements have been prepared on the basis of the going concern assumption and the Directors have confirmed that this was realistic at the time the accounts were approved.

When assessing the going concern assumption, the Directors and management have considered cash flow forecasts, funding requirements and order back-log. The volatility in market capitalisation for the oil and gas service providers over the past few years 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 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 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 Drilling Services facility will be USD 250 million and the Odfjell Invest facility USD 387.5 million. The Group is now working to secure both facilities being rolled over on or before maturity. In addition, options are evaluated to increase the financial flexibility.

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

CONSOLIDATED ACCOUNTS

(Comparable figures in brackets)

INCOME STATEMENT

Odfjell Drilling generated operating income of USD 698 million in 2018, an increase of 5% (USD 662 million).

The operating profit (EBIT) amounted to USD 98 million (USD 112 million). EBIT in 2017 was positively impacted by the gain on sale of the investment in Robotic Drilling Systems AS (RDS) of USD 9.5 million, while EBIT in 2018 was positively impacted by a pension adjustment of USD 6 million. The decrease in EBIT was also explained by Deepsea Bergen entering into new contracts at a lower day rate as from mid-year 2017.

Net financial expenses amounted to USD 67million (USD 76 million). The decrease of USD 9 million was mainly related to the gain of USD 10 million from bonds and warrants in Golden Close Maritime Corp. Ltd., in 2018.

The pre-tax profit amounted to USD 31 million (USD 37 million).

The income tax expense amounted to USD 4 million (USD 1 million) and the net profit for the Group was USD 27 million (USD 35 million).

Total comprehensive income was USD 22 million (USD 45 million).

BALANCE SHEET

Consolidated total assets as at 31 December 2018 amounted to USD 2,276 million (USD 2,138 million).

Total non-current assets amounted to USD 1,960million (USD 1,819 million), an increase of USD 141 million, mainly due to the newbuild in progress as at 31 December 2018 (Deepsea Nordkapp). Current assets amounted to USD 316 million (USD 319 million), of which USD 175 million was cash and cash equivalents (USD 166 million).

Total equity amounted to USD 1,024 million (USD 767 million), with an equity ratio of 45 % (36 %). The increase of USD 257 million was mainly due to paid in capital.

Total liabilities amounted to USD 1,253 million (USD 1,371 million), reflecting a decrease of interest-bearing debt of USD 148 million. Net interest bearing debt amounted to USD 920 million (USD 1,068 million).

CASH FLOW

Cash flow from operating activities amounted to USD 221 million (USD 166 million). The difference from EBIT in 2018 is mainly explained by depreciation and amortization plus changes in working capital, offset by interest paid.

The cash outflow from investing activities amounted to USD 293 million (USD 1 million). The investments in 2018 are mainly related to the newbuild in progress, offset by proceeds from financial investments of USD 10 million.

The cash flow from financing activities amounted to USD 88 million (cash outflow USD 184 million). The cash flow in 2018 is explained by proceeds from capital increases offset by paid loan instalments and dividends.

CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. These estimates are based on the actual underlying business, its present and forecasted profitability over time, and expectations about external factors such as interest rates, foreign exchange rates and other items which are outside the Group's control.

The Group has calculated the value in use of all mobile drilling units as at 31 December 2018, using financial models which calculate and determine the value in use through a combination of actual and expected cash-flow generation discounted to present value. In measuring value in use the Group has based its calculation on reasonable and supportable assumptions that represent management's best estimate for the range of economic conditions that will exist over the remaining useful life of the asset.

An analysis in Financial Statement note 19 demonstrates that the impairment assessment is sensitive to changes in key assumptions. Based on the value in use calculations, the Group has not identified any impairment for rigs or reversal of previous impairment adjustments related to the 6G rigs: Deepsea Atlantic and Deepsea Stavanger, as at 31 December 2018.

There is use of judgement in the Group's revenue recognition, and the judgement items include evaluation of whether the customer option represents a material right that gives rise to a performance obligation, and if so, to estimate the stand-alone selling price of the option. Further, the judgement is based on the decision of whether to include the incentive bonus element in the transaction price, and to estimate the variable consideration, if included. In addition, the progress towards complete satisfaction of the performance obligation at the end of the reporting period is estimated, as the completion date of the drilling period is unknown at the end of the reporting period. Please refer to note 3 in the Financial Statements for further information about critical accounting estimates and judgements.

PARENT COMPANY ACCOUNTS

The business of the Parent Company, Odfjell Drilling Ltd., is as a holding company for investments in subsidiaries.

The Parent Company reported a net profit of USD 170 million (USD 15 million). The net profit for 2018 was mainly due to dividends from subsidiaries and net interest income from the loans to subsidiaries. The profit in 2018 was also affected by reversal of impairment write downs of the investment in the subsidiary Odfjell Offshore Ltd.

Total assets in the Parent Company amounted to USD 1,408 million as at 31 December 2018 (USD 1,095 million). The increase was mainly due to an increase in investments in subsidiaries, offset by net decrease in non-current receivables from subsidiaries.

Equity in the Parent Company amounted to USD 1,042 million (USD 637 million), corresponding to an equity ratio of 74 % (58 %).

Cash flow from operating activities was USD 6 million (USD 15 million). The cash flow in 2018 was mainly related to change in current liabilities.

Cash outflow from investing activities was USD 221 million (USD 45 million). The cash outflow in 2018 is mainly explained by payments to group companies, mainly to fund the purchase of the newbuild in progress.

Cash flow from financing activities was USD 236 million (USD 30 million). The cash flow in 2018 is mainly explained by proceeds from capital increases.

ALLOCATION OF PROFITS

The Board of Directors proposed the following allocation of the year's profit of USD 170,135,000 in 2018 for the Parent Company Odfjell Drilling Ltd.:

Transferred to other equity: USD 170,135,000 Total allocated: USD 170,135,000.

EQUITY AND SHARES

The Group had book equity of USD 1,024 million and a book equity ratio of 45 % as at 31 December 2018. The Parent Company has only one class of common shares, in addition to preference shares.

Each common share in the Company carries one vote, and all common shares carry equal rights, including the right to participate in general meetings. All shareholders shall be treated on an equal basis, unless there is just cause for treating them differently.

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 Parent Company's constituting documents do not impose any transfer restrictions on the company's common shares and the shares are freely transferable in Norway, except, however, that the bye-laws include a right for the Board to decline to register a transfer of any share in the register of members, or if required, refuse to direct any registrar appointed by the Company to transfer any interest in a share where such transfer would result in 50 % or more of the shares or votes being held, controlled or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares or votes being effectively connected to a Norwegian business activity. The purpose of this provision is to avoid the Company being deemed a controlled foreign company pursuant to Norwegian tax rules. This represents a deviation from section 5 of the Code, but the Company does not foresee that this provision will impact on the free transferability of its shares.

The number of common shares issued in Odfjell Drilling Ltd. is 236,783,202 as at 31 December 2018.

On 30 May 2018 the company also issued warrants for 5,925,000 common shares for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024.

The Company entered, at 16 May 2018, into a long term incentive share option programme with the CEO of 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 by 16 May 2023 will be terminated.

The Company has not established any share purchase program for other employees as at 31 December 2018.

The Company is not aware of any shareholder agreements or any other agreements which limits trading of the Company's common shares or voting rights as at 31 December 2018.

SEGMENT REPORTING

Odfjell Drilling has organised its activities into three main business segments:

- Mobile Offshore Drilling Units (MODU)
- Drilling & Technology (D&T)
- Well Services (OWS)

MOBILE OFFSHORE DRILLING UNITS

The MODU segment is responsible for the operations of mobile drilling units fully or partly owned by the Company and units owned by other companies. The number of employed personnel within the MODU segment at year end was 994.

Since its foundation in 1973, Odfjell Drilling has been involved in the design and construction of more than 30 offshore drilling units and the operation of more than 50 fixed and mobile installations.

The Group operated mobile drilling units in Norway, UK and South Africa during 2018.

Deepsea Bergen, built in 1983, was drilling for OMV Norge and Equinor in 2018. On November 28, 2017 Deepsea Bergen commenced the HPHT drilling program on the Hades/Iris project for OMV Norge and in early April 2018 the client announced great success with two major gas/condensate discoveries in two different formations in the same well. Following completion of this program the unit started on the Equinor contract that was awarded in May 2017. Deepsea Bergen drilled for Equinor through 2018 and into 2019 with successful discoveries in several fields; Lille Prinsen, Sigrun and Bergand.

In August 2018 the rig started drilling its 200th well, since delivery in February 1983. Deepsea Bergen was awarded three new drilling contracts in 2018 with OMV Norge, Ithaca Energy (on the UKCS) and MOL Norge that will secure the unit through 2019.

Deepsea Atlantic, delivered in 2009, is a sixth generation ultra-deep-water and harsh environment semi-submersible rig. Deepsea Atlantic performed drilling operations for Equinor in 2018 under the Johan Sverdrup contract that commenced on 1 March 2016 and came to an end 3 months before time after completing 28 wells, compared to the original plan of 14 to 17 wells. In December 2018 to January 2019 Deepsea Atlantic was at CCB to carry out the 10 year SPS (Special Periodic Survey), various upgrades and installation of the first robotic drilling system. The unit was back in operation on 24 January 2019 for Equinor on a new drilling contract under the Master Frame Agreement signed in April 2018.

Deepsea Stavanger is a sixth generation ultra-deep-water and harsh environment semi-submersible rig delivered from the DSME yard in July 2010. Deepsea Stavanger finished the Wintershall drilling program in February 2018 with outstanding efficiency.

The unit then commenced drilling for Aker BP on the Norwegian

The Board of Directors Report

Shelf until October then went to the CCB Shipyard in Norway for upgrades and preparation prior to the start of drilling on the Brulpadda project for Total in South Africa during December. The successful result of the Brulpadda project was announced on 7 February 2019 as a massive energy discovery that will mean the opening of a new petroleum province offshore South Africa. The unit thereafter returned to Norway and commenced its 12 months contract with Aker BP in April 2019.

Deepsea Aberdeen is a sixth generation sister rig to Deepsea Atlantic and Deepsea Stavanger, built to the enhanced GVA7500 harsh environment design. The rig commenced a seven-year contract with BP, plus three years of options, in the West of Shetland UK sector on 21 April 2015. The unit has performed effective drilling operations in a very harsh environment, with much less 'waiting on weather' breaks than any other unit in the area. In 2018, an extensive improvement plan was initiated with the client to utilize the full potential of the unit. This has been a success with further improved performance and efficiencies in 2018, resulting in the rig completing seven wells. During this past year five flow bases and XMT were installed for BP.

Deepsea Nordkapp is a deep-water semi-submersible of enhanced Moss Maritime CS-60 design, winterized and purposely built for harsh environment areas. The unit (former MidMax) was purchased for USD 505 million from Samsung on 27 April 2018 following a successful private placement earlier that month and the awarding of the first call of a 2 year firm drilling contract with Aker BP under the alliance agreement with Aker BP. The contract has additional 1 + 1 year optional periods. Final agreement for the USD 325 million bank facility for full financing of the Deepsea Nordkapp purchase was signed in October.

The unit was named at a ceremony at the Samsung yard in October and delivered on 7 January 2019. Deepsea Nordkapp arrived in Norway in early April and will commence drilling operations in Q2 2019.

Managed Drilling units

Odfjell Drilling offers management services for owners of semi-submersibles and drillships worldwide. The services include project management and follow-up during the construction phase, management of regulatory requirements, marketing and client relations, preparations for operation and drilling operations.

In 2018 Odfjell Drilling has been manager for the semi-submersible rig Island Innovator and the drillship Deepsea Metro I. By mutual agreement, the management agreement with Island Innovator came to an end on 31 October 2018.

Island Innovator was delivered from the yard in 2012. Odfjell Drilling has been responsible for the operations, manning, quality systems and technical performance of the rig since delivery. In 2018 Island Innovator performed drilling operations for Centrica Norway/Spirit Energy in the North Sea and one well for DEA Norway in the Barents Sea.

Deepsea Metro I is an ultra-deep-water drillship delivered from Hyundai Heavy Industries in South-Korea during June 2011. After halting the drilling program with Repsol/Talisman Vietnam in July 2017, the unit was hot-stacked in South East Asia. The contract was subsequently terminated due to the territorial dispute between China and Vietnam.

In October 2018 Deepsea Metro I was sold to Turkish Petroleum. In connection with the sale, Odfjell Drilling entered into an agreement to act as manager for the drilling vessel during the preparation period for sailing from Labuan in Malaysia. The Company will also be responsible for transit to a location chosen by the new owner and the reactivation phase prior to starting drilling operations. No drilling contract has been awarded so far.

Operating revenue for the MODU segment 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 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 was USD 94 million (USD 111 million), a decrease of USD 17 million. The decrease in EBIT relates to the changes as explained above.

DRILLING & TECHNOLOGY

The D&T business segment is responsible for platform drilling, project management, engineering and rig inspection services. This business unit is a major player in platform drilling in the North Sea region and has, throughout the year, been responsible for integrated drilling services on up to 16 fixed production and drilling platforms on the UK and Norwegian continental shelves. By the end of 2018 the number of platforms was reduced to 14 as the contracts with EnQuest on Magnus and with Equinor on Grane came to an end.

D&T provides production drilling, completion, work-overs, slot recovery, plugging and abandonment, maintenance and modification. The business segment also provides integrated engineering services for mobile drilling units, fixed platforms, core business support services as well as project management. D&T operates from offices in Bergen, Stavanger and Aberdeen. The business segment offers its services to both internal and external clients.

In 2018 Odfjell Drilling provided platform drilling services to Equinor and Wintershall in Norway and to BP, TAQA Bratani, Serica Energy, Equinor and EnQuest in the UK.

In April 2018 Odfjell Drilling was awarded the platform drilling contract with Equinor for Heidrun for 4 years together with 3 x 2 years options. In September a contract was signed with Serica Energy for the provision of platform drilling and maintenance services to the Bruce installation on the UKCS.

The first drilling campaign for Wintershall on Brage was successfully completed on 1 March 2018. This was following a maintenance and upgrading period prior to starting the new drilling campaign that commenced in September. In UK the P&A campaign on Taqa's Eider platform was successfully completed. BP UK's prestigious Clair Ridge field was able to mark first oil on deck in November. Odfjell Drilling has been involved in the project since 2010 and the drilling contract with BP was extended in January 2019 for another 2 year + two one-year options. On 31 December 2018 we announced the commencement of production drilling on Equinor's Johan Sverdrup field. In 2018 we also started the final preparation and training for drilling commencement in Q3 2019 on Equinor's Mariner platform in the UK.

In 2018 the Norway offices have delivered project management and engineering services to several mobile and fixed drilling units including supervision and engineering services related to the mobilization of drilling units for new contracts. One of the main projects from the last years, Johan Sverdrup, has continued into 2018 with an increased scope of work. The business area has also provided major services to the MODU fleet, with the SPS for Deepsea Atlantic and the mobilisation and upgrading of Deepsea Stavanger for the Total South Africa campaign as the biggest and most challenging projects.
The market for project and engineering services started to stabilize in 2017 and in 2018 we have seen recovery in some areas with an increasing backlog. Following this increased activity, it was decided to re-establish Odfjell Drilling Technology as a separate business unit within the Group. It was also decided to re-establish the project engineering services out of Aberdeen.

The business area, "Rig Inspection Services" (RIS), which started back in 2015, has had steady growth each year since then and is today a well-established player providing inspection, access and installation services to the offshore drilling industry. Following the re-establishment of the technology division, RIS are now fully integrated under the Odfjell Drilling Technology umbrella with synergies across both business areas. In 2018 nearly 40% of RIS' activities were to external clients.

As per 31 December 2018 the number of employees in this segment was 677 people in addition to approximately 120 hired operators in RIS.

Operating revenue for the D&T segment was USD 145 million (USD 105 million), an increase of USD 40 million. The increase in revenue was primarily attributable to an increase in 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 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 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

The business segment OWS is an established market leading provider of casing and tubular running services ("TRS"), drill tool rental and well intervention services to the onshore and offshore oil & gas industry, with an operational history spanning over more than 40 years. OWS has a strong international presence and at 31 December 2018, employed 503 people across 13 bases in 11 countries - conducting operations in approximately 20 countries. Services are provided to onshore and offshore drilling operations in the North Sea (Norway, UK and the Netherlands), mainland Europe, Black Sea, Middle East, South East Asia and Africa.

OWS managed, in 2018, to increase the activity level both geographically and in products through a number of new contracts both with existing and new clients, including expansion into several additional countries. It is, however, still oversupply and fierce competition in the well service market which continues to place major pressure on rates.

2018 marked a turning point for OWS with regard to increased activity and OWS was awarded several important contracts that secured more work in 2019 and beyond. OWS signed a contract with Kuwait Oil Company (KOC) to provide TRS, drilling tools, drillpipe, pressure control equipment and with WBC for all KOC drilling and workover operations. In Turkmenistan, the contract with Dragon Oil for Tubular Running, well intervention and downhole drilling tool rental was renewed and extended for a further three years. OWS also won and started up operations with Hess in Malaysia and with Valeura & Schlumberger in Turkey and a substantial tubular rental contract was signed with ConocoPhillips in Norway. In November in the UAE, OWS signed a Joint Marketing Development Agreement with Hard Rock Solutions, LLC, (Superior Drilling Tools, USA) for the SPDI DrillNReam Tool.

OWS is a highly differentiated service provider with an in-house engineering department which designs new products as well as providing support for ongoing operations. OWS has a strong

The Board of Directors Report

technology focus and a diversified portfolio of proprietary tools and equipment capable of operating in all major oil & gas regions worldwide, including harsh and ultra-deep-water environments. In 2018 OWS was awarded casing running services for the challenging harsh environment deep-water Brulpadda well being drilled by Deepsea Stavanger for Total offshore South Africa.

OWS continually monitors and strengthens customer relationships and proactively tracks future developments, ensuring that it can quickly pursue any new potential opportunities. A high level of innovation and technology development will be crucial to support both existing business activities and entry into new areas. Well Services is a technology leader in the field of remote-operated equipment that is designed to enhance both safety and efficiency.

OWS has a clear ambition to continue to further develop the rental portfolio and the Well Intervention segment, in addition to growth within tubular services and advanced casing deployment tools. In 2018 OWS re-organized the operating structure along with strengthening the Management Team to improve competitiveness in a still very competitive and challenging market.

Operating revenue for the OWS segment was USD 107 million (USD 97 million), an increase of USD 10 million. The increase in 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 was USD 26 million (USD 32 million), a decrease of USD 6 million. The EBITDA margin for the OWS segment 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 was USD 2 million (USD 4 million).

ORGANISATION, HEALTH, SAFETY AND ENVIRONMENT

The Group's operational activities are carried out in Norway, the UK, the Netherlands, UAE, Romania, Singapore, Vietnam, Thailand, Malaysia, Saudi Arabia, Egypt, South Africa and the Philippines. Odfjell Drilling's vision is to become the preferred drilling and service provider chosen for experience and expertise, aiming for leadership in QHSE, operational efficiency, technological and digital achievements plus disciplined and profitable growth. Odfjell Drilling employed a total of 2,383 employees at the end of 2018 plus approximately 150 consultants and temporary hired personnel.

WORKING ENVIRONMENT AND PERSONNEL

The working environment in Odfjell Drilling is considered to be good. Sustaining a healthy working environment is seen as an important measure to achieve continuous improvements in all aspects of the Group's operations. The Group has conducted periodic working environment and organisational surveys since 2005. These surveys provide the Group with valuable information about the working conditions in the organisation and are important tools for promoting and developing a good working environment. The job satisfaction is considered to be very good and the average score shows a factor of 4.7 to 5.4 on a scale of 1 to 6.

Odfjell Drilling had a personnel turnover of 4.9 % in 2018, a small increase compared to the previous years when turnover was very low due to the general market situation for the industry.

Measures are being taken to maintain a low sick absence rate. At Group level, the sickness absence rate was reported at 3 % (156,264 hours), compared to 2.7 % (98,529 hours) in 2017. Odfjell Drilling is a competence intensive company that is dependent on a high level of expertise and technological know-how amongst its employees. The Group offers extensive training to ensure that this expertise is continuously updated and to promote career development for individual employees. In 2018, total training days at Group level amounted to approximately 6,000 days.

During 2018, Odfjell Drilling has continued to focus on training within the QHSE Safety Leadership Development programs for the offshore rigs. In 2019 the Group will continue and expand its management development programs and ensure leadership capacity at all levels which will be available as we work continuously to develop our employees. Competence is one of our core values; ensuring we have the right people, in the right place, with the right competence. In Odfjell Drilling we have several ongoing programs and initiatives that aim to support leadership and talent development at all levels.

In addition, new specific training programs are established through e-learning for securing critical competence and management development.

MEASURES TO PROMOTE EQUALITY AND PREVENT DISCRIMINATION

Odfjell Drilling emphasizes that all activities, irrespective of country of operation, shall comply with the applicable legislation and the Group's Code of Business Conduct.
Its Personnel policy states that the Odfjell Drilling Group shall recruit and develop employees based on merit and equal opportunities, regardless of ethnicity, religion, national origin, gender, age, sexual orientation, marital status or disability.

Equality is an integral part of the Group's Personnel Policy that ensures that all employees are given the same opportunities for employment and pay, as well as professional development in terms of training and promotion. The Group works actively and systematically through internal Governing documents, employee training and various other measures to prevent any form of discrimination. Such measures include recruitment policies and practice, salary and working conditions, personal development opportunities, promotions and shelter against harassment.

Although it is emphasized that equality and non-discrimination are ultimately management's responsibility, all parties in the enterprise have a responsibility for ensuring and safeguarding equality. All employees have access to the Group's governing documents through Odfjell Drilling's intranet, which includes information about the ethics and business culture in Odfjell Drilling, the Group's management system, managers' guide, employee handbooks, etc.

The governing documents also confirm the Group's commitment to freedom of association and the right to collective bargaining, which is continuously followed up in all activities. The Group complies with internationally recognized labour standards covering areas such as wages, working hours, disciplinary practices, employment contracts and working conditions. The above requirements are also enforced in contracts with suppliers, business partners, agents etc.

The Group employs people from a diverse range of ethnic backgrounds and 50 different nationalities. Odfjell Drilling's employees also have a wide age distribution, ranging from 18 to 68 years with an average age of approximately 41.9 years at Group level.

Of a total of direct employees of 2,383 at the end of 2018, there were 2,149 males (90 %) and 234 females (10 %). In 2018 various initiatives were launched to increase the number of females in leading positions.

The onshore organization employs 28 % females compared with 2 % in the offshore organization. The Corporate Management Group consists of twelve persons, of whom one is female. Two of the four board members are female.

There are elected employee representatives on the boards of eight of the major management companies in the Group. The employees of these companies represent nearly 70 % of the total number of employees in the Group.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT (QHSE)

Odfjell Drilling has an overall 'zero fault' philosophy related to incidents and failures. This concept also includes the prevention of pollution of the environment.

In 2018 the Company experienced 7 Lost Time Incidents (LTI), 3 on the MODU side and 4 within platform Drilling. While six of the LTIs were minor incidents one incident had a high potential risk. None of the incidents has endured permanent disability.

Safety is a cornerstone of the Odfjell Drilling mission and 'good enough' will never be "good enough". The strategic objective for Odfjell Drilling is to achieve zero injuries and failures, and this objective remains unchanged.

As a company we have a relentless ambition to continuously improve safety performance and ensure that everyone comes home in the same healthy condition as when they went to work. We need to be clear about our goal for safety and to continue developing the Company in order to make it robust for meeting future challenges.

In the QHSE Program for 2019 we carry over some of the QHSE improvement processes from 2018 in addition to new initiatives. It is important to pursue improved processes over time, so that the organisation can mature and implement activities which have lasting effect. Safety comes first, no matter what; we never compromise safety. Everyone in our organisation has the duty – and the authority – to push the 'stop button' if safety is at stake. Operations are conducted according to sound and environmental principles and in a manner to minimize any adverse environmental impact.

In 2018 Odfjell Drilling has focused on the following main QHSE topics:

- Standardisation and simplification
- Risk Management
- Organisational Robustness
- Dropped-object prevention
- Major accident prevention
- Strong security culture
- Environmental Management

In 2018 Odfjell Drilling managed to maintain a high level of safety within all our activities. The H1, TRIF and dropped object parameters have remained on a steady low frequency. None of the lost time incidents in 2018 were categorized as "serious personal injuries". The two High Potential Incidents in 2018 were related to dropped objects not causing personal injuries. New continuous improvement measures are implemented through the Safety Step-Up initiatives in all business areas.

The corporate main priorities in 2019 are:

- Human Factors
- Life Saving Rules
- Barrier Management
- Dropped Object Prevention
- Competence Management
- Security awareness
- Energy Management
- Healthy Lifestyle

Odfjell Drilling is certified to ISO 9001-2015 and ISO

The Board of Directors Report

14001-2015 - and the Quality and HSE policy along with the Company Management System, define requirements and expectations in order to operate in a quality manner.

Odfjell Drilling will continue in 2019 to focus on environmental performance and energy management in accordance with the Company's environmental principles.

R&D ACTIVITIES

The Group's activities are based on high competence and experience in offshore drilling activities. Odfjell Drilling will continue to develop and implement technological know-how and solutions to achieve its strategic objective to remain as a leading and preferred drilling services contractor and as an engineering and well service provider.

The Group's technology strategy focuses on five core technological areas:

- Conceptual development
- Effective operations
- Availability of machinery
- Asset traceability
- Digitalization

The technology strategy also supports the zero fault objectives and aims to improve the HSE level of the Group's operations, as well as reducing the impact on the environment.

A high level of innovation and technology development will be crucial to support both existing business activities and entry into new areas. Well Services is already a technology leader in the field of remote-operated equipment that is designed to enhance both safety and efficiency.

The Group has launched a digitalization strategy with eight main areas of interest covering all business segments with an ambition to make digitalization an integral part of all activities. Applying digital technologies is seen as a tool to increase productivity and shorten process lead and cycle times, while minimizing environmental impact and further improving the safety of the people involved. The vision is to apply these digital technologies to create value and strengthen the Group's competitive edge.

Part of the digitalization strategy is to increase the digital competence on all levels in the organisation.

RISK FACTORS

OPERATIONAL AND INDUSTRIAL RISK FACTORS

The Group provides drilling and maintenance services for the oil and gas industry, which historically has been cyclical in its development. The level of activity in the offshore oil and gas industry will depend, among other things, on the general climate in the global economy, oil and gas prices, the investment level for oil and gas exploration, production and drilling and regulatory issues relating to operational safety and environmental hazards. Financial performance will also depend on the balance of supply and demand for mobile drilling units.

The Group seeks to mitigate these risks by securing contracts with reputable customers for its main assets and services. However, all offshore contracts are associated with considerable risk and responsibilities, including technical, operational, commercial and political risks. The Group will continuously adjust the insurance coverage deemed adequate to limit these risks.

Furthermore, as the Group's fully owned fleet currently consists of only four units (soon to be five) in operation, 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.

Factors that, in the Group's view could affect its results materially are the following: volatile oil and gas prices, competition within the oil and gas services industry, changes in client's spending budgets plus developments in the financial markets externally and within the Group.

The current market conditions and contract situation for the Group's mobile offshore drilling units also affect the liquidity risk and covenant risk since reduced revenues from drilling operations will directly affect the operating results, cash flow from operations and hence liquidity. The Group seeks to mitigate the current market, liquidity and re-contracting risk by securing new drilling contracts for units that will end their respective drilling contract during 2018, by (i) further cost reduction and efficiency improvement programs and (ii) the focus on capital discipline.

FINANCIAL RISK FACTORS

Market risk

The Group is exposed to currency risks, particularly since charter contracts are typically denominated in USD whereas operating expenses are primarily incurred in local currencies. The Group seeks to minimise these risks through currency hedging via financial instruments or by off-setting local currency elements in charter contracts. The Group may also be exposed to currency risk relating to debt financing in foreign currencies, and it may also seek to mitigate these risks through currency swaps, hedges or other derivatives.

The Group is exposed to interest rate risk relating to its debt financing and its holding of interest bearing assets and cash and cash equivalents. Apart from the export credit tranche of the Deepsea Aberdeen facility, none of the Group's borrowings are at fixed interest rates and interest rate risks are mitigated by using financial instruments such as interest rate swap agreements.

Credit risk

The Group's commercial counterparts are primarily major integrated oil companies, independent oil and gas producers and government owned oil companies, therefore the credit risk is considered to be limited. Loss allowances amounted to 1 % of accounts receivable at year end 2018.

Liquidity risk

Odfjell Drilling held cash and cash equivalents amounting to USD 175 million at the end of 2018. This is deemed to be sufficient funding for the Group's current activity levels and committed capital expenditures during 2019 based on the ongoing refinancing discussions as described under Going Concern Assumption. The Company monitors the total liquidity and will take measures if necessary.

Please refer to note 23 in the Financial Statements for further information about financial risk management.

OUTLOOK

Following the drop in oil prices in 2014, the drilling and oil service market 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. Cost efficiency programs within the oil and gas industry have led to a substantial reduction in field development and production spending world-wide. The market recovery during 2018 shows increased tender activity with a steady but slow growth in the global drilling and oil service market, 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 which we expect will gradually continue in 2019 and beyond.

We believe that scrapping of older mid-water and harsh environment drilling units will continue over the next few years. In combination with a more healthy market, a preference for newer and more efficient assets and a limited number of newbuilds, we believe this will bring the market back into balance with improved day rates within the next couple of years. In the Norwegian segment of the North Sea, a shortage of rigs may soon become a very real factor from next year.

Odfjell Drilling is well positioned in this market with a fleet consisting mainly of 6th generation semisubmersibles 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 thereafter demobilized to Norway. Deepsea Stavanger commenced its next 12 month contract with Aker BP in April 2019.

On 25 May 2018 Odfjell Drilling entered into a Master Frame Agreement with Equinor. This Master Frame Agreement (MFA) is a long term agreement to supply any future mobile drilling unit requirements by Equinor based on market terms.

Furthermore, Deepsea Atlantic commenced its current drilling contract under the Master Frame Agreement with Equinor on 24 January 2019, after the successful completion of its special periodic survey.

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

Deepsea Bergen operated for Equinor until late February this year and then moved to the UK continental shelf for a one well drilling contract for Ithaca Energy started end March 2019. Thereafter the unit will return to Norway and commence a one well contract for OMV in Q2 2019 followed by a one well contract with MOL. This will keep Deepsea Bergen in operation throughout 2019.

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 Q2 2019.

Although OWS is still facing fierce competition for its services globally, the business area has managed to increase its activity both geographically and with additional products in 2018. We currently observe an 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. In 2018 Platform Drilling commenced drilling operations for BP UK on Clair Ridge and on the Johan Sverdrup field for Equinor.

SUBSEQUENT EVENTS

The following events have occurred after the balance sheet date:

On January 7, Odfjell Drilling took delivery of the 6th generation harsh environment deep-water semisubmersible unit Deepsea Nordkapp, from Samsung Heavy Industries (SHI) in South Korea. The unit – former Stena MidMax – was purchased in April 2018 for USD 505 million following the award of a 2 year firm drilling contract with 1+1 year optional periods from Aker BP under the Alliance Agreement signed in 2017. Deepsea Nordkapp will arrive in Norway in early April and commence drilling operations in May/June this year.

On January 28, 2019, Odfjell Drilling was awarded a new platform drilling contract with BP UK for the Andrew, Clair and Clair Ridge installations on UKCS. The firm contract period has an estimated value of up to MUSD 50. The new contract means that Odfjell Drilling can continue their long relationship with BP in the UK that started in 2009.

The Board of Odfjell Drilling Ltd
26 April 2019, London, United Kingdom

Helene Odfjell
Chairman

Susanne Munch Thore
Director

Thomas Marsoner
Director

Alasdair Shiach
Director

Financial statements & notes

ANNUAL REPORT 18

Consolidated Income Statement for the year ended 31 December

USD thousands	Note	2018	2017
Operating revenue	2,4,5	698,476	662,158
Total operating income		**698,476**	**662,158**
Other gains/losses	7	2,211	11,215
Total other items		**2,211**	**11,215**
Personnel expenses	8,20,31	(303,669)	(260,815)
Depreciation, amortisation and impairment loss	18,19	(160,630)	(161,436)
Other operating expenses	7,8	(137,871)	(138,838)
Total operating expenses		**(602,170)**	**(561,089)**
Operating profit (EBIT)		**98,517**	**112,285**
Share of profit / (loss) from joint ventures	29	-	(1,485)
Interest income	7	2,060	1,535
Interest expenses	7,15	(74,366)	(72,028)
Other financial items	7	4,929	(3,618)
Finance cost - net		**(67,377)**	**(75,596)**
Profit / (loss) before tax		**31,139**	**36,688**
Income tax (expense) / income	9	(3,789)	(1,335)
Profit / (loss) for the period		**27,350**	**35,353**
Of which attributable to common shareholders		22,932	35,353
Of which attributable to preference shareholders		4,418	-
Earnings per share (USD)			
Basic earnings per share	33	0.10	0.18
Diluted earnings per share	33	0.10	0.18

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Comprehensive Income for the year ended 31 December

USD thousands	Note	2018	2017
Profit / (loss) for the period		**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	9,20	479	(266)
Total		479	(266)
Items that are or may be reclassified to profit or loss:			
Cash flow hedges	23	186	353
Currency translation differences		(5,597)	9,531
Total		(5,411)	9,884
Other comprehensive income for the period, net of tax		**(4,932)**	**9,618**
Total comprehensive income for the period		**22,419**	**44,971**
Total comprehensive income for the period is attributable to:			
Common shareholders		18,001	35,353
Preference shareholders		4,418	-

Items in the statement above are disclosed net of tax. The income tax relating to each item of other comprehensive income is disclosed in note 9.

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Financial Position

USD thousands	Note	31.12.2018	31.12.2017
Assets			
Intangible assets	18	29,811	32,855
Deferred tax asset	9	1,271	3,566
Property, plant and equipment	19	1,928,132	1,782,393
Derivative financial instruments	10,14	599	318
Other non-current assets	12	170	233
Total non-current assets		1 959 983	1,819,365
Spare parts		1,574	1,680
Trade receivables	11	103,056	137,438
Contract assets	6,11	-	-
Other current assets	12	36,971	13,775
Cash and cash equivalents	13	174,761	165,970
Total current assets		316,363	318,863
Total assets		2,276,345	2,138,228
Equity and liabilities			
Share capital	21	2,529	1,987
Other contributed capital		562,430	326,853
Other reserves	22	(110,142)	(105,019)
Retained earnings		568,856	543,235
Total equity attributable to owners of the parent		1,023,673	767,057
Non-current interest-bearing borrowings	15,16	311,819	1,076,103
Post-employment benefits	20	9,934	18,084
Non-current contract liabilities	6	369	-
Other non-current liabilities	17	-	5,331
Total non-current liabilites		322 122	1 099 519
Current interest-bearing borrowings	15,16	782,980	157,472
Contract liabilities	6	27,584	-
Trade payables		42,047	35,214
Current income tax	9	178	298
Social security and other taxes		18,047	16,163
Other current liabilities	17	59,715	62,505
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

The accompanying notes are an integral part of these financial statements

The Board of Odfjell Drilling Ltd - 26 April 2019, London, United Kingdom

Helene Odfjell
Chairman

Susanne Munch Thore
Director

Thomas Marsoner
Director

Alasdair Shiach
Director

Consolidated Statement of Changes in Equity

							Equity attributable to :		
USD thousands	Note	Share capital	Other contributed capital	Other eserves	Retained earnings	Total equity	Common shares	Preference shares	Total equity
Balance at 1 January 2017		1,987	326,853	(114,903)	508,148	722,086	722,086	-	722,086
Profit/(loss) for the period		-	-	-	35,353	35,353	35,353	-	35,353
Other comprehensive income for the period		-	-	9,884	(266)	9,618	9,618	-	9,618
Total comprehensive income for the period		-	-	9,884	35,087	44,971	44,971	-	44,971
Transactions with owners		-	-	-	-	-	-	-	-
Balance at 31 December 2017		1,987	326,853	(105,019)	543,235	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		-	-	(5,411)	479	(4,932)	(4,932)	-	(4,932)
Total comprehensive income for the period		-	-	(5,411)	27,829	22,419	18,001	4,418	22,419
Capital increase common shares (*)	21	380	171,414	-	-	171,794	171,794	-	171,794
Capital increase preference shares	21	161	74,839			75,000	-	75,000	75,000
Transaction costs		-	(10,676)	-	-	(10,676)	(10,676)	-	(10,676)
Cash dividend to preference shareholders		-	-	-	(2,209)	(2,209)	-	(2,209)	(2,209)
Cost of share-based option plan	32	-	-	288		288	288	-	288
Transactions with owners		542	235,577	288	(2,209)	234,197	161,406	72,791	234,197
Balance at 31 December 2018		2,529	562,430	(110,142)	568,856	1,023,673	946,464	77,209	1,023,673

(*) The common shares capital increases in equity were translated to USD using the currency rate at date of receipt of money.

Consolidated Statement of Cash Flows for the year ended 31 December

USD thousands	Note	2018	2017
Cash flows from operating activities:			
Profit / (loss) before tax		31,139	36,688
Adjustments for:			
Depreciation, amortisation and impairment loss		160,630	161,436
Unrealised (gain) / loss on interest rate swaps		(180)	(520)
Interest expense - net		66,309	64,101
Amortised transaction costs borrowings		5,997	6,160
Share of (profit) / loss from joint ventures		-	1,485
Net (gain)/loss from shares and other financial investments		(9,739)	(9,769)
Net (gain) / loss on sale of tangible fixed assets		(1,879)	(1,496)
Post-employment benefit expenses less post-employment benefit payments		(6,966)	(656)
Net currency loss / (gain) not related to operating activities		(2,169)	2,136
Changes in working capital:			
Spare parts		81	157
Trade receivables and contract assets		31,114	(21,392)
Trade payables		8,898	16,897
Other accruals		4,291	(9,801)
Cash generated from operations		*287,526*	*245,426*
Interest paid		(65,805)	(64,688)
Net income tax refunded / (paid)		(1,191)	(14,900)
Net cash flow from operating activities		**220,530**	**165,839**
Cash flows from investing activities:			
Purchase of property, plant and equipment	18,19	(305,876)	(29,468)
Proceeds from sale of property, plant and equipment		2,590	2,036
Other non-current receivables		56	64
Proceeds from financial investments incl. joint ventures		9,739	26,580
Net cash flow from investing activities		**(293,491)**	**(787)**
Cash flows from financing activities:			
Net (payments)/proceeds from borrowings financial institutions	15	-	(737)
Repayments of borrowings to financial institutions	15	(145,300)	(183,500)
Net proceeds from capital increases		236,118	-
Dividends paid to preference share holders		(2,209)	-
Net cash flow from financing activities		**88,609**	**(184,237)**
Effects of exchange rate changes on cash and cash equivalents		(6,858)	3,533
Net change in cash and cash equivalents		**8,791**	**(15,653)**
Cash and cash equivalents at 01.01		165,970	181,623
Cash and cash equivalents at 31.12		**174,761**	**165,970**

The accompanying notes are an integral part of these financial statements

Table of contents

Notes to the Consolidated Financial Statements 2018

All amounts are in USD thousands unless otherwise stated

Note 1 > Significant events and transactions in the current reporting period
Note 2 > New accounting standards
Note 3 > Critical accounting estimates and judgements
Note 4 > Segment summary
Note 5 > Revenue
Note 6 > Contract balances
Note 7 > Combined items, income statement
Note 8 > Personnel expenses
Note 9 > Tax
Note 10 > Financial assets and liabilites
Note 11 > Trade receivables and contract assets
Note 12 > Other assets
Note 13 > Cash and cash equivalents
Note 14 > Derivatives
Note 15 > Interest-bearing borrowings
Note 16 > Securities and mortgages
Note 17 > Other liabilities
Note 18 > Intangible assets
Note 19 > Tangible fixed assets
Note 20 > Post-employment benefits
Note 21 > Share capital and shareholder information
Note 22 > Other reserves
Note 23 > Financial risk management
Note 24 > Capital disclosures
Note 25 > Contingencies
Note 26 > Commitments
Note 27 > Events after the reporting period
Note 28 > Interests in other entities - Material subsidiaries
Note 29 > Investments in joint ventures and associates
Note 30 > Related parties - transactions, receivables, liabilities and commitments
Note 31 > Remuneration to the Board of Directors and key executive management
Note 32 > Share-based payments
Note 33 > Earnings per share
Note 34 > Accounting principles

Note 1 > Significant events and transactions in the current reporting period

The financial position and performance of the group was particularly affected by the following events and transactions during the reporting period:

Drilling contracts awarded
On 25 May 2018, Odfjell Drilling signed a drilling contract for Deepsea Atlantic for 6 firm wells with an estimated total duration of 18 months, scheduled to commence in early first quarter 2019. The contract contains the option for Equinor to continue operations after the firm period, and such options shall be based on market pricing. The contract value is estimated to USD 160 million plus potential income from the contract incentive model.

On 29 June 2018, OMV exercised the second optional well in the contract for Deepsea Bergen entered into on 21 April 2017. The well is an appraisal well, with "high pressure high temperature" characteristics, on the Norwegian Continental Shelf. The first optional well of the contract is no longer applicable, however the parties have agreed to add a third optional well. The contract commencement is scheduled for Q2 2019 and has an expected duration of approximately 140 days. The total contract value is estimated to be USD 28 million.

Odfjell Drilling signed, on 11 September 2018, a contract for Deepsea Bergen with Ithaca Energy (UK) Limited for one firm production well, plus optional wells (to be mutually agreed) on the UK Continental Shelf. Commencement of the firm well is scheduled for March 2019 with an expected duration of 115 days and will be followed by a contract with OMV Norge.

Furthermore, Odfjell Drilling has, on 16 November 2018, signed a drilling contract for Deepsea Bergen 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 estimated 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 USD 9 million plus potential incentive bonus.

Master Frame Agreement with Equinor
On 25 May 2018, and as part of a long term co-operation with Equinor, Odfjell Drilling signed a Master Frame Agreement for all the drilling units in the fleet, which will be the foundation for any future rig requirements which may be agreed between the parties.

Private Placement
On 19 April 2018, Odfjell Drilling Ltd., successfully completed a private placement of NOK 1.368 billion, equivalent to approximately USD 175 million, through issuance of 38,000,000 new common shares at a subscription price of NOK 36.00 per share. The proceeds will be used to finance growth and for general corporate purposes.

In conjunction with the USD 175 million private placement in April 2018, Odfjell Drilling, on 11 July 2018, completed a subsequent offering by issuing 46,302 new common shares at NOK 36.00 per share.

Purchase of Deepsea Nordkapp and award of drilling contract by Aker BP
On 27 April 2018, the Company announced the purchase of Deepsea Nordkapp, an enhanced Moss Maritime CS-60 unit winterized and purposely built for harsh environment areas. The Company further entered into a new 2 year drilling contract plus 1+1 year options with Aker BP. On 7 January 2019 Deepsea Nordkapp was delivered from Samsung Heavy Industries (SHI) in South Korea to Odfjell Drilling. The Company estimates commencement of operations for Aker BP in Q2 2019.

Preference share investment
On 27 April 2018, Odfjell Drilling signed a preference share investment agreement and a warrant investment agreement with an affiliate of Akastor ASA to carry out a USD 75 million preference share issue and an issue of warrants for 5,925,000 common shares in Odfjell Drilling to such affiliate. The proceeds were used to partly finance Deepsea Nordkapp.

Bank financing of Deepsea Nordkapp
Odfjell Drilling signed on 30 October 2018 the final loan documentation for a USD 325 million senior secured term loan facility for Deepsea Nordkapp. The facility includes a 10-year tranche of USD 162.5 million guaranteed by K-SURE and a 5-year commercial bank tranche of USD 162.5 million. The facility was utilised on 4 January 2019. See further information in note 15.

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. See note 15.

Migration to the United Kingdom
Following a strategic review, 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. Some of the key reasons behind the migration are the size of the Group's existing operations and presence in the United Kingdom, the location of certain key personnel in the United Kingdom, the proximity to the North Sea basin and the fact that the UK is well established as a holding company jurisdiction for international groups because of its globally recognized legal system and tax framework.

Note 2 > New accounting standards

Revenue from contracts with customers
As of 1.1.2018 the group implemented IFRS 15 Revenue from contracts with customers, using the modified retrospective approach. IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The group has revenues from rendering of services related to day-rate based drilling contracts, day-rates from management drilling contracts and other service contracts. Up until 1.1.2018 these services were recognised when the services were performed. According to the new standard these revenue streams will continue to be recognised over time.

Management has assessed the effects of applying IFRS 15 Revenue from contracts with customers on the group's financial statements and has identified the following areas that will be affected:

- Accounting for lump sum fees for mobilisation and demobilisation
Both day-rate based and lump sum fee revenues were recognised ratably over the contract period. Under IFRS 15 these fees are recognised when control over the service is transferred to the customer, i.e. during the actual drilling period. This implies that no revenue is recognised in the mobilisation and demobilisation period.

- Accounting for certain costs incurred in fulfilling a contract
The material amounts are related to mobilisation costs. Previously, mobilisation costs incurred as part of a contract were capitalised as receivable and expensed over the contract term. As explained above, under IFRS 15 the expense period will change from the contract period to the actual drilling period. Also, under IFRS 15 all costs in the mobilisation period of the contract will be capitalised as asset from contract costs and expensed over the drilling period. This will mean that no cost and no revenue is recognised in the mobilisation period.

The group has implemented IFRS 15 using a modified retrospective approach for adoption. The implementation did not impact net earnings as at 1 January 2018, as the open contracts at 31 December 2017 had no material mobilisation or demobilisation periods or fees.

Under IFRS 15, any earned consideration that is conditional should be recognised as a contract asset rather than receivable. Deferred revenue and prepayments from customers are reclassified to contract liabilities. Reclassifications in the balance sheet at 1 January 2018 are specified in the table below.

USD thousands	Balance at 31.12.2017	Reclassifications due to implementation of IFRS 15	Balance at 01.01.2018
Assets			
Contract assets	-	-	-
Trade receivables	137,438	-	137,438
Assets from contract costs	-	3,372	3,372
Other current assets	13,775	(3,372)	10,402
Liabilities			
Non-current contract liabilities	-	5,331	5,331
Other non-current liabilities	5,331	(5,331)	-
Contract liabilities	-	22,724	22,724
Other current liabilities	62,505	(22,724)	39,781
Equity			
Total equity	767,057	-	767,057

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 mobililsation from Norway to South Africa around mid October 2018 and commenced drilling operations around mid December 2018. The unit will after performed drilling services demobilise back to Norway. If the group had applied IAS 18, revenue recognised in 2018 would have been USD 3 million higher in 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 2018 applying IFRS 15 versus revenue recognition using IAS 18.

Financial instruments
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.

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The financial assets held by the group include derivatives currently measured at fair value through profit or loss (FVPL) and receivables measured at amortised cost, which will continue to be measured on the same basis under IFRS 9. Accordingly, the new guidance will not have any significant impact on the classification and measurment of the group's financial assets.

There was no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the group's derivatives continue to be measured on the same basis under IFRS 9. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules aligns the accounting for hedging instruments more closely with the group's risk management practices. The group's current hedge relationships qualifies as continuing hedges upon the adoption of IFRS 9. Accordingly, there was no impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified as amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contracts assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The impairment provisions as at 31 December 2017 and 31 December 2018 were not affected by the implementation of the new model.

The new guidance did not have any significant impact on the classification and measurement of the Company's financial assets.The implementation also had no effect on the equity of the Company as at 31 December 2017.

Note 3 > Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. These estimates are based on the actual underlying business, its present and forecasted profitability over time, and expectations about external factors such as interest rates, foreign exchange rates and other factors which are outside the Group's control. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of non-financial assets
Assets that have an indefinite useful life, i.e. goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation, i.e. mobile drilling units, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If available, estimated fair value of an asset is obtained externally. In addition, the Group has financial models which calculate and determine the value in use through a combination of actual and expected cash-flow generation discounted to present value. In measuring value in use the Group has based its calculation on reasonable and supportable assumptions that represent management's best estimate for the range of economic conditions that will exist over the remaining useful life of the asset. The Group has applied latest available market assumptions when calculating value in use as of 31 December 2018. To support the value in use calculation the Group has also looked at the broker values at the applicable balance date and analysed contract values and other factors (new build parity etc), bridging book value of the rigs. 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, exercised options, operating expenses, financial utilisation and market recovery.

Normalised day rate, supported by new build parity, is in the model's base case scenario fully recovered from 2023. In the periods without contract prior to 2023, the Group has applied estimated day rates that provide a natural development towards normalised level.

The discount factor applied in the cash flow budgets is a pre-tax weighted average cost of capital.

As the analysis in note 19 demonstrate, the impairment assessment is sensitive to changes in key assumptions. Please refer to sensitivity analyses in note 19 for further information.

Revenue recognition
There is use of judgement in the Group's revenue recognition, and the judgement items include evaluation of whether the customer option represents a material right that gives rise to a performance obligation, and if so, to estimate the stand-alone selling price of the option. Further, the judgement is based on the decision of whether to include the incentive bonus element in the transaction price, and to estimate the variable consideration, if included. In addition, the progress towards complete satisfaction of the performance obligation at the end of the reporting period is estimated, as the completion date of the drilling period is unknown at the end of the reporting period.

Going concern
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, the developments in the financial markets and within the Group.

The volatility 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. 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 Drilling Services facility will be USD 250 million and the Odfjell Invest facility USD 387.5 million.

The Group is now working to secure both facilities being rolled over on or before maturity. In addition, options are evaluated to increase the financial flexibility.

Taking all relevant risk factors and available options for financing into consideration, the Board has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. Hence, the Group has adopted the going concern basis in preparing its consolidated financial statements.

Note 4 > 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.

- Mobile Offshore Drilling Units (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.

- Drilling & Technology (D&T): Within the Drilling & Technology 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.

- Well Services (OWS): The Well Services segment provides casing and tubular running services, wellbore cleaning as well as drilling tool and tubular rental services both for exploration wells and for production purposes.

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
USD thousands	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:

USD thousands	FY 18	FY 17
Total EBIT for reportable segments	**108,831**	**129,235**
Corporate / Eliminations	(11,116)	(19,172)
Accounting differences	802	2,222
EBIT Consolidated Group	**98,517**	**112,285**
Share of profit from other joint ventures	-	(1,485)
Net financial items	(67,377)	(74,111)
Profit / (loss) before tax Group	**31,139**	**36,688**

Note 5 > Revenue

USD thousands	2018
Revenue from contracts with customers (IFRS 15)	672,246
Other operating revenue	26,230
Operating revenue	**698,476**

Revenues from single external customers

(more than 10% of revenues)	2018	2017
Equinor (previously Statoil)	231,407	237,193
BP	176,987	174,573
Wintershall	40,099	113,350

Revenue recognition
Revenue is measured based on the consideration specified in a contract with customer and excludes amounts collected on behalft 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 judgements.

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.

Disaggregation of revenue	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated	Consolidated
USD thousands	2018	2018	2018	2018	2018	2017
Primary geographical markets						
Norway	284,291	91,111	54,518	(26,062)	403,859	410,568
United Kingdom	158,303	53,428	8,973	(3,454)	217,250	193,233
Europe - other countries	-	-	19,298	(356)	18,942	11,593
Asia	7,937	-	23,653	580	32,170	44,054
Africa	25,920	-	128	2	26,050	-
Other geographical markets	-	-	205	(0)	205	2,709
Total operating revenue	**476,450**	**144,539**	**106,776**	**(29,289)**	**698,476**	**662,158**

Note 6 > Contract balances

Contract balances

USD thousands	Note	31 December 2018	1 January 2018
Contract assets	11	-	-
Contract liabilities		(27,953)	(28,055)

The Group has no contract assets as at 31 December 2018, and there have been no changes from 1 January 2018.

Contract liabilities as at 1 January 2018 were mostly related to prepayments regarding Mobile Drilling Unit's management of other rigs in addition to unsatisfied performance obligations regarding periodic maintenance in the Platform Drilling services. Due to changes to contracts during 2018, all of the contract liabilities as at 1 January 2018 were recognised as revenue during 2018.

Of the Contract liabilities as at 31 December 2018, approximatly USD 19 million are related to drilling operations under the one well contract with Total offshore South Africa, and will be recognised as revenue in 2019. Approximately USD 8 million relates to other Mobile Drilling Unit contracts, and will be recognised as revenue over the contracts' drilling periods.

Set out below is the amount of revenue recognised from:

USD thousands	2018
Amounts included in contract liabilites at the beginning of the year	28,055
Performance obligations satisfied in the previous years	163

Performance obligations related to unsatisfied long-term contracts
The Group's firm contract backlog is USD 1.4 billion, of which USD 1.1 billion is related to Mobile Drilling Unit contracts and USD 0.3 billion related to Platform Drilling services. Approximately USD 0.6 billion is related to services that will be provided in 2019. The firm contract backlog does not include variable consideration which is constrained. The services provided under these contracts will be billed based on time incurred and at day rates according to contract. The Well Services contracts are for periods of one year or less and are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Assets from contract costs
The group has recognised assets for costs incurred to fulfil a contract with customers. The assets are presented within other current assets in the balance sheet.

USD thousands	Note	31 December 2018	1 January 2018
Asset recognised from costs incurred to fulfil a contract	13	21,427	3,372
Amortisation recognised as cost of providing services during the period		11,936	

The asset is related to drilling operations under the one well contract with Total offshore South Africa, and consist of accrued costs in the mobilisation period as well as other cost incurred regarding this specific drilling contract. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. The amount booked as asset at 31 December 2018 will be recognised as cost in 2019.

Group Financial Statements

Note 7 > Combined items, income statement

Other gains and losses

USD thousands	Note	2018	2017
Disposal of investments in joint ventures		-	9,409
Gain on sale of other assets	26	2,211	1,806
Gain on sale of assets		**2,211**	**11,215**

Other operating expenses

USD thousands	2018	2017
Hired services	23,350	37,554
Hired equipment	9,327	6,587
Repair and maintenance, inspection, tools, fixtures and fittings	54,946	51,807
Insurance	3,207	2,799
Freight and transport	7,287	5,712
Costs of premises	11,853	10,957
Travel and course expenses	15,266	12,301
Other operating and administrative expenses	12,637	11,122
Total other operating expenses	**137,871**	**138,838**

Financial income / (expenses)

Interest income

USD thousands	2018	2017
Interest income	2,060	1,535
Total interest income	**2,060**	**1,535**

Interest expenses

USD thousands	2018	2017
Interest expenses borrowings	(67,993)	(65,589)
Amortised transaction costs borrowings	(5,997)	(6,392)
Other interest expenses	(375)	(47)
Total interest expenses	**(74,366)**	**(72,028)**

Other financial items

USD thousands	2018	2017
Net currency gain / (loss)	(3,017)	(3,087)
Income from financial investments *	9,739	-
Other financial income	13	396
Change in value of market-based derivatives	180	520
Other financial expenses	(1,987)	(1,447)
Total other financial items	**4,929**	**(3,618)**

* Income from financial investments relates to redemption of convertible bonds and warrants in Golden Close Maritime Corp. Ltd.

Note 8 > Personnel expenses

Personnel expenses

USD thousands	Note	2018	2017
Salaries and wages		247 275	203 369
Employer`s national insurance contributions		34 535	28 397
Pension expenses	20	12 431	15 921
Cost of share-based option plan	32	288	-
Other benefits		12 354	10 766
Hired personnel		30 184	4 556
Capitalised personnel expenses		(35 970)	(2 194)
Amortised personnel contract cost		2 572	-
Total personnel expenses		**303 669**	**260 815**
No. of employees (annual average)		2 297	1 959

USD thousands	2018	2017
Audit (incl. technical assistance with financial statements)	914	665
Other assurance services	4	16
Tax advisory fee (incl. technical assistance with tax returns)	-	197
Fees for other services	106	35
Total audit fees	**1 023**	**912**

The fees are net of VAT.

Note 9 > Tax

USD thousands	2018	2017
Withholding tax paid / payable	(1,349)	(1,334)
Payable tax		
Change in deferred tax	(2,091)	899
Total tax expense	**(3,789)**	**(1,335)**
Effective tax rate	12,2 %	-65,2 %

Withholding tax is the tax withheld on border-crossing gross income, generated in 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.

Tax reconciliation

USD thousands	2018	2017
Profit / (loss) before tax	**31,139**	**36,688**
Tax calculated at domestic tax rates applicable to profits in respective countries* (including withholding tax)	(12,224)	(8,750)
Tax loss related to shares	-	65,965
Net utilisation of unrecognised tax losses	8,377	(56,280)
Effect of changes in tax rates	(45)	(2,585)
Effect of adjustments recognised related to prior periods	401	1,950
Effect of net non-taxable income / (expenses)	(297)	(1,635)
Taxes	**(3,789)**	**(1,335)**

* Domestic tax rates applicable to the Group varies between 0 % and 25 % for corporate income taxes (CIT)

In 2017 the group sold shares in joint ventures and associated companies (note 29). Gain from the sale of Robotic Drilling Systems AS is not subject to taxation. A deductible tax loss was realised through the sale of shares in Deep Sea Metro Ltd.

Deferred tax assets are recognised when it is likely that the benefit can be realised through expected future taxable profits.

Tax losses

USD thousands	2018	2017
Unused tax losses for which no deferred tax asset has been recognised	197,591	249,594
Potential tax benefit 22% (23%)	43,527	57,407

The movement in unrecognised tax assets is as follows:

USD thousands	2018	2017
Unrecognised tax asset as at 01.01	57,407	1,127
Net utilisation of unrecognised tax losses	(8,377)	56,280
Effect of changes in tax rates	(1,957)	-
Currency translation differences	(3,546)	-
Unrecognised tax assets at 31.12	**43,527**	**57,407**

The unrecognised tax asset is mainly related to operations in Norway. Due to continued market uncertainties, the level of future taxable profits is too unpredictable to support a recognised tax asset.

The gross movement on the deferred tax account is as follows:

USD thousands	2018	2017
Net deferred tax assets/(deferred tax liabilities) at 01.01	3,566	2,498
Income statement charge	(2,091)	899
Change in deferred tax on other comprehensive income	(143)	(84)
Currency translation differences	(60)	253
Net deferred tax assets/(deferred tax liabilities) at 31.12	**1,271**	**3,566**

The Group's recognised deferred tax assets are related to operations in Norway and the UK.
Deferred tax liabilities and assets are offset for liabilities and assets in companies which are included in local tax groups.

Deferred tax - Spesification and movements

Deferred tax assets	Tax losses	Current assets	Net pension liabilities	Fixed assets	Total
Opening balance 01.01.2018	849	254	4 159	1,466	6,728
Income statement charge	(628)	177	(1,708)	(680)	(2,840)
Change in deferred tax on other comprehensive income	-	-	(143)	-	(143)
Currency translation differences	(3)	(23)	(123)	(40)	(189)
Closing balance 31.12.2018	**218**	**407**	**2,185**	**746**	**3,556**

Deferred tax liabilities	Share in limited partnership	Deferred capital gains	Total
Opening balance 01.01.2018	(798)	(2,364)	(3,162)
Income statement charge	189	560	749
Currency translation differences	32	96	128
Closing balance 31.12.2018	**(577)**	**(1,708)**	**(2,285)**
Deferred tax liabilities offset in deferred tax assets			(2,285)
Net book value of deferred tax asset at 31.12.2018			**1,271**

Deferred tax assets	Tax losses	Current assets	Net pension liabilities	Fixed assets	Total
Opening balance 01.01.2017	-	400	4,263	1,762	6,424
Income statement charge	899	(172)	(399)	(384)	(56)
Change in deferred tax on other comprehensive income	-	-	84	-	84
Currency translation differences	(50)	26	212	88	276
Closing balance 31.12.2018	**849**	**254**	**4,159**	**1,466**	**6,728**

Deferred tax liabilities	Share in limited partnership	Deferred capital gains	Total
Opening balance 01.01.2017	(991)	(2,935)	(3,926)
Income statement charge	241	714	954
Currency translation differences	(48)	(143)	(191)
Closing balance 31.12.2017	**(798)**	**(2,364)**	**(3,162)**
Deferred tax liabilities offset in deferred tax assets			(3,162)
Net book value of deferred tax asset at 31.12.2017			**3,566**

The tax (charge)/credit relating to components of the comprehensive income is as follows:

	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
USD thousands	2018	2018	2018	2017	2017	2017
Actuarial loss on post employment benefit obligations	622	(143)	479	(350)	84	-
Other comprehensive income	**622**	**(143)**	**479**	**(350)**	**84**	**(266)**
Deferred tax	-	(143)	-	-	84	-

Note 10 > Financial assets and liabilites

Financial instruments by category and level
The tables below analyse 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. As the time horizon is due in short term, future cash flows are not discounted.

The Group had the following financial instruments at each reporting period:

			IFRS 9	IAS 39
USD thousands	Note	Level	2018	2017
Financial assets at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps - Other non-current assets	14	2	599	318
- Interest rate swaps - Other current assets	14	2	-	102
Debt instruments at amortised cost				
- Other non-current receivables	12	3	170	233
- Trade receivables	11	3	103,056	137,438
- Other current receivables	12	3	3,639	3,100
- Cash and cash equivalents	13	3	174,761	165,970
Total assets as at 31.12			**282,226**	**307,161**

USD thousands	Note	Level	2018	2017
Financial liabilities at fair value through profit or loss				
Derivatives designated as hedging instruments				
- Foreign exchange forward contracts - Other current liabilities	14	2	-	186
Financial liabilities at amortised cost				
- Non-current interest-bearing borrowings	15	3	311,819	1,076,103
- Current interest-bearing borrowings	15	3	782,980	157,472
- Trade payables		3	42,047	35,214
- Other current liabilities	17	3	77,761	53,974
Total liabilities as at 31.12.			**1,214,607**	**1,322,950**

Note 11 > Trade receivables and contract assets

Trade receivables

USD thousands	2018	2017
Trade receivables	77,630	117,331
Earned, not yet invoiced operating revenues	26,933	21,588
Loss allowance / Provision for bad debt	(1,506)	(1,481)
Trade receivables - net	**103,056**	**137,438**

The fair value of trade receivables are as follows:

USD thousands	2018	2017
Trade receivables	103,056	137,438
Total	**103,056**	**137,438**

As the receivables are due in the short term, the fair value is approximately equal to the carrying amount, and the future cash flows are not discounted.

The carrying amounts of the trade receivables are denominated in the following currencies:

USD thousands	2018	2017
USD	33,365	43,288
NOK	36,473	58,000
GBP	20,795	22,273
Other	12,423	13,877
Total	**103,056**	**137,438**

The ageing of the trade receivables	Excepted loss rate	Gross amount	Loss allowance	Net amount
USD thousands		2018	2018	2018
Not due	0.1 %	89,146	(54)	89,091
0 to 3 months	2.6 %	13,355	(343)	13,012
3 to 6 months	20.3 %	769	(156)	613
Over 6 months	73.7 %	1,293	(953)	340
Total		**104,563**	**(1,506)**	**103,056**

Contract assets	Excepted loss rate	Gross amount	Loss allowance	Net amount
USD thousands		2018	2018	2018
Not due	0.1 %	-	-	-

From 1 January 2018 the group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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.

The ageing of the trade receivables	Gross amount	Bad debt provision	Net amount
USD thousands	2017	2017	2017
Not due	116,160	(374)	115,786
0 to 3 months	19,359	(21)	19,338
3 to 6 months	993	(79)	913
Over 6 months	2,407	(1,007)	1,400
Total	138,919	(1,481)	137,438

As at 31 December 2017, the trade receivables which were past due more than 3 months were evalutated for impairment and provision was made based on estimated payments from eash customer. In addition, a provision was made for other receivables with indications that the receivable may be impaired.

Movements in loss allowance / the provision for impairment of trade receivables and contract assets are as follow:	Contract assets	Trade receivables	Trade receivables
USD thousands	2018	2018	2017
Provision for bad debt as at 31.12. - calculated under IAS 39	n/a	1,481	1,434
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	-	1,481	
Utilised	-	(11)	(119)
Released provision	-	(46)	(161)
New provisions	-	140	216
Translation differences	-	(58)	111
Loss allowance (Provision for bad debt) as at 31.12	-	1,506	1,481

USD thousands	2018	2017
Provision for bad debt as at 31.12. - calculated under IAS 39	(69)	126

The impairment losses recognised are realted to receivables arising from the Group's contracts with customers.

Note 12 > Others assets

Other non-current assets

USD thousands	Note	2018	2017
Other non-current receivables	-	170	233
Total other non-current receivables	-	170	233

Other current assets

USD thousands	Note	2018	2017
Derivative financial instruments	14	-	102
Prepaid expenses		11,905	10,573
Assets from contract costs	6	21,427	-
VAT- receivables		2,831	2,419
Other current receivables		808	682
Total other current assets		36,971	13,775

The fair value of other receivables are as follows:

USD thousands	2018	2017
Other non-current receivables	170	233
Other current receivables	808	682
Total	978	915

As the receivables are due in the short term, the fair value is approximately equal to the carrying amount, and the future cash flows are not discounted.

Note 13 > Cash and cash equivalents

USD thousands	2018	2017
Cash in bank	95,170	101,362
Time deposits	27,328	15,795
Retention accounts	19,252	19,747
Restricted bank deposits	33,011	29,066
Total	174,761	165,970

Retention accounts consist of cash provision for accrued, but not paid, interest and installments due within one to five months.

As at 31 December 2018 the restricted bank deposits include a cash collateral of USD 24.2 million (USD 21.5 million as at 31 December 2017) related to the Odfjell Rig II Ltd. facility Agreement, see note 15. The remaining restricted bank deposits are mainly related to tax withholdings for employees.

Note 14 > Derivatives

The Group had one interest rate swap agreements and no foreign exchange contracts at 31 December 2018. Quoted mark-to-market values from financial institutions have been used to determine the fair value of the swap agreements at the end of the year. Some of the instruments were documented as cash flow hedges and other as financial investments, and changes in fair value were recognised in other comprehensive income (cash flow hedging) and others recognised through profit and loss statement (financial investments not defined as cash flow hedges). See note 10 and note 23 for further description of impact on profit and loss and other comprehensive income.

	Assets	Liabilities	Assets	Liabilities
USD thousands	2018	2018	2017	2017
Interest rate swaps	599	-	419	-
Interest rate swaps - cash flow hedges under hedge accounting	-	-	-	-
Foreign exchange contracts - cash flow under hedge accounting	-	-	-	(186)
Total	599	-	419	(186)
Less non-current portion	599	-	318	-
Current portion	-	-	102	(186)

As of 31.12. the Group held the following derivatives:

Instrument	Fixed rate	Floating rate / Currency amount hedged	Notional amount	Effective from	Duration	Net market value
31.12.2018						
Interest rate swap	1.853%	USD-LIBOR-BBA	39,000	2014-2021	7 years	599
31.12.2017						
Interest rate swap	1.853%	USD-LIBOR-BBA	45,500	2014-2021	7 years	318
Interest rate swaps	0.735% - 0.789%	USD-LIBOR-BBA	26,000	2013-2018	5 years	102
Foreign exchange contracts under hedge accounting	-	NOK 47,380,500	-	2017-2018	1 year	(186)

Note 15 > Interest-bearing borrowings

The interest-bearing borrowings are secured debt. Interest rates are generally based on LIBOR rates.

Interest-bearing borrowings	Non-current	Current	Total	Non-current	Current	Total
USD thousands	2018	2018	2018	2017	2017	2017
Bank borrowings	319,200	775,000	1,094,200	1,091,500	148,000	1,239,500
Transaction cost, unamortised	(7,381)	(2,018)	(9,399)	(15,397)		(15,397)
Accrued interest cost	-	9,997	9,997	-	9,472	9,472
Carrying amounts interest-bearing borrowings	311,819	782,980	1,094,798	1,076,103	157,472	1,233,575

Movements in interest-bearing borrowings are analysed as follows:	Non-current	Current	Total	Non-current	Current	Total
USD thousands	2018	2018	2018	2017	2017	2017
Carrying amount as at 1 January	1,076,103	157,472	1,233,575	1,208,180	204,058	1,412,238
Cash flows:						
New bank loan raised	-	-	-	-	-	-
Repayment bank loan	-	(145,300)	(145,300)	-	(183,500)	(183,500)
Paid transaction costs related to new bank loan	-	-	-	(737)	-	(737)
Non-cash flows:						
Reclassified to current borrowings	(767,565)	767,565	-	(137,500)	137,500	-
Change in transaction cost, unamortised	3,280	2,717	5,997	6,160		6,160
Change in accrued interest cost	-	525	525	-	(586)	(586)
Carrying amount as at 31 December	311,819	782,980	1,094,798	1,076,103	157,472	1,233,575

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

Maturity	Non-current	Current	Total	Non-current	Current	Total
USD thousands	2018	2018	2018	2017	2017	2017
Maturity within 3 months	-	19,500	19,500	-	12,500	12,500
Maturity between 3 and 6 months	-	65,500	65,500	-	57,500	57,500
Maturity between 6 and 9 months	-	407,000	407,000	-	16,000	16,000
Maturity between 9 months and 1 year	-	283,000	283,000	-	62,000	62,000
Maturity between 1 and 2 years	82,200	-	82,200	775,000	-	775,000
Maturity between 2 and 3 years	237,000	-	237,000	79,500	-	79,500
Maturity between 3 and 4 years	-	-	-	237,000	-	237,000
Maturity between 4 and 5 years	-	-	-	-	-	-
Maturity beyond 5 years	-	-	-	-	-	-
Total contractual amounts	319,200	775,000	1,094,200	1,091,500	148,000	1,239,500

Refer to note 23 *Financial risk management* for further information regarding liquidity risk.

The Odfjell Drilling Services Ltd. facility
Remaining contractual amount of USD 270 million as at 31 December 2018.

On 6 November 2018 Odfjell Drilling 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.

The Odfjell Invest Ltd. facility
Remaining contractual amount of USD 425 million as at 31 December 2018.

The facility has a final instalment of USD 387.5 million with maturity date of 23 September 2019 included in the tables above.

The Odfjell Rig II Ltd. facility
Remaining contractual amount of USD 58.2 million as at 31 December 2018.

"The facility matures 30 September 2020, however, the lenders can exercise a termination option first time on 28 August 2018 and on successive 3-monthly intervals thereafter if the borrower cannot document a firm contract backlog for Deepsea Bergen which covers scheduled installments for the coming six months (less additional cash deposited as security). There is also a mandatory prepayment under the Odfjell Rig II Ltd facility if the Odfjell Drilling Services Ltd facility and the Odfjell Invest Ltd facility are not refinanced.

The Odfjell Rig III Ltd. facility
Remaining contractual amount of USD 341 million as at 31 December 2018.

The facility has a final instalment of USD 211 million with maturity date in November 2021 included in the tables above.

The Odfjell Rig V Ltd. facility
The facility is undrawn as at 31 December 2018.

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 instalments 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.

No borrowing costs have been capitalised in 2017 and 2018.
Average interest rate for 2018 was 5.7% (4.8% for 2017), including the effect of interest rate hedging.

The table below analyses the Group's estimated interest payments for drawn facilities at the balance sheet date, based on the remaining period at the end of the reporting period to the contractual maturity date.

Estimated payment schedule for interests

USD thousands	2018	2017
Within 1 year	67,000	63,000
Between 1 and 2 years	16,000	57,000
Between 2 and 3 years	12,000	15,000
Between 3 and 4 years	-	9,000
Between 4 and 5 years	-	-
Beyond 5 years	-	-
Total estimated interest payments as at 31 December	**95.000**	**144.000**

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

USD thousands	2018	2017
6 months or less	1,094,200	1,239,500
6 - 12 months	-	-
1 - 5 years	-	-
Later than 5 years	-	-
Total contractual amounts	**1,094,200**	**1,239,500**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2018	2017
USD	1,094,200	1,239,500
Total	**1,094,200**	**1,239,500**

The carrying amount and fair value of the non-current liabilities are as follows:

	Carrying amount		Fair value	
USD thousands	2018	2017	2018	2017
Bank borrowings	1,094,798	1,233,575	1,094,798	1,233,575
Total	**1,094,798**	**1,233,575**	**1,094,798**	**1,233,575**

The fair value of non-current borrowings equals their carrying amount, as the loans have floating rates and credit margins have been stable from the loan raising.

Other than the Odfjell Rig V Ltd. facility mentioned above, the Group has no undrawn borrowing facilties as of 31.12.2018 or 31.12.2017.

Financial covenants
Odfjell Drilling did in 2017 obtain a waiver of the debt service coverage ratio covenant in the Odfjell Drilling Services group 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.

Compliance with covenants as at 31.12.2018
The Odfjell Drilling Group is compliant with all financial covenants as at 31 December 2018.

The borrowing facilities in the Odfjell Drilling Group include the following main covenants:

Group covenants
The Odfjell Drilling Group has agreed to maintain, at all times, a minimum free liquidity (cash and cash equivalents) requirement of USD 50 million and a total liquidity of minimum 5 per cent of interest bearing debt (on consolidated basis) (if the Odfjell Drilling Group 12 months prior to delivery of any investments in excess of USD 100 million has any unfinanced capital expenditure related to such investment, the minimum free liquidity requirement will increase to USD 100 million. The Odfjell Drilling Group has agreed to maintain book equity of at least USD 600 million and an equity ratio (equity to total assets) of minimum 30 per cent, which will increase with 1% each calendar year from and including 2019, up to 35%. Further, the group has agreed at all times to maintain a leverage ratio (net interest bearing debt to EBITDA) not exceeding 5.00:1:00. EBITDA and Interest Bearing Debt related to a newbuilding (drilling rig/vessel) shall be disregarded until the first full month after the earlier of (i) six (6) months after commencement of a firm employment contract for such newbuilding and (ii) twelve (12) months from the contractual delivery date (within the yard's delivery window) for such unit. Thereafter, actual EBITDA shall be annualised until a full twelve month earnings history related to that newbuilding has been achieved. The ratio of current assets to current liabilities shall at all times be a minimum 1.00:1.00.

Odfjell Invest Ltd - USD 525 million facility
The facility agreement provides for mandatory prepayment if Helene Odfjell (and her descendants) cease to own at least 50.1% of the shares in Odfjell Drilling Ltd. The facility agreement contains undertakings and covenants, and terms and conditions which are considered to be customary for similar types of bank financings in the current market, including, but not limited to, undertakings related to reporting and information, certain restrictions on corporate actions and change of business and covenants relating to the operation and maintenance of Deepsea Stavanger and Deepsea Atlantic.

There shall be no dividends on ordinary shares declared without the prior written consent of the majority lenders. The facility agreement further contains default and cross-default provisions, all applicable to Odfjell Invest Ltd., and its subsidiaries, and in some cases the Odfjell Drilling Group. The cross-default provision is, however, only applicable to the Odfjell Drilling Group in relation to a default on indebtedness of more than USD 5 million.

Odfjell Rig II Ltd. - USD 270 million facility
The facility agreement provides for mandatory prepayment if Helene Odfjell (and her descendants) cease to own at least 50.1% of the shares in Odfjell Drilling Ltd. The facility agreement otherwise contains undertakings and covenants, and terms and conditions which are considered to be customary for similar types of bank financings in the current market, including, but not limited to, undertakings related to reporting and information, certain restrictions on corporate actions and change of business and covenants relating to the operation and maintenance of Deepsea Bergen. There shall be no dividends on ordinary shares declared without the prior written consent of the majority lenders.

Further, the facility agreement also contains default and cross-default provisions, all applicable to the Odfjell Drilling Group. However, the cross-default provision is only applicable to the default of any member of the Odfjell Drilling Group on indebtedness of more than USD 5 million, unless any member of the Odfjell Drilling Group contributes at least USD 5 million in response to such default.

Odfjell Rig III Ltd - USD 530 million facility
Dividends from Odfjell Drilling Ltd., on ordinary shares shall be limited to 50% of its net income, subject to prior consent from GIEK and Kexim. Moreover, there are certain restrictions on ownership, including that Helene Odfjell and descendants shall own at least 50.1 per cent of the voting rights and capital interests in Odfjell Drilling Ltd.

The facility agreement otherwise contains undertakings and covenants, terms and conditions which Odfjell Rig III Ltd., considers to be customary for similar types of bank financings in the current market, including, but not limited to, undertakings related to reporting and information, certain restrictions on corporate actions and change of business and covenants relating to the operation and maintenance of the semi-submersible drilling rig "Deepsea Aberdeen". Further, the Facility Agreement also contains default and cross default provisions, all applicable to Odfjell Rig III Ltd., including the Odfjell Drilling Group and the Odfjell Rig Owning Ltd., Group.

Odfjell Drilling Services - USD 450 million facility
The Odfjell Drilling Services Group has agreed to maintain, at all times, a minimum liquidity (cash and cash equivalents) requirement which is the higher of USD 25 million and 5 per cent of interest bearing debt (on consolidated basis). Further, the Odfjell Drilling Services Group has agreed to maintain an equity ratio (equity to total assets) of minimum 30 per cent. The Odfjell Drilling Services Group has also agreed to ensure that the ratio of current assets to current liabilities shall at all times be minimum 1.00. Finally, the debt service coverage ratio (ebitda to interest and installments) of the Odfjell Drilling Services Group calculated on a 12 months' rolling basis shall be above 1.1x. The debt service coverage ratio covenant has been waived from 31 December 2017 until the final maturity date of the facility. During the same period, the minimum free liquidity requirement of the Odfjell Drilling Services Group is raised from USD 25 million to USD 35 million.

Further, the facility agreement implies certain restrictions on ownership, including that (i) Helene Odfjell and descendants shall own and control (directly or indirectly) at least 50.1 per cent of the voting rights and capital interest in Odfjell Drilling Ltd., and (ii) Odfjell Drilling Ltd., shall own and control, either directly or indirectly, 100 per cent of Odfjell Drilling Services Ltd., and/or Odfjell Rig Owning Ltd. The facility agreement also involves further restrictions on, inter alia, financial indebtedness, capital expenditures and financial support, all such provisions mainly applicable to Odfjell Drilling Services Group only.

The facility agreement otherwise contains undertakings and covenants which Odfjell Drilling Services Ltd., considers to be customary for similar types of bank financings in the current market, including, but not limited to, undertakings related to reporting and information and certain restrictions on corporate actions and change of business. Dividends from Odfjell Drilling Ltd on ordinary shares shall be limited to 50% of its net income. Further, the facility agreement also contains default and cross default provisions, all applicable to the obligors under the facility agreement, however such that cross default is applicable to any member of the Odfjell Drilling Group.

Odfjell Rig V Ltd - USD 325 million facility
The facility amount is at 31 December 2018 available for utilisation at delivery of Deepsea Nordkapp. 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.
There shall be no dividends from Odfjell Drilling Ltd. on ordinary shares until 1 January 2021. Thereafter, dividends on ordinary shares shall be limited to 50% of its net income. Moreover, there are certain restrictions on ownership, including that Helene Odfjell and descendants shall own at least 50.1 per cent of the voting rights and capital interests in Odfjell Drilling Ltd.

Group Financial Statements

Note 16 > Securities and mortgages

Liabilities secured by mortgage

USD thousands	2018	2017
Non current liabilities - contractual amounts	319,200	1,091,500
Current liabilities	782,980	157,472
Total	**1,102,180**	**1,248,972**

Carrying amount of mortgaged assets:

USD thousands	2018	2017
Property, plant and equipment	1,928,132	1,782,393
Receivables	140,028	151,213
Bank deposits	174,761	165,970
Total	**2,242,920**	**2,099,576**

Odfjell Invest Ltd. - USD 525 million Facility
USD 525 million term loan facility agreement entered into on 23 September 2016 with Odfjell Invest Ltd., as borrower and DNB Bank ASA as Agent of behalf of the Lenders. The liability of Odfjell Drilling Ltd., as guarantor hereunder shall be limited to USD 682.5 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

As security for the loan, substantially all of the assets of Odfjell Invest Ltd., and its subsidiaries have been pledged in favour of the lenders. This includes the shares in Deep Sea Atlantic (UK) Ltd., Deep Sea Stavanger (UK) Ltd., mortgages over the semi-submersible drilling rigs Deepsea Stavanger and Deepsea Atlantic and assignment of rights to revenue, interest proceeds and bank accounts. In addition, the shares in Odfjell Invest Ltd., have been pledged by Odfjell Rig Owning Ltd., in favour of the lenders. Odfjell Drilling AS' shares in the charter company Odfjell Invest AS have also been pledged. Deep Sea Atlantic (UK) Ltd., Deep Sea Stavanger (UK) Ltd., Odfjell Drilling Ltd. and Odfjell Rig Owning Ltd. have guaranteed as and for its own debt the due and punctual observance and performance of the obligors' obligations under the finance documents.

Odfjell Rig II Ltd. - USD 270 million Facility
The USD 270 million term loan facility agreement was originally entered into on 15 February 2013 with Odfjell Rig II Ltd., as borrower and DNB Bank ASA as Agent on behalf of the lenders, but was amended and extended in August 2017. The liability of Odfjell Drilling Ltd. as guarantor hereunder shall be limited to USD 85.8 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

All of the shares in and substantially all of the assets of Odfjell Rig II Ltd., have been pledged in favour of the lenders, including a mortgage over Deepsea Bergen. Also, Odfjell Drilling Ltd., Odfjell Rig Owning Ltd., and Odfjell Offshore Ltd., have guaranteed the obligors' obligations under the finance documents.

A cash collateral has been established as security and is USD 24.2 million at year-end 2018 but will be reduced with USD 6 million when Deepsea Bergen has at least 12 months firm contract backlog. The cash collateral will be further reduced quarterly from Q1 2019.

Odfjell Rig III Ltd. - USD 530 million Facility
USD 530 million term loan facility agreement entered into on 7 May 2013 with Odfjell Rig III Ltd., as borrower and DNB Bank ASA as Agent on behalf of the lenders. The liability of Odfjell Drilling Ltd., as guarantor hereunder shall be limited to USD 636 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

As security for the facilities, substantially all of the shares in and assets of Odfjell Rig III Ltd., and Odfjell Drilling Shetland Limited is pledged in favour of the lenders and hedging banks, including a mortgage of Deepsea Aberdeen. Also, Odfjell Drilling Ltd., Odfjell Rig Owning Ltd., and Odfjell Offshore Ltd., have guaranteed the obligors' obligations under the finance documents.

Odfjell Drilling Services Ltd. – USD 450 million facility
USD 450 million senior secured credit facility agreement entered into on 6 May 2014 with Odfjell Drilling Services Ltd., as borrower and Danske Bank A/S, DNB Bank ASA, Nordea Bank Norge ASA and Swedbank AB (publ) as mandated lead arrangers and original lenders, Danske Bank A/S and DNB Bank ASA as coordinators and DNB Bank ASA acting as agent. The facility is a senior secured revolving credit and term loan facility in the total aggregate amount of USD 450 million, divided into a term loan facility in the maximum principal amount of USD 300 million and a revolving credit facility in the maximum principal amount of USD 150 million.

As security for the loan, Odfjell Drilling Ltd., Odfjell Well Services II Ltd., Odfjell Drilling Technology Ltd., Odfjell Drilling AS, Odfjell Drilling Technology AS, Odfjell Well Services AS, Odfjell Global Business Services AS and Odfjell Well Services Norway AS have guaranteed as and for its own debt the due and punctual observance and performance of the obligors' obligations under the finance documents. Further, substantially all of the assets of Odfjell Drilling Services Ltd., and its subsidiaries have been pledged in favour of the lenders. This includes the borrower's shares in Odfjell Partners Invest Ltd., Odfjell Drilling Technology Ltd., and Odfjell Platform Drilling AS, the shares owned by Odfjell Partners Invest Ltd., in Odfjell Well Services Norway AS, Odfjell Well Services AS, Odfjell Well Services Ltd., and Odfjell Well Services II Ltd., pledge granted by Odfjell Partners Invest Ltd., and Odfjell Well Services II Ltd., over (in aggregate) 100% of the membership interests in Odfjell Well Services Cooperatief U.A., and the shares owned by Odfjell Drilling Technology Ltd., in Odfjell Drilling Technology AS. In addition, Odfjell Drilling Ltd., has pledged 100 per cent of the shares in Odfjell Drilling Services Ltd., Odfjell Rig Owning Ltd., Odfjell Global Business Services AS and Odfjell Offshore Ltd., and Odfjell Rig Owning Ltd has pledged all its shares in Odfjell Drilling AS.

The loan is also secured with first priority assignments by Odfjell Drilling Services Ltd., and the guarantors (as listed above) of intercompany claims exceeding a certain threshold or term, as well as all accounts receivables, book debts, other debts, financial obligations or other amounts of other kind (including interest) owing, or which with the passage of time would become owing to the borrower and the guarantors.

Finally, the loan is secured by first priority floating charges over the assets of each of Odfjell Drilling Services Ltd., Odfjell Drilling Technology Ltd., Odfjell Well Services II Ltd., and Odfjell Partners Invest Ltd.

Odfjell Rig V Ltd. - USD 325 million Facility
USD 325 million term loan facility agreement entered into on 30 October 2018 with Odfjell Rig V Ltd., as borrower and DNB Bank ASA as Agent on behalf of the lenders. The liability of Odfjell Drilling Ltd., as guarantor hereunder shall be limited to USD 422.5 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

All of the shares in and substantially all of the assets of Odfjell Rig V Ltd., have been pledged in favour of the lenders, including a mortgage over Deepsea Nordkapp which was established at delivery of the unit on 7 January 2019. Also, Odfjell Rig Owning Ltd. and Odfjell Invest II AS, have guaranteed the obligors' obligations under the finance documents.

Odfjell Rig V Ltd. - USD 43.25 million seller's credit from Samsung
USD 43.25 million seller's credit granted to Odfjell Rig V Ltd by Samsung Heavy Industries at delivery of Deepsea Nordkapp 7 January 2019.

The seller's credit is secured by a second priority mortgage over Deepsea Nordkapp, a second priority assignment of insurances and a parent company guarantee from Odfjell Rig Owning Ltd. The maximum liability of Odfjell Rig Owning Ltd shall be USD 43.25 million plus any amount of unpaid interest and other expenses under the agreement.

Note 17 > Other liabilities

Other non-current liabilities

USD thousands	Note	2018	2017
Deferred revenue	2	-	5,331
Total other non-current liabilities		**-**	**5,331**

Deferred revenue as at 31 December 2017 was reclassified to non-current contract liabilities as at 1 January 2018 following the implementation of IFRS 15 Revenue from contracts with customers. See further information in Note 2.

Other current liabilities

USD thousands	Note	2018	2017
Derivative financial instruments	14	-	186
Prepayments from customers		-	14,380
Deferred revenue		-	8,344
Accrued salaries, holiday pay and employee bonus provisions		22,976	24,270
Other payables and financial liabilities		13,451	2,634
Other accrued expenses		23,288	12,690
Total other current liabilities		**59,715**	**62,505**

Deferred revenue and prepayments from customers as at 31 December 2017 was reclassified to current contract liabilities as at 1 January 2018 following the implementation of IFRS 15 Revenue from contracts with customers. See further information in Note 2.

Note 18 > Intangible assets

USD thousands	Goodwill 2018	Software 2018	Internally developed assets 2018	Total intangible assets 2018	Goodwill 2017	Software 2017	Total intangible assets 2017
Cost							
At 1 January	19,736	20,465	-	40,201	18,786	18,457	37,243
Additions	-	976	724	1,700	-	1,067	1,067
Disposals	-	-	-	-	-	(1)	(1)
Currency translation differences	(1,098)	(1,201)	-	(2,299)	950	942	1,893
Cost as at 31 December	18,638	20,240	724	39,602	19,736	20,465	40 201
Accumulated amortisation and impairment							
At 1 January	-	7,345	-	7,345	-	4,234	4,234
Amortisation	-	2,971	72	3,044	-	2,875	2,875
Disposals	-	-	-	-	-	(1)	(1)
Currency translation differences	-	(598)	-	(598)	-	238	238
As at 31 December	-	9,718	72	9,791	-	7,345	7,345
Net book value at 31 December	18 638	10 521	652	29 811	19 736	13 119	32 855

Software - Global Standard integrated system
The software is amortised using the straight-line method over an estimated lifetime of 7 years. "

The Group has conducted an assessment at year-end to determine if there are any impairment indicators that might warrant a further review of the carrying value of the Global Standard system. No such indicators were found, therefore there has not been an impairment adjustment.

Internally developed assets
The carrying amount of internally developed assets include development expenses incurred in connection with developing a new drillhole cleaning tool. The technology has been patented. The company proved that the new technology met the criteria for recognition in the balance sheet as at 31 March 2018. The new tool is part of Odfjell Well Services product line and is expected to generate future cashflow to support the book value as at 31 December 2018.

The developed assets is amortised using a straight-line method over an estimated lifetime of 10 years.

Impairment tests for goodwill
Goodwill is monitored by the management at the operating segment level. During 2017, as part of the reorganisation of the Group, goodwill of NOK 29 million was reallocated from the Drilling & Technology segment to the Mobile Offshore Drilling Units segment.

The following is a summary of goodwill allocation for each operating segment:

USD thousands	Mobile Offshore Drilling Units 2018	Drilling & Technology 2018	Well Services 2018	Total 2018
At 1 January	3,554	11,751	4,431	19,736
Translation differences	(198)	(654)	(247)	(1,098)
Net book value at 31 December	3,357	11,097	4,184	18,638

USD thousands	Mobile Offshore Drilling Units 2017	Drilling & Technology 2017	Well Services 2017	Total 2017
At 1 January	-	14,568	4,218	18,786
Translation differences	3,383	(3,383)	-	-
Net book value at 31 December	171	566	213	950
Net book value at 31 December	3,554	11,751	4,431	19,736

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 for respective CGU's do not indicate any impairment as per 31.12.2018.

The key assumptions used for value-in-use calculations in were as follows:

	Mobile Offshore Drilling Units 2018	Drilling & Technology 2018	Well Services 2018	Mobile Offshore Drilling Units 2017	Drilling & Technology 2017	Well Services 2017
EBITDA margin in prognosis period	15 %	5% - 6%	26% - 35%	11% - 15%	4% - 6%	33% - 43%
Growth rate year 6 and forward	0.0%	0.0%	0.0%	0.0%	0.0%	0.0 %
Weighted Average Cost of Capital (pre tax)	8.4 %	8.5%	9.1%	8.6 %	7.4 %	8.0 %

Sensitivity analysis for goodwill impairment test as at 31.12.2018
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.

Note 19 > Tangible fixed assets

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Other fixed assets	Total fixed assets
Cost						
At 1 January 2018	2,557,229	218,679	-	380,327	9,835	3,166,069
Additions	18,835	23,052	246,788	14,242	1,260	304,176
Reclassifications	-	-	-	(10,165)	10,165	-
Disposals	(66,976)	(47,952)	-	(29,896)	(173)	(144,996)
Currency translation differences	-	-	-	(2,401)	(1,037)	(3,438)
Cost as at 31 December 2018	2,509,088	193,779	246,788	352,106	20,049	3,321,811
Accumulated depreciation and impairment						
At 1 January 2018	947,111	129,810	-	297,935	8,820	1,383,676
Depreciation	89,002	43,650	-	23,666	1,269	157,587
Reclassifications	-	-	-	(9,172)	9,172	-
Disposals	(66,976)	(47,952)	-	(29,202)	(155)	(144,285)
Currency translation differences	-	-	-	(2,358)	(940)	(3,298)
As at 31 December 2018	969,137	125,508	-	280,869	18,166	1,393,680
Net book value at 31 December 2018	1,539,951	68,271	246 788	71,238	1,883	1,928,132

Accumulated impairment that may qualify for reversal in a later period related to the Mobil drilling units Deepsea Atlantic and Deepsea Stavanger amount to USD 208 million at 31 December 2018.

	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Other fixed assets	Total fixed assets
Cost						
At 1 January 2017	2,540,212	221,731	-	375,059	13,398	3,150,401
Additions	17,017	6,466	-	4,672	247	28,401
Disposals	-	(9,701)	-	(3,298)	(4,487)	(17,486)
Currency translation differences	-	183	-	3,893	677	4,753
Cost as at 31 December 2017	2 557,229	218,679	-	380,327	9,835	3,166,069
Accumulated depreciation and impairment						
At 1 January 2017	859 248	96,839	-	270,032	11,529	1,237,648
Impairment loss	-	-	-	-	-	-
Depreciation	87,863	42,672	-	26,926	1,100	158,561
Disposals	-	(9,701)	-	(2,832)	(4,414)	(16,947)
Currency translation differences	-	(0)	-	3,809	606	4,414
As at 31 December 2017	947,111	129,810	-	297,935	8,820	1,383,676
Net book value at 31 December 2017	1,610,118	88,869	-	82,392	1,015	1,782,393
Useful lifetime	5 - 37.5 years	5 years		3 - 10 years	3 - 5 years	
Depreciation schedule	Straight line	Straight line		Straight line	Straight line	

Basis for depreciation/ allocation of expenditure
The total expenditures on the rigs Deepsea Bergen, Deepsea Atlantic, Deepsea Stavanger and Deepsea Aberdeen are allocated into groups of components that have different expected useful lifetimes. Periodic maintenance is one of the allocated components. The different groups of components are depreciated over their expected useful lifetimes.The main group of components is expected to have an economic useful lifetime of 30 years.

Deepsea Atlantic is depreciated using the straight line method from 4 August 2009. Deepsea Stavanger is also depreciated using the straight line method from 16 September 2010. Deepsea Aberdeen is depreciated using the straight line method from 21 April 2015.

Deepsea Bergen is depreciated using the straight line method.The main group of components are expected to have an economic useful lifetime of 37.5 years.

When calculating depreciation, estimated residual value is taken into consideration for all mobile offshore drilling units.

Impairment tests mobile drilling units
The Group has during 2018 identified impairment indicators for the MODU segment such as:
- Soft rig market in general
- Low rig rates

Due to identified impairment indicators for the MODU segment, the Group has conducted impairment tests for its mobile drilling units. Each mobile drilling units has been identified as seperate CGU's (Cash Generating Unit).

Odfjell Drilling performs impairment tests on a quartely basis whenever impairment indicators are identified. When evaluating the potential impairment of its mobile offshore drilling units, the Group has assessed each unit's recoverable amount. Please refer to Note 3 for further information about the estimates and judgements applied. 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 are 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, the Group has not identified any impairment for rigs, or reversal of previous impairment related to the 6G rigs Deepsea Atlantic and Deepsea Stavanger.

Mobile Drilling Unit (CGU)	Deepsea Atlantic	Deepsea Stavanger
Recoverable value (value in use) 31.12.2018	473,310	490,244

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

Key assumptions	Deepsea Atlantic	Deepsea Stavanger	Deepsea Aberdeen	Deepsea Bergen
	6G Semi	6G Semi	6G Semi	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 by	1 pp	10,000	10,000	-	1,000
- Financial utilisation in normalised period decreased by	2 pp	20,000	21,000	-	1,000
- Financial utilisation in normalised period decreased by	3 pp	29,000	31,000	-	2,000

(*) excluding firm contractual day rates

Drilling contract status as per 31 December 2018
Deepsea Atlantic is on a contract for Equinor on the Norwegian Continental Shelf. The drilling contract has a dayrate of USD 296 thousand and is a well based contract expected to end mid 2020. This contract is the first call off under the Master Frame Agreement with Equinor.

Deepsea Stavanger concluded its contract with Total in South Africa on 13 February 2019 and has commenced its current contract with Aker BP on the Norwegian Continental Shelf in April 2019. The dayrate is set to USD 279 thousand and has a firm duration of 12 months. This contract is the first call off under the Alliance Agreement with Aker BP.

Deepsea Bergen operated for Equinor until March 2019 on a day rate of approximately USD 170 thousand and thereafter moved to the UK continental shelf for a one well drilling contract for Ithaca which commenced early March 2019 at a day rate of USD 100 thousand. The unit will return to Norway for a one well contract with OMV commencing in Q2 2019 at a dayrate of USD 200 thousand followed by a one well contract with MOL, also in Norway, at a dayrate of USD 180 thousand. This will keep Deepsea Bergen in operations throughout 2019.

Deepsea Aberdeen is on a 7-year drilling contract which started in April 2015 with BP, West of Shetland. The drilling contract has a dayrate of GBP 77 thousand plus USD 330 thousand.

Deepsea Nordkapp was delivered from shipyard 7 January 2019 and is currently under mobilization to Norway. The unit is expected to commence its 2+1+1 year contract with Aker BP in Q2 2019. Dayrate for the first 12 months has been set at USD 300 thousand. The day rate shall be minimum USD 325 thousand in average over the firm period and will be measured after the firm period, including any exercised options, has finished.

Note 20 > Post-employment benefits

Pension obligations
The Group has occupational pension plans in several countries established partly as defined benefit plans (in Norway), partly as multi-employer defined benefit plans accounted for as defined contribution plans (in Norway) and partly as defined contribution plans (in Norway and other countries). The pension plans are measured and presented according to IAS 19.

A number of the Norwegian subsidiaries in the Group are required to have a civil service pension scheme according to the Norwegian Act relating to mandatory occupational pensions. These subsidiaries have pension schemes in accordance with the requirements in this Act.

Pension obligations
A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

Mortality index used in actuarial calculations is K2013.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plans
The Group has funded defined benefit pension schemes in six Norwegian companies covering a total of 438 active members and 73 pensioners as at 31 December 2018 (461 active members and 75 pensioners as at 31 December 2017). The scheme entitles employees to defined future benefits. These are mainly dependent on the number of years of service, the salary level at pensionable age and the size of benefits paid by the national insurance. The liabilities are covered through an insurance company.

In addition to the pension obligations that arises from the funded defined benefit plans, the Group's Norwegian companies have unfunded defined benefit obligations related to pensions and early retirement pensions. The early retirement pensions entitles staff to benefits (about NOK 97,000 a year) from the company from the age of 62 until they are eligible for a national insurance pension when reaching the age of 67, if they retire and meet requirement to receive CPA (see below).

The Group has contractual pension agreement (CPA) schemes in Norway established in multi-employer plans. These multi-employer plans are defined benefit plans, but the Group does not have access to the necessary information for the accounting years 2018 and 2017 required to account for these plans as defined benefit plans, and the plans are therefore accounted for as defined contribution plans.

In 2018 an unfunded pension scheme was settled, resulting in a gain of USD 6 millions, see table below.

Amounts recognised in the balance sheet:

USD thousands	2018	2017
Present value of funded obligations	45,585	44,713
Fair value of plan assets	37,687	34,772
Deficit of funded plans	7,898	9,940
Present value of unfunded obligations	2,036	8,144
Total deficit of defined benefit pension plans	**9,934**	**18,084**

Movement in the net defined benefit obligation over the years:

	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
USD thousands	2018	2018	2018	2017	2017	2017
At 1 January	**52,857**	**(34,772)**	**18,084**	**48,177**	**(30,623)**	**17,554**
Current service cost	3,880	-	3,880	3,981	-	3,981
Gains on plan amendment, curtailment and settlement	(6,244)	-	(6,244)	-	-	-
Interest expense/ (income)	1 121	(689)	432	1,052	(606)	446
Total amount recognised in profit or loss	**(1,242)**	**(689)**	**(1,932)**	**5,033**	**(606)**	**4,427**
Remeasurements:						
Loss from change in discount rate	(3,120)	-	(3,120)	(1,781)	-	(1,781)
Gain from change in other financial assumptions	4,174	(121)	4,053	3,355	(67)	3,288
Experience (gains)/loss	(25)	(1,836)	(1,861)	(2,015)	554	(1,461)
Investment management cost	-	306	306	-	304	304
Total amount recognised in other comprehensive income	**1,030**	**(1,652)**	**(622)**	**(441)**	**791**	**350**
Exchange differences	(2,715)	2,153	(562)	2,459	(1,577)	882
Contributions:						
Employers	(563)	(3,992)	(4,555)	(547)	(3,880)	(4,427)
Payments from plans:			-			-
Benefit payments	(1,324)	1,265	(59)	(1,824)	1,123	(701)
Settlements	(421)	-	(421)	-	-	-
At 31 December	**47,621**	**(37,687)**	**9,934**	**52,857**	**(34,772)**	**18,084**

The significant actuarial assumptions were as follows:	31.12.2018	31.12.2017
Discount rate	2.60 %	2.30 %
Salary growth rate	2.75 %	2.50 %
Expected growth in G (base social security amount)	2.50 %	2.25 %
Pension growth rate	0.8%-2.5%	0.4%-2.5%

The fair value of plan assets is disaggregated by class as follows	31.12.2018	31.12.2017
Shares	12 %	10 %
Alternative investments	0 %	0 %
Short term bonds	13 %	14 %
Money market	11 %	12 %
Long term bonds	29 %	40 %
Loans & Receivables	25 %	14 %
Real estate	9 %	10 %
Other	1 %	1 %

Estimated premium payments to funded defined benefit obligations in 2019 amounts to USD 4 million.

The sensitivity of the defined benefit obligation to changes in the weigthed principal assumptions are:

	Change in assumption by:	Impact on Present value of obligation:		Change in assumption by:	Impact on Present value of obligation:	
		2018	2017		2018	2017
Discount rate	+0.5%	(3,327)	(3,230)	-0.5%	3,699	3,558
Salary growth rate	+0.5%	2,833	2,756	- 0.5%	(3,072)	(2,943)
Pension growth rate	+0.5%	1,466	1,353	- 0.5%	(1,824)	(1,238)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practise, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Total pension expenses are decomposed as per below:

USD thousands	2018	2017
Pension expenses (-net gain) from defined benefit scheme included in personnel expenses	(2,364)	3,981
Pension expenses from defined contribution schemes	11,333	8,478
Pension expenses from multi-employer plans accounted for as defined contribution schemes	3,462	3,462
Total pension expenses included in personnel expenses	**12,431**	**15,921**

See also note 8 for further information regarding personnel expenses.

Note 21 > Share capital and shareholder information

Share capital and shareholders

	Number of shares	Nominal value	Book value
Listed shares			USD thousands
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 preferance 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-anually. 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 also 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. On 30 May 2024, any unexercised Warrants will, to the extent the thresholds have not been met, be exercisable on a linear prorata basis, subject to the company's share price being within the range of NOK 36 and NOK 107.50.

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.

Group Financial Statements

Largest common shareholders at 31 December 2017	Holding	% of total
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 shareholders	46,947,781	19.83 %
Total common shareholders	**236,783,202**	**100.00 %**

Note 22 > Other reserves

USD thousands	Note	Financial instruments	Translation differences	Share-Option plan	Acquisition non-controlling interests	Total
At 1 January 2017		(539)	(79,867)		(34,496)	(114,903)
Financial instruments, under hedge accounting		353	-		-	353
Currency translation difference - Group		-	9,531		-	9,531
At 31 December 2017		**(186)**	**(70,337)**		**(34,496)**	**(105,019)**
Financial instruments, under hedge accounting		186	-		-	186
Currency translation difference - Group		-	(5,597)		-	(5,597)
Cost of share-based option plan	32	-	-	288	-	288
At 31 December 2018		**-**	**(75,934)**	**288**	**(34,496)**	**(110,142)**

Group Financial Statements

Note 23 > Financial risk management

Financial risk factors
The Group is exposed to a range of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk.

The financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To some extent, the Group uses derivative financial instruments to reduce certain risk exposures.

Risk management is carried out on a Group level. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operational units. The board of Odfjell Drilling Ltd. has established written principles for risk management of foreign exchange risk, interest rate risk and use of derivative financial instruments.

a) Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities and to have sufficient cash or cash equivalents at any time to be able to finance its operations and investments in accordance with the Group's strategic plan.

With regular forecasts and liquidity analysis updates, the Group will ensure sufficient available liquidity to fulfill its duties at loan maturity, without unacceptable loss or risk of damaging the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's cash flow forecasting is performed by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times, so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group Treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The Group had one undrawn credit facility as of 31 December 2018. The USD 325 million credit facility was fully utilised on 4 January 2019 in relation to delivery of Deepsea Nordkapp. In addition, the USD 43.25 million seller's credit from Samsung was effective from delivery of Deepsea Nordkapp on 7 January 2019.

The liquidity risk is connected with the increased market risk and increased re-contracting risk for mobile drilling units. The management continuously focuses on securing new profitable contracts for the Group's mobile drilling units to generate sufficient cash flow from operations, hence reducing the liquidity risk going forward.

The Group has during the recent years conducted cost reduction programs such as reducing onshore manning and cost base, reducing investments and other cost reducing initiatives that has improved liquidity and reduced cost going forward, including better optimized working capital.

The Group's refinancing risk is diversified with each loan facility maturing at different times until January 2024. 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 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. Odfjell Drilling is currently working to conclude the re-financing of the two facilities ahead of the maturity dates.

The amended and extended Deepsea Bergen facility matures 30 September 2020, subject to termination options for the lenders, if the borrower is unable to document 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. See note 15 for further information about maturity.

b) Market risk
Market risk is the risk of a change in market prices and demand, as well as changes in currency exchange rates and interest levels.

The re-contracting risk for the Group's wholly owned mobile drilling units is limited in 2019, as all units in the fleet has medium to long-term contracts.

i) Rig rates
The Group has a drilling contract for Deepsea Atlantic with Equinor Energy AS at a fixed rate until mid 2020. The contract consists of a USD element and a NOK element. Equinor has options to extend within the Master Frame Agreement entered into in May 2018.

Deepsea Bergen has back-to-back drilling contracts with different oil companies through 2019. All but one contract includes a USD element and a NOK element. The currency exposure for the contract that contains no natural hedging has been hedged through currency forward contracts after year-end 2018.

After end of contract in South Africa in first quarter 2019, Deepsea Stavanger will return to Norway for a 12 months operation with Aker BP at a fixed rate. This contract consists of a USD element and a NOK element.

The Group has a long-term contract with BP for Deepsea Aberdeen which ends in 2022. The rate consists of a USD element and a GBP element, the latter is being annually escalated to reflect the increased costs of staffing and maintenance.

ii) Foreign exchange risk
The consolidated material subsidaries' reporting and functional currencies are USD, NOK, GBP and EUR.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and NOK. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The group is exposed to risks due to fluctuations in exchange rates, especially as charter contracts are normally in USD while most of the operating expenses are in local currency.

If USD is weakened by 10 % against NOK on the balance-sheet date, we can expect the following effect on profit before tax in USD thousands:

	2018	2017
Current receivables	3,609	6,251
Cash	4,220	6,512
Current liabilities	(8,958)	(10,780)
Net effect on profit before tax	**(1,129)**	**1,983**

The Group had no foreign exchange contracts at 31 December 2018. Quoted mark-to-market values from financial institutions are used to determine the fair value of the foreign exchange contracts at the beginning of and during the year. The fair value of the foreign exchange contracts is confirmed by the financial institution with which the company has entered into the agreements.
During 2018 a gain of USD 0.2 million was recognised as other comprehensive income relating to foreign exchange contracts qualified for hedge accounting, compared to a gain of USD 0.6 million in 2017.

iii) Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations at floating interest rates. The Group evaluates the share of interest rate hedging based on assessment of the Group's total interest rate risk and currently has a combination of fixed and floating interest rates in order to limit exposure.

The Group had one interest rate swap agreement at 31 December 2018. Estimated fair value calculations from external financial institutions have been used to determine the fair value of the swap agreement at the end of the year. The fair value of the interest swap agreement is confirmed by the financial institution with which the company has entered into the agreement. During 2018 a gain from change in estimated fair values of interest rate swaps were recognised at USD 0.2 million in the income statement as compared to a gain of USD 0.5 million in 2017.

The Group monitors its interest rate exposure on a dynamic basis. The Group calculates the impact on profit and loss of a defined interest rate shift.
The result of the calculation on sensitivities returns the following expected values (incl. interest rate swaps):
- If interest is increased by 1.0 %, the effect will be an increase in financing costs of USD 9.8 million for 2018, compared to USD 10.8 million for 2017

c) Credit risk
The Group operates in three core business areas: Mobile offshore drilling units; (MODU), Drilling & Technology and Well Services (OWS). The market for the Group's services is the offshore oil and gas industry, and the customers consist primarily of major integrated oil companies, independent oil and gas producers and government owned oil companies. The Group performs ongoing credit evaluations of the customers and generally does not request material collateral. Reserves for potential credit losses are maintained when necessary. With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, marketable securities, other receivables and certain derivatives instruments receivable amount, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, the Group believes this risk is limited as the counterparties mainly have a high credit quality.

During 2018, the Group has continued high focus on credit risk in general related to the uncertain conditions in some geographical markets. The maximum exposure regarding trade receivables is the carrying amount of USD 103 million.

See further information about credit risk and loss allowances in note 11.

Note 24 > Capital disclosures

Capital Management
The primary objective of the Group`s capital management is to ensure that it maintains required capital ratios and liquidity available to support the business areas. Capital management should be such that the capital structure is sufficiently robust to withstand prolonged adverse conditions in significant risk factors, such as long-term down-cycles in our markets and unfavourable conditions in financial markets. Capital management also comprise securing the company to be in compliance with covenants on interest bearing debt. Reference is made to Note 15 which disclose information about covenants on long term interest bearing liabilities.

The Group will manage the capital structure and make adjustments to it, to maintain an optimal structure adapted to current economic conditions. In order to maintain or adjust the capital structure, the Group may adjust dividend payments, buy treasury shares, return capital to shareholders or issue new shares.

Deposits / placements
The liquidity management has four main objectives:
- Matching of surplus funds against borrowing requirements.
- Secure a high level of liquidity (a targeted minimum of two months cash flow) in order to meet future plans of the Odfjell Drilling.
- Limitation of credit risks.
- Maximise return on liquid assets.

Accordingly, investments may only be made in securities with a rating of Investment grade, BAA (Moodys) , BBB- (Standard and Poors and Fitch IBCA) or better.

For companies not rated by international rating bureaus, investments may be made in accordance with DNB's rating BBB or better.

A list of counter party exposure limits is reported to the Board of Odfjell Drilling on a yearly basis.

The following instruments are allowed for short term placements;
- Deposits in banks
- Loans to companies/institutions/funds (like fixed or floating rate bonds, senior or subordinated debt)
- Certificates
- Money-market funds

Working Capital
The company's policy is to have working capital corresponding to two months' operating expenses.

Interest Rate Risk
The Board of Directors is on a quarterly basis considering the interest payment hedging of the external financing and mandate administation to execute necessary changes.

	2018	2017
Equity	1,023,673	767,057
Total assets	2,276,345	2,138,228
Equity ratio	**45 %**	**36 %**
Cash and cash equivalents excl.restricted capital	141,750	136,904
Available drawing facilities, see note 15	325,000	-
Total available liquidity	**466,750**	**136,904**

Note 25 > Contingencies

See note 21 regarding outstanding warrants.
There are no other material contingencies to be disclosed as at 31 December 2018.

Note 26 > Commitments

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

USD thousands	2018	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.

Operating lease commitments
The Group leases various offices under operating lease arrangements. The lease terms are between 1 and 12 years, and the majority of the lease arrangements are renewable at the end of the lease period at market rates.

In addition the Group has operating lease commitments related to equipment etc. with lease terms between 1 and 5 years.

The future aggregate minimum lease payments under operating leases are as follows:

USD thousands	2018	2017
No later than 1 year	8,859	8,130
Later than 1 year and no later than 5 years	23,184	22,648
Later than 5 years	29,155	35,770
Total	**61,198**	**66,548**

Note 27 > Events after the reporting period

The following material events have occurred after balance date:

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 plus 1 +1 year contract with Aker BP. 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.

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

Note 28 > Interests in other entities - Material subsidiaries

The group's principal subsidiaries at 31 December 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group.

Name of entity	Country of incorporation	Principal place of business	Functional currency	Ownership interest held by group - %		Principal activities
				2018	2017	
Odfjell Rig Owning Ltd.	Bermuda	UK	USD	100	100	Holding company
- Odfjell Invest Ltd.	Bermuda	UK	USD	100	100	Holding company
-- Deep Sea Atlantic (UK) Ltd.	UK	United Arab Emirates	USD	100	100	Rig owning
-- Deep Sea Stavanger (UK) Ltd.	UK	United Arab Emirates	USD	100	100	Rig owning
- Odfjell Rig II Ltd.	Bermuda	United Arab Emirates	USD	100	100	Rig owning
- Odfjell Rig III Ltd.	Bermuda	UK	USD	100	100	Holding company / Previous rig owning
-- Odfjell Drilling Shetland Ltd.	UK	United Arab Emirates / UK	USD	100	100	Rig owning / Drilling operations
- Odfjell Rig V Ltd.	UK	United Arab Emirates	USD	100	-	Rig owning
- Odfjell Drilling AS	Norway	Norway	NOK	100	100	Management
-- Deep Sea Management AS	Norway	Norway	NOK	100	100	Crewing
-- Odfjell Invest AS	Norway	Norway	NOK	100	100	Drilling operations
-- Deep Sea Drilling Company I AS	Norway	Norway	NOK	100	100	Drilling operations
-- Odfjell Invest II AS	Norway	Norway	NOK	100	-	Drilling operations
-- Deep Sea Management International AS	Norway	Norway	USD	100	100	Crewing
Odfjell Drilling Services Ltd.	Bermuda	UK	USD	100	100	Holding company
- Odfjell Platform Drilling AS	Norway	Norway	NOK	100	100	Drilling operation and maintenance of fixed installations
-- Odfjell Drilling Management AS	Norway	Norway	NOK	100	100	
-- Odfjell Drilling (UK) Ltd.	UK	UK	GBP	100	100	
- Odfjell Partners Invest Ltd.	Bermuda	United Arab Emirates	USD	100	100	Holding company / Well services equipment owner
-- Odfjell Well Services II Ltd.	Bermuda	Kurdistan	USD	100	100	Well services
-- Odfjell Well Services Cooperatief U.A.	Netherlands	Europe	EUR	100	100	Well services
--- Odfjell Well Services SRL	Romania	Europe	RON	100	100	Well services
-- Odfjell Well Service (UK) Ltd.	UK	UK	GBP	100	100	Well services
-- Odfjell Well Services Norway AS	Norway	Norway	NOK	100	100	Well services
-- Odfjell Well Services AS	Norway	Norway	NOK	100	100	Well services
-- Odfjell Well Services Ltd.	British Virgin Islands	United Arab Emirates	USD	100	100	Well services
- Odfjell Drilling Technology Ltd.	Bermuda	UK	USD	100	100	Holding company
-- Odfjell Drilling Technology AS	Norway	Norway	NOK	100	100	Engineering
-- Odfjell Drilling Philippines Corporation	Philippines	Philippines	PHP	100	100	Group Business Services
Odfjell Global Business Services AS	Norway	Norway	NOK	100	100	Group Business Services
Odfjell Offshore Ltd.	Bermuda	Norway	USD	100	100	Holding company

Note 29 > Investments in joint ventures and associates

USD thousands	2018			
Joint ventures and associates	Guarapari Drilling BV	Itaoca Drilling BV	Siri Drilling BV	Total
Book value of equity at 01.01.2018	-	-	-	-
Book value of equity at 31.12.2018	-	-	-	-
Interest held at 31.12.2018	20 %	20 %	20 %	
Total share of profit / loss from joint ventures	-	-	-	-

USD thousands	2017					
Joint ventures and associates	Deep Sea Metro Ltd.	Guarapari Drilling BV	Itaoca Drilling BV	Siri Drilling BV	Robotic Drilling Systems AS	Total
Book value of equity at 01.01.2017	-	-	-	-	8,217	8,217
Share of profits	-	-	-	-	(1,485)	(1,485)
Divestments during the year	-	-	-	-	(8,755)	(8,755)
Currency translation differences	-	-	-	-	2,024	2,024
Book value of equity at 31.12.2017	-	-	-	-	-	-
Interest held at 31.12.2016	0%	20%	20%	20%	0%	
Share of profit/loss from joint ventures classified as operating	-	-	-	-	-	-
Share of profit/loss from joint ventures other	-	-	-	-	(1,485)	(1,485)
Total share of profit / loss from joint ventures	-	-	-	-	**(1,485)**	**(1,485)**

Profit or loss, aggregated assets and liabilities in its joint ventures, are as follows:

USD thousands	2018			
	Guarapari Drilling BV	Itaoca Drilling BV	Siri Drilling BV	Total
Assets	12,007	8,559	49	20,615
Liabilities	626,355	259,004	205,299	1,090,657
Revenues	-	-	-	-
Profit / (Loss)	(33,349)	(15,899)	(8,802)	(58,050)

USD thousands	2017			
	Guarapari Drilling BV	Itaoca Drilling BV	Siri Drilling BV	Total
Assets	12,393	10,399	87	22,879
Liabilities	593,392	244,944	196,533	1,034,869
Revenues	-	-	-	-
Profit / (Loss)	(47,111)	(23,341)	(20,697)	(91,149)

Deep Sea Metro Ltd. Group - Divested 14 December 2017
Deep Sea Metro Ltd. Group was up until March 2017 controlled by Odfjell Offshore Ltd., (40%) and bond holders (60%) and managed by the joint venture agreement signed in 2008. Deep Sea Metro Ltd., is incorporated in Bermuda. As part of a larger restructuring of Golden Close Maritime Corp. Ltd. ("Golden"), the owner of Deepsea Metro I, Deep Sea Metro Ltd.'s ownership in Golden was diluted to approximately 0.0022%, effective from 29 March 2017. In December 2017 Deep Sea Metro Ltd. purchased Odfjell Drilling's shares in the company, thereby terminating Odfjell Drilling's ownership in Deep Sea Metro Ltd.

Single Purpose Companies (SPC's)
Guarapari Drilling BV, Itaoca Drilling BV and Siri Drilling BV are all SPC's related to the Sete newbuild projects in Brazil. The Group has a owner share of 20% in each SPC. See further comments below.

Odfjell Drilling Brasil BV and SPC's
In June 2015 the Group increased its investment in Odfjell Drilling Brasil BV to 100 % with the purchase of the remaining 50 % of the outstanding shares from Galvão Oil & Gas Holding for EUR 1. The now wholly owned company is affected by the risk and uncertainty related to the UDW newbuild program in Brazil. Odfjell Drilling Brasil BV has suspended further equity contributions into the Sete newbuild projects until the future for this program is settled.

The estimate for the value of the investments in the SPC's., recognised as per 31 December 2018, is USD 0 million. The Group's investments in the SPC's. are recognised in the financial statements with management's best estimate for the value of the investments. Management has included the uncertainties and risk, liquidity and financial position of the SPC's when assessing the estimate of the investment in SPC's.

The Group has no obligation to further finance the SPC's.

Robotic Drilling Systems AS - Divested 31 August 2017
The shareholders of RDS entered at 31 August 2017 into an agreement to sell all shares in RDS to Nabors Industries. As consideration for the shares, Odfjell Drilling received USD 18 million. The transaction generated a gain of USD 9 million presented as "Other gains and losses" in the consolidated income statement.

Note 30 > Related parties - transactions, receivables, liabilities and commitments

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.
Susanne Munch Thore (Director) controls 3,000 (0.00%) of the common shares in the company as per 31 December 2018.
Simen Lieungh (CEO in Odfjell Drilling AS) controls 952,381 (0.40%) of the common shares in the company as per 31 December 2018.
See note 32 for information about the long term incentive share option programme with Simen Lieungh, CEO in Odfjell Drilling AS.

The Group had the following material transactions with related parties:

USD thousands	2018	2017
Sales of services:		
- Robotic Drilling System AS (divested 31 August 2017)	-	20
- Deep Sea Metro Ltd. Group (divested 14 December 2017)	-	3,770
Total	**-**	**3,791**
Operating expenses:		
- Kokstad Holding AS group (related to main share holder)	6,293	6,392
Total	**6,293**	**6,392**

At 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 table above.

Key management compensation
Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown in Note 31- Remuneration.

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

USD thousands	2018	2017
Current receivables:		
- Kokstad Holding AS group (related to main share holder)	-	647
Total	**-**	**647**

Commitments towards related parties:
The Group leases various offices under operating lease agreements. The lease terms are between 1 and 12 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under operating leases with related parties are as follows:

USD thousands	2018	2017
No later than 1 year	5,301	7,685
Later than 1 year and no later than 5 years	16,108	22,506
Later than 5 years	26,914	35,770
Total	**48,323**	**65,962**

Note 31 > Remuneration to the Board of Directors and key executive management

	Simen Lieungh CEO - Odfjell Drilling AS		Atle Sæbø CFO - Odfjell Drilling AS		Total	
USD thousands	2018	2017	2018	2017	2018	2017
Salary	672	607	313	303	985	910
Bonus	246	121	184	60	430	181
Pension premium	11	12	20	18	31	30
Other remuneration	76	46	23	21	99	67
Total	**1,005**	**785**	**540**	**402**	**1,545**	**1,188**

Board of non executive directors:

USD thousands	2018	2017
Carl-Erik Haavaldsen	58	57
Helene Odfjell	28	27
Kirk L. Davis	28	27
Henry Hamilton III	28	27
Bengt Lie Hansen	28	27
Total remuneration paid during the year	**169**	**166**

Note 32 > Share-based payments

Accounting principle
The company have a long term equity settled incentive share option programme with the CEO of Odfjell Drilling AS, in which the employee receive remuneration in the form of share-based payment for services rendered.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details below.

That cost is recognised in personnel expenses together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Details regarding share option programme:
The company entered at 16 May 2018 into a long term incentive share option programme with the CEO of 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.

Overview of outstanding options:

USD thousands	2018	2017
Outstanding options 1.1	-	-
Options granted	960,000	-
Options forfeited	-	-
Options exercised	-	-
Options expired	-	-
Outstanding options 31.12	**960,000**	**-**
Of which exercisable	-	-

The fair value of the options has been calculated using Black & Scholes option-pricing model. The average fair value of the options granted (including amendment) in 2018 is NOK 17.61. The total cost of the share option plan and the amendment to the share option plan is calculated based on the fair value x options granted. The total cost equals approximately USD 2 million and is recognised over the period untill May 2022.

The calculations are based on the following assumptions:
-The share price on the grant dates were set to the stock exchane price on the grant dates (16 May 2018 and 19 November 2018).
-The strike price per option was NOK 36 for the 16 May 2018 grant and NOK 26.65 for the 19 November amendment.
-The expected price volatility of the company's shares was set to 40% based on historical volatility adjusted for expected changes.
-The expiry date was set to 16 May 2023.
-The expected dividend yield was set to 0%.
-The risk-free interest rate was set to 1.899% for the 16 May 2018 grant and 1.911% for the 19 November 2018 adjustment.

Note 33 > 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.

The Company has issued warrants for 5,925,000 common shares, see further description in Note 21, and has in addition a share option plan for 960,000 common shares, see further description in Note 32. The warrants represent contingently issuable shares.

Neither the warrants nor the options affect the basic or dilluted number of shares in 2017 or 2018, as the terms of execution have not occured during the years and the share price is below level set in the warrant agreement.

The warrants and share option plan may have dillutive effects in later periods.

Overview of outstanding options:

USD thousands	2018	2017
Profit/(loss) for the period	27,350	35,353
Adjustment for dividends on preference shares	(4,418)	-
Profit/(loss) for the period due to holders of common shares	**22,932**	**35,353**
Adjustment related to warrants and share option plan	-	-
Diluted profit/(loss) for the periode due to the holders of common shares	**22,932**	**35,353**

USD thousands	2018	2017
Weighted average number of common shares in issue	222,599,942	198,736,900
Effects of dilutive potential common shares:		
Warrants	-	-
Share option plan	-	-
Diluted average number of shares outstanding	**222,599,942**	**198,736,900**
Basic earnings per share	**0.10**	**0.18**
Diluted earnings per share	**0.10**	**0.18**

Group Financial Statements

Note 34 > Accounting principles

General information
Odfjell Drilling Ltd., and its subsidiaries (together 'the Group') operates 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, United Kingdom. The company is as a consequence of this migration a resident of United Kingdom.

Basis of preparation
The consolidated financial statements of the Group for the year ended 31 December 2018 comply with IFRS as endorsed by EU.

The consolidated financial statements ended 31 December 2018 comprise the income statement, statement of comprehensive income, statement of financial position, statement of cash flow, statement of changes in equity and note disclosures.

Going concern
The Group has adopted the going concern basis in preparing its consolidated financial statements. The assessment regarding the going concern assumption is disclosed in note 3.

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, debt and equity financial assets , plan assets in defined benefit pension plans and contingent consideration that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

New and amended standards and interpretations effective after 1 January 2018 that have been adopted by the Group
- IFRS 15 *Revenue from contracts with customers,*
- IFRS 9 *Financial instruments*
- *Classification and Measurement of Share-based Payment Transactions – Amendments* to IFRS 2
- *Annual Improvements 2014-2016 cycle*
- *Transfers to Investment Property – Amendments to IAS 40*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. This is disclosed in note 2
The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases
IFRS 16 was issued in January 2016. 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 exeptions 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, see note 26. 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.

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.

The group's activities as a lessor relates mainly to some rental services provided by Well Services segment. The group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are all entities over which the group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including power to govern the financial and operating policies .The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Material subsidiaries are listed in Note 28.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may indicate that amounts previously recognised in other comprehensive income are reclassified to profit or loss. Any investment retained is recognised at fair value. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The consideration transferred for the aquisition of a subsidiary are the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquistion date carrying value of the acquirer's previously held equity interest in the acquiree is adjusted to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Goodwill is initially measured as the excess of the aggregate consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Associates
Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

Joint ventures
Joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquistion.

Segment reporting
Operating segments are reported in a manner consistent with the internal financial reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board.

Foreign currency translation

(a) Functional and presentation currency
Items included in the separate financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in USD (in thousands), which is the Group's presentation currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the monthly exchange rates for the month the transactions are recognised. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.
Foreign exchange gains and losses are presented in the income statement within 'other financial items'.

(c) Group companies
The results and financial position of all the Group's entities that have a functional currency different from the presentation currency (USD) are translated into the presentation currency as follows:
- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The following are the most significant exchange rates used:

	Average rate		Closing rate as at 31.12	
	2018	2017	2018	2017
NOK	0.12293	0.12087	0.11509	0.12188
GBP	1.33408	1.28773	1.28000	1.35174
EUR	1.18045	1.12802	1.14500	1.19931

Current versus non-current classification
The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.
An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period , or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period , or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.
Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability , or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Revenue recognition
The group has applied FRS 15 using a modified retrospective approach for adoption. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

(a) Accounting policies applied until 31 December 2017
Revenue was measured at the fair value of the consideration received or receivable. Revenue was stated net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognised revenue when the amount of revenue could be reliably measured, it was probable that future economic benefits will flow to the entity and when specific criteria had been met for each of the Group's activities as described below.
The Group based its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group's revenues derived from day-rate based drilling contracts and day-rates from management drilling contracts and other service contracts. Revenue from management drilling contracts and other service contracts was recognised when the services were performed and at the rates specified in the contracts.

Day-rate based drilling contracts sometimes included lump sum fees for mobilisation and demobilisation. Both day-rate based and lump sum fee revenues were recognised ratably over the contract period when services were rendered. Under some contracts, the Group was entitled to additional payments for exceeding performance targets. Such additional payments were recognised when any uncertainties were resolved or upon completion of the drilling program.

Mobilisation costs incurred as part of a contract were capitalised as receivable and recognised as expense over the contract term, excluding option periods not exercised.

(b) Accounting policies applied from 1 January 2018
Revenue is measured based on the consideration specified in a contract with 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.

Day-rate based drilling contracts may include lump sum fees for mobilisation and demobilisation. These fees are recognised as revenue when control over the service is transferred to the customer, i.e. during the actual drilling period.

Sometimes, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Mobilisation costs and other costs incurred in fulfilling a contract are capitalised as Assets from contract costs and amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue.

The Group will, as a practical expedient in IFRS, recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Contract balances

(a) Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

(b) Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).
Both contract assets and trade receivables are financial assets and are recognised and measured according to accounting policies for Financial instruments , see below.

(c) Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Intangible assets
Goodwill arises on the acquistion of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Software assets are stated at their historical cost less depreciation. Historical cost includes the purchase price and any directly attributable costs of bringing the asset to working condition. The estimated economical lifetime of the acquired software is 7 years.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment
Property, plant and equipment comprise mainly of mobile offshore drilling units, well services equipment and machinery and equipment.
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes its purchase price, any directly attributable costs of bringing the asset to working condition and borrowing costs.

Depreciation is calculated on a straight-line basis over the useful life of the asset or component. Depreciable amount equals historical cost less residual value. Items of property, plant and equipment with components that have substantially different useful lives are treated separately for depreciation purposes.

Subsequent costs for day-to-day repairs and maintenance are expensed as incurred.

The cost of modernisation and rebuilding projects is included in the asset's carrying amount when it is probable that the Group will derive future financial benefits and the cost of the item can be measured reliably. The carrying amount of the replaced part is written off. Modernisation and rebuilding projects are depreciated over the remaining useful life of the related assets.

The useful lives of assets and the depreciation methods are reviewed periodically in order to ensure that the method and period of depreciation are consistent with the expected pattern of financial benefits from the asset.

When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement as gain on sale of assets.

Residual values for mobile offshore drilling units are determined based on the estimated second hand prices for mobile drilling units after a 30 year useful lifetime. Any changes are accounted for prospectively as a change in the accounting estimate. The estimated useful life of the rig could change, resulting in different depreciation amounts in the future. Residual values for other property, plant and equipment are estimated to be 0.

Rig and equipment are depreciated over a period of 5 - 37.5 years. Periodic maintenance is depreciated over the expected period until next docking, estimated to 5 years.
Estimated useful life for operating drilling equipment is 3 - 10 years.

Newbuild in progress
Newbuildings under construction are capitalised as fixed assets during the construction as installments are paid to the yard.

Group Financial Statements

Capitalised costs include interest expenses until commencement on first contract, contractual costs and costs related to the monitoring of the project during the construction period. Contractual costs include costs related to the project for the duration of the contract, i.e. from signing of the contract to final completion of the contractual work. Any costs incurred prior to the signing of the contract that relate to the procurement of the contract are regarded as a purchase of contractual assistance and are included in contractual costs.

Impairment of non-financial assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to accounting policy for *Fair value measurement* for assessment of fair value.
Value in use represents the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the CGU. For mobile offshore drilling units, each unit is deemed to be a CGU.

The value in use is determined on the basis of the total estimated discounted cash flow, excluding financing expenses and taxes. In determining impairment of mobile offshore drilling units and other fixed assets, the management must make judgements and estimates to determine whether the discounted cash flows generated by those assets are less than their carrying amount, including determining the appropriate discount rate to be used.

The data necessary for the execution of the impairment test are based on management's estimates of discount rate (WACC), future cash flows, which require estimates to be made for future day rates, utilisation and profit margins.

The assumptions used in estimating these cash flows are consistent with internal forecasts. Market outlook and day rate considerations provided by an independent third party are used to support management's estimates. These considerations are mainly based on the oil price.

Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The group has applied IFRS 9 retrospeactively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

(a) Accounting policies applied until 31 December 2017

Until 31 December 2017, the Group classied financial assets in the following categories:
trading financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Management determined the classification of financial assets at their initial recognition.

Financial assets were recognised at fair value. Transaction cost were expensed in the income statement. Derivatives were placed in this category unless designated as hedges.

Available-for-sale financial assets were non-derivatives that are either designated in this category or not classified in any of the other categories. They were included in non-current assets unless the investment matures or management intended to dispose of it within 12 months of the end of the reporting period.

Loans and receivables were non-derivative financial assets with fixed or determinable payments which were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the balance sheet date, which were classified as non-current assets.

Loans and receivables were recognised initially at their fair value plus transaction costs. Financial assets were derecognised when the contractual rights to the cash flows from the financial assets expired or were transferred.

Realised gains and losses that arose from financial assets not designated for hedging, were recognised in the income statement as finance income in the period they occured.

For assets carried at amortised cost, the Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation, and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

For loans and receivables category, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occuring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the consolidated income statement.

Derivatives were recognised at fair value on the date a derivative contract was entered into and were subsequently re-measured on a continuous basis at their fair value. The method of recognising the resulting gain or loss depended on whether the derivative was designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designated certain derivatives as hedges of highly probable forecast transactions (cash-flow hedges). At the date of the hedging transaction, the Group documented the relationship between hedging instruments and hedged items, as well as the object of its risk management and the strategy underlying the various hedge transactions. The Group also documented the extent to which the derivatives used were effective in smoothing the changes in fair value or cash flow associated with the hedge items. Such assessments were documented both initially and on an ongoing basis.

The effective portion of changes in the fair value of derivatives designated as cash-flow hedges were recognised in other comprehensive income (net of tax). Gain and loss on the ineffective portion was recognised immediately in the income statement.

Amounts recognised directly in other comprehensive income were reclassified as income or expense in the income statement in the period when the hedged liability or planned transaction affected the income statement.

When a hedging instrument expired or was sold, or when a hedge no longer met the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remained in equity and was reclassified when the forecast transaction was ultimately recognised in the income statement. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to the income statement within financial income/expenses.

(b) Accounting policies applied from 1 January 2018

(1) Financial assets

The Group classify financial assets in the following categories:
- amortised cost,
- financial assets at fair value through profit or loss (FVPL),
- financial assets at fair value through other comprehensive income (FVOCI)

Management determines the classification of financial assets at their initial recognition.

Derivatives are valued at fair value through profit or loss (FVPL) unless designated as hedges.

Debt instruments like loans and receivables held to receive payment of principal and interest are valued at amortised costs. The group has applied the practical expedient under IFRS 9 and are measuring the initial recognition of trade receivables at the transaction price determined under IFRS 15.

Debt instruments like bonds held to receive profit from sale in addition to interest are valued at fair value through profit and loss (FVPL).

Equity instruments like investments in shares are valued at fair value through profit and loss (FVPL).

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in in the income statement in the period they occur.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred. Realised gains and losses arise from financial assets not designated for hedging, are recognised in the income statement as financial item in the period they occur.

(2) Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:
- Note 11 > Trade receivables and contract assets

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(3) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at :
- fair value through profit or loss,
- loans and borrowings,
- payables, or as
- derivatives designated as hedging instruments in an effective hedge.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

The Group's financial liabilities at fair value through profit or loss include derivative financial instruments not designated as hedging instruments in hegde relationship as defined by IFRS 9.

The loans and borrowings category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Refer to further information below under *Borrowings*.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(5) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively.

Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured on a continuous basis at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of highly probable forecast transactions (cash-flow hedges). At the date of the hedging transaction, the Group 's documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted

Group Financial Statements

for, as described below:
The effective portion of the gain or loss on the cash flow hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement . The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts recognised directly in other comprehensive income are reclassified as income or expense in the income statement in the period when the hedged liability or planned transaction will affect the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial income/expenses.

Current and deferred income tax, withholding tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Withholding tax is the tax withheld on border-crossing gross income, generated in 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.

Spare parts

Spare parts are stated at the lower of cost and net realisable value. Cost is attributed using the first-in, first-out (FIFO) method. The costs of spare parts comprise the purchase price, import duties and other taxes, transport and handling and other costs directly attributable to the acquisition of the goods. Trade discounts, rebates and other similar items are deducted in determing cost.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other current highly-liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under borrowings in current liabilities in the balance sheet.

Borrowings

Borrowings are financial liabilities recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Also refer to accounting policies above regarding *Financial liabilities*.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are financial liabilities recognised initially at fair value and subsequently measured at face value, due to short time to maturity. Also refer to accounting policies above regarding Financial liabilities.

Leases

Leases are classified as either finance leases or as operating leases. Leases that transfer substantially all the risks and rewards incidental to the asset areclassified as finance leases. Other leases are classified as operating leases.

When the Group is lessee in a finance lease, the leased asset and the liabilityrelated to the lease is recognised in the balance sheet. Depreciable leased assets are depreciated systematically over the useful life of the asset. Lease payments are apportioned between interest expense and reduction of the liability.

Lease payments related to operating leases are recognised as an expense over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions, contingent liabilities and contingent assets

A provision is recognised when an obligation exists (legal or constructive) as a result of a past event, it is probable that an economic settlement will be required as a consequence of the obligation, and a reliable estimate can be made of the amount of the obligation.

The best estimate of the expenditure required to settle the obligation is recognised as a provision. When the effect is material, the provision is discounted using a market based pre-tax discount rate.

A provision for restructuring costs is recognised when a constructive obligation arises. Such an obligation is assumed to have arisen when the restructuring plan is approved and the implementation of the plan has begun or its main features are announced to those affected by it.

Contingent liabilities and contingent assets are not recognised. Contingent liabilities are disclosed unless the possibility of an economic settlement as a consequence of the obligation is remote. Contingent assets are disclosed where an economic settlement as a consequence of the asset is probable.

Post-employment benefits

Refer to Note 20 *Post-employment benefits*.

Share-based payments

Refer to Note 32 *Share-based payments*.

Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity .

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Statement of cash flows

The statement of cash flows is prepared under the indirect method. Cash and cash equivalents include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

Parent Company Financial Statements

ANNUAL REPORT 18

Income Statement for the year ended 31 December

USD thousands	Note	2018	2017
Other operating expenses	2	(2,000)	(1,581)
Total operating expenses		**(2,000)**	**(1,581)**
Operating profit / loss (EBIT)		**(2,000)**	**(1,581)**
Interest income		222	1
Interest income from subsidiaries	6,9	35,385	33,729
Dividends from subsidiaries	9	125,148	-
Other financial income	8,9	4,083	4,609
Interest expenses subsidiaries	6,9	(26,001)	(21,632)
Impairment / reversal of impairment of investments in subsidiaries	5	37,929	-
Other financial expenses	8	(4,631)	(181)
Net financial items		**172,134**	**16,526**
Profit / loss before tax		**170,135**	**14,945**
Income tax (expense) / income	11	-	-
Profit / loss for the period		**170,135**	**14,945**
Allocation of year result:			
Transferred to / (from) other equity	3	170,135	14,945
Total allocated		**170,135**	**14,945**

Statement of Financial Position

USD thousands	Note	31.12.2018	31.12.2017
Assets			
Investments in subsidiaries	5	1,076,071	588,142
Non-current receivables subsidiaries	6	297 443	506,104
Total non-current assets		**1,373,514**	**1,094,246**
Other current receivables		31	113
Other current receivables subsidiaries	6	16,881	6
Cash and cash equivalents	7	17,426	599
Total current assets		**34,338**	**718**
Total assets		**1,407,852**	**1 094,964**
Equity and liabilities			
Share capital	3,4	2,529	1,987
Other contributed capital	3	562,430	326,853
Other equity	3	476,803	308,590
Total equity		**1,041,762**	**637,431**
Non-current liabilites subsidiaries	6,9	359,935	8,692
Total non-current liabilities		**359,935**	**8,692**
Other current liabilities		5,995	172
Current liabilities subsidiaries	6	-	448,528
Trade payables		159	142
Total current liabilities		**6,154**	**448,842**
Total liabilities		**366,089**	**457,534**
Total equity and liabilities		**1,407,852**	**1,094,964**

The Board of Odfjell Drilling Ltd - 26 April 2019, London, United Kingdom

Helene Odfjell
Chairman

Susanne Munch Thore
Director

Thomas Marsoner
Director

Alasdair Shiach
Director

Statement of Cash Flow for the year ended 31 December

USD thousands	Note	2018	2017
Cashflow from operating activities:			
Profit/(loss) before tax		170,135	14,945
Adjustments for:			
Cost of Share-option plan		288	-
Impairment / reversal of impairment of investments in subsidiaries	5	(37,929)	-
Net currency loss / (gain) not related to operating activities		3,814	(24)
Income from subsidiaries	9	(124,000)	-
Other provisions and adjustements for non-cash items		(12,058)	-
Changes in working capital:			
Trade payables		17	124
Other accruals and current receivables /payables		5,912	(60)
Net cash flow from operating activities		**6,179**	**14,985**
Cash flows from investing activities:			
Net cash flow (outflow) current intercompany receivables		(221,276)	-
Net payments to subsidiaries, non-current receivables		-	(45,010)
Net cash flow from investing activities		**(221,276)**	**(45,010)**
Cash flows from financing activities:			
Net proceeds (payments) borrowing facilities from subsidiaries		1,829	29,991
Net proceeds from capital increases		236,118	
Dividends paid to preference share holders		(2,209)	-
Net cash from financing activities		**235,739**	**29,991**
Exchange gains/(losses) on cash and cash equivalents		(3,814)	24
Net change in cash and cash equivalents		**16,827**	**(10)**
Cash and cash equivalents at 01.01		599	609
Cash and cash equivalents at 31.12		**17,426**	**599**

Note 1 > Accounting principles

All amounts are in USD thousands unless otherwise stated.

The financial statements have been prepared on the basis of the going concern assumption.

The accounting information includes income statement, statement of financial position, notes and statement of cashflow.

The accounts are prepared in accordance with Norwegian GAAP. Figures are reported in USD. The company's registered address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Since migration of the company to United Kingdom 11 December 2018, the residential address of the company is Bergen House, Crawpeel Road, Altens, Aberdeen, United Kingdom.

Recognition of income
The company is a single purpose company with the only interest of owning its shares in subsidiaries. Any dividend received or other financial income are recognised as financial income.

Classification of balance sheet items
Assets identified as being permanently owned or used, are classified as non-current assets. Other assets are classified as current assets. Liabilities due more than one year after they are incurred are classified as non-current liabilities. First year instalment on long-term loans are classified as current liabilities. Liabilities due less than one year after being incurred are classified as current liabilities.

Accounts receivable
Trade debtors and other receivables are accounted for at net value after deductions for expected losses.

Foreign currency
Balance sheet items in foreign currencies are translated to USD at the currency rate at the balance date. Profit and loss transactions in other currencies, are translated to USD at monthly currency rates.
Currency gain and loss are presented under other financial income and other financial expenses respectively in the profit and loss statement.

Cash and bank deposits
Cash and bank deposits also include other liquid investments with a period to maturity of 90 days or less from the date of issue.

Investments in subsidiaries
Investments in subsidiaries are valued at cost in the company accounts. The investment is valued as cost of acquiring shares, providing they are not impaired. An impairment loss is recognised for the amount by which the carrying amount of the subsidiary exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. The recoverable amount of an investment in a subsidiary would normally be based on the present value of the subsidiary's future cash flow.

Impairment of asset
The asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement.

Estimates
The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities.

Share-based payments
Refer to description in Note 2.

Cash flow statement
The cash flow statement is prepared using the indirect method.

Events after the balance sheet date
New information on the company's positions on the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the company's position on the balance sheet date but which will affect the company's position in future are stated if they are significant.

Reclassification
With reclassification in the income statement or balance sheet comparative figures are revised accordingly.

Note 2 > Operating expenses, remuneration of the board of directors and number of empoyees

USD thousands	2018	2017
Fee to the auditor (excl. VAT)		
Auditors fee	225	251
Other services from auditor	-	18
Other operating expenses:		
Board of directors fee	175	166
Cost of Share-option plan	288	-
Management fee	479	494
Fees legal and financial assistance	717	542
Travel expenses	116	97
Other expenses	0	13
Total	**2,000**	**1,581**

A service agreement is entered into with Odfjell Drilling AS. Following a demerger in Odfjell Drilling AS in December 2017, part of the services are now preformed by Odfjell Global Business Services AS, a subsidiary of Odfjell Drilling Ltd. Invoiced service fee for 2018 is USD 479,459 (USD 493,845 in 2017).
No loans or guarantees have been given to the members of the board of directors.

The company had no employees during 2018.

NOK 1,375,000 has been paid as remuneration to the board of directors during 2018.

Share-based payments
Accounting principle:
The company have a long term equity settled incentive share option programme with the CEO of Odfjell Drilling AS, in which the employee receive remuneration in the form of share-based payment for services rendered.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details below.

That cost is recognised in personnel expenses together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Details regarding share option programme:
The company entered at 16 May 2018 into a long term incentive share option programme with the CEO of 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.

Parent Company Financial Statements

USD thousands	2018	2017
Outstanding options 1.1	-	-
Options granted	960,000	-
Options forfeited	-	-
Options exercised	-	-
Options expired	-	-
Outstanding options 31.12	**960,000**	**-**
Of which exercisable	-	

The fair value of the options has been calculated using Black & Scholes option-pricing model. The average fair value of the options granted (including amendment) in 2018 is NOK 17.61. The total cost of the share option plan and the amendment to the share option plan is calculated based on the fair value x options granted. The total cost equals approximately USD 2 million and is recognised over the period untill May 2022.

The calculations are based on the following assumptions:
- The share price on the grant dates were set to the stock exchange price on the grant dates (16 May 2018 and 19 November 2018).
- The strike price per option was NOK 36 for the 16 May 2018 grant and NOK 26.65 for the 19 November amendment.
- The expected price volatility of the company's shares was set to 40% based on historical volatility adjusted for expected changes.
- The expiry date was set to 16 May 2023.
- The expected dividend yield was set to 0%.
- The risk-free interest rate was set to 1.899% for the 16 May 2018 grant and 1.911% for the 19 November 2018 adjustment.

Note 3 > Shareholders' equity

	Share capital	Other contributed capital	Other equity	Total
Shareholders' equity as at 31.12.2017	1,987	326,853	308,590	637,431
Capital increase common shares 16.05.2018	380	171,207	-	171,587
Capital increase preference shares 30.05.2018	161	74,839	-	75,000
Capital increase common shares 11.07.2018	0	207	-	207
Transaction costs	-	(10,676)	-	(10,676)
Cost of share-based option plan	-	-	288	288
Dividend paid to preference share holders	-	-	(2,209)	(2,209)
Profit for the year	-	-	170,135	170,135
Shareholders' equity as at 31.12.2018	**2,529**	**562,430**	**476,803**	**1,041,762**

At 30 November 2018 the Group paid cash dividends of USD 1.9 million and at 31 December 2018 the Group paid dividend of USD 0.3 million to the holders of the preference shares.

Note 4 > Share capital and shareholders

	Number	Nominal value	Book value
Listed shares			
Common shares issued as at 31.12.2017	198,736,900	USD 0,01	USD 1,987,369
Common shares issued at 16.05.2018	38,000,000	USD 0,01	USD 380,000
Common shares issued at 11.07.2018	46,302	USD 0,01	USD 463
Common shares issued as at 31.12.2018	**236,783,202**		**USD 2,367,832**
Preference shares			
Preference shares issued at 30.05.2018	16,123,125	USD 0,01	USD 161,231
Preference shares issued as at 31.12.2018	**16,123,125**	**USD 0,01**	**USD 161,231**

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-anually. 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 also 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 74.25 for tranche 4, NOK 89.58 for tranche 5 and NOK 107.50 for tranche 6. On 30 May 2024, any unexercised Warrants will, to the extent the thresholds have not been met, be exercisable on a linear prorata basis, subject to the company's share price being within the range of NOK 36 and NOK 107.50.

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.

Largest common shareholders at 31 December 2018	Holding	% of share
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 %**

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.
Susanne Munch Thore (Director) controls 3,000 (0.00%) of the common shares in the company as per 31 December 2018.
Simen Lieungh (CEO, Odfjell Drilling AS) controls 952,381 (0.40%) of the common shares in the company as per 31 December 2018.

Note 5 > Subsidiaries

Company	Acquisition / formation date	Registered office	Place of business	Shares owned	Voting rights
Odfjell Drilling Services Ltd.	2011	Hamilton, Bermuda	Aberdeen, UK	100 %	100 %
Odfjell Offshore Ltd.	2011	Hamilton, Bermuda	Bergen, Norway	100 %	100 %
Odfjell Rig Owning Ltd.	2015	Hamilton, Bermuda	Aberdeen, UK	100 %	100 %
Odfjell Global Business Services AS	2017	Bergen, Norway	Bergen, Norway	100 %	100 %

Company	Functional currency	Share capital in USD	Profit / (loss) 2018	Equity at 31.12.2018	Book value at 31.12.2018
Odfjell Drilling Services Ltd.	USD	10,000	8,601	109,816	170,902
Odfjell Offshore Ltd.	USD	1,000,000	8,021	72,733	72,664
Odfjell Rig Owning Ltd.	USD	10,000	6,226	768,090	830,897
Odfjell Global Business Services AS	NOK	30,371	61	14,738	1,607
Total					**1,076,071**

The shares are recognised in the accounts according to cost method.

Investments in subsidiaries have been subject to impairment assessment as per 31. December 2018.

Book value of investment in Odfjell Drilling Services Ltd., is higher than book value of equity in the company, but lower than book value of the consolidated equity in the subgroup. No impairment was identified as at 31.12.2018.

Book value of investment in Odfjell Rig Owning Ltd., is higher than book value of equity in the company, and also higher than book value of the consolidated equity in the subgroup. However, the group has performed calculations of expected future cash flows from fixed assets (Mobile Offshore Drilling Units) as well as from operations related to management of other rigs. Based on these calculations, the company expects future cashflows from the investment in Odfjell Rig Owning Ltd., to exceed book value. No impairment was identified as at 31.12.2018.

Based on the impairment assessment, USD 38 million of previously booked impairement of investment in Odfjell Offshore Ltd., was reversed in 2018.

No impairment was identified as at 31.12.2018 for any of the investments.

Note 6 > Intercompany balances

Non-current receivables:

	Interest conditions	Maturity date	Receivables 2018	Receivables 2017	Interests 2018
Odfjell Rig Owning Ltd.	Fixed 6.95%	09/05/2020	297,443	506,104	33,385
Total non-current			**297,443**	**506,104**	**33,385**

The loan agreement was transferred from Odfjell Offshore Ltd to Odfjell Rig Owning Ltd., as part of the contribution 21 December 2015. The loan agreement was extended by an amendment in February 2015 to long-term conditions with due date 9 May 2020, and applicable interest is fixed annual 6.95%. In December 2017 a supplemental agreement was made to increase the total commitment by an additional USD 50 million to a total commitment of USD 550 million.

At 11 December 2018 there was a resolution to convert USD 235 million of the long term loan, in addition to USD 215 million of the short term receivable, as contribution to the surplus capital of the Odfjell Rig Owning Ltd.

See note 5 for impairment assessment as at 31.12.2018.

Loans from subsidiaries:

	Interest conditions	Maturity date	Liabillites 2018	Liabilities 2017	Interests 2018
Odfjell Offshore Ltd.	3 mnt LIBOR + 5.16% margin	28.08.2022	9,358	8,692	666
Odfjell Drilling Services Ltd.	3 mnt LIBOR + 3.5% margin	09.11.2023	350,577	448,528	25,335
Total loans from subsidiaries			**359,935**	**457,220**	**26,001**
Classified as current liabilities			-	448,528	-
Classifies as non-current liabilities			359,935	8,692	-

The company entered into a loan agreement with Odfjell Offshore Ltd., a subsidiary to the company, in August 2017. The maximum aggregated loan amount is USD 8.5 million plus any interest added to the principal. The loan shall be repaid in full at maturity date at the latest.

The loan agreement with Odfjell Drilling Services Ltd., was extended by an amendment in November 2018. The new due date was set to 9 November 2023 and the margin of the loan is 3.5% starting from 9 November 2018. The maximum aggregated loan amount for the borrowing facility with Odfjell Drilling Services Ltd., a subsidiary to the company, is USD 450 million.

Current:

USD thousands	Type	Receivables 2018	Liabilities 2018	Receivables 2017	Liabilities 2017
Odfjell Drilling Services Ltd.	Loan, see table above	-	-	-	448,528
Odfjell Drillling AS	Trade	-	-	6	-
Odfjell Rig Owning Ltd.	Loan	16,881	-	-	-
Total current		**16,881**	**-**	**6**	**448,528**

The current receivables and liabilities have less than one year maturity.

Note 7 > Cash and bank deposits

USD thousands	2018	2017
Current account NOK	15,788	10
Current account USD	138	589
Time deposit USD	1,500	-
Total cash and bank deposits	**17,426**	**599**

Bank deposits are not restricted.

Note 8 > Financial income and expenses

Other financial income:

USD thousands	2018	2017
Guarantee commissions	4,083	4,581
Net currency gain	-	28
Total other financial income	**4,083**	**4,609**

Other financial expenses:

USD thousands	2018	2017
Net currency loss	3,647	-
Other financial expenses	984	181
Total other financial expenses	**4,631**	**181**

Note 9 > Financial income and expenses

Revenue from related parties

Type of transaction	Related party	Relation	2018	2017
Dividends	Odfjell Drilling Services Ltd.	Subsidiary	124,000	-
Dividends	Odfjell Global Business Services AS	Subsidiary	1,148	-
Interest on long term loan	Odfjell Rig Owning Ltd.	Subsidiary	35,385	33,729
Guarantee provision	Odfjell Drilling Services Ltd.	Subsidiary	1,115	1,109
Guarantee provision	Odfjell Invest Ltd.	Subsidiary	1,559	1,740
Guarantee provision	Odfjell Rig II Ltd.	Subsidiary	220	286
Guarantee provision	Odfjell Rig III Ltd.	Subsidiary	1,189	1,446
Total			**164,615**	**38,309**

Expenses to related parties

Type of transaction	Related party	Relation	2018	2017
Interest on long term loan	Odfjell Drilling Services Ltd.	Subsidiary	25,335	21,440
Interest on long term loan	Odfjell Offshore Ltd.	Subsidiary	666	192
Service fee	Odfjell Global Business Services AS	Subsidiary	12	12
Service fee	Odfjell Drilling AS	Subsidiary	468	482
Total			**26,481**	**22,126**

See note 6 for information regaring interest condition on loan to related parties.

Note 10 > Guarantees and security

Guarantees from Odfjell Drilling Ltd in relation to subsidiaries' loan agreements

Odfjell Drilling Ltd has furnished an On-Demand Guarantee under the following facility agreements:

- USD 450 million senior secured credit facility agreement entered into on 6 May 2014 with Odfjell Drilling Services Ltd., as borrower and Danske Bank A/S, DNB Bank ASA, Nordea Bank Norge ASA and Swedbank AB (publ) as mandated lead arrangers and original lenders, Danske Bank A/S and DNB Bank ASA as coordinators and DNB Bank ASA acting as agent. The facility is a senior secured revolving credit and term loan facility originally in the total aggregate amount of USD 450 million divided into a term loan facility in the maximum principal amount of USD 300 million and a revolving credit facility in the maximum principal amount of USD 150 million. The liability of Odfjell Drilling Ltd hereunder shall be limited to USD 500 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

- USD 525 million term loan facility agreement entered into on 23 September 2016 with Odfjell Invest Ltd., as borrower and DNB Bank ASA as Agent of behalf of the Lenders. The liability of Odfjell Drilling Ltd hereunder shall be limited to USD 682.5 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

- The USD 270 million term loan facility agreement was originally entered into on 15 February 2013 with Odfjell Rig II Ltd., as borrower and DNB Bank ASA as Agent on behalf of the lenders, but was amended and extended in August 2017. The liability of Odfjell Drilling Ltd. as guarantor hereunder shall be limited to USD 85.8 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

- USD 530 million term loan facility agreement enered into on 7 May 2013 with Odfjell Rig III Ltd as borrower and DNB Bank ASA as Agent on behalf of the lenders. The liability of Odfjell Drilling Ltd hereunder shall be limited to USD 636 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement.

- USD 325 million term loan facility agreement entered into on 30 October 2018 with Odfjell Rig V Ltd., as borrower and DNB Bank ASA as Agent on behalf of the lenders. The liability of Odfjell Drilling Ltd., as guarantor hereunder shall be limited to USD 422.5 million plus any unpaid amount of interest, fees and expenses, and shall be reduced with amounts actually repaid (and prepaid, if any) under the loan agreement. The facility amount is at 31 December 2018 available for utilisation at delivery of Deepsea Nordkapp. 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.

Other securities
Odfjell Drilling Services Ltd. – USD 450 million Facility Agreement
The Company, as well as subsidiaries Odfjell Well Services II Ltd., Odfjell Drilling Technology Ltd., Odfjell Drilling AS, Odfjell Drilling Technology AS, Odfjell Well Services AS, Odfjell Global Business Services AS and Odfjell Well Services Norway AS have guaranteed as and for its own debt the due and punctual observance and performance of the obligors' obligations under the finance documents. Further, substantially all of the assets of Odfjell Drilling Services Ltd., and its subsidiaries have been pledged in favour of the lenders. This includes the borrower's shares in Odfjell Partners Invest Ltd., Odfjell Drilling Technology Ltd., and Odfjell Platform Drilling AS, the shares owned by Odfjell Partners Invest Ltd., in Odfjell Well Services Norway AS, Odfjell Well Services AS, Odfjell Well Services Ltd., and Odfjell Well Services II Ltd., pledge granted by Odfjell Partners Invest Ltd., and Odfjell Well Services II Ltd., over (in aggregate) 100% of the membership interests in Odfjell Well Services Cooperatief U.A., and the shares owned by Odfjell Drilling Technology Ltd., in Odfjell Drilling Technology AS. In addition, Odfjell Drilling Ltd., has pledged 100 per cent of the shares in Odfjell Drilling Services Ltd., Odfjell Rig Owning Ltd., Odfjell Global Business Services AS and Odfjell Offshore Ltd., and Odfjell Rig Owning Ltd has pledged all its shares in Odfjell Drilling AS.

The loan is also secured by first priority assignment of all intra-group receivables owed to Odfjell Drilling Services Ltd. and its subsidiaries. "

Odfjell Invest Ltd. – USD 525 million Facility Agreement
All of the shares and substantially all of the assets of Odfjell Invest Ltd. and its subsidiaries have been pledged in favour of the lenders. This includes the shares in Deep Sea Atlantic (UK) Ltd., Deep Sea Stavanger (UK) Ltd., mortgages over the semi-submersible drilling rigs "Deepsea Stavanger" and "Deepsea Atlantic" and assignment of rights to revenue, interest proceeds and bank accounts. In addition, the shares in Odfjell Invest Ltd., have been pledged by Odfjell Rig Owning Ltd., in favour of the lenders. Odfjell Drilling AS' shares in the charter company Odfjell Invest AS have also been pledged. Deep Sea Atlantic (UK) Ltd., Deep Sea Stavanger (UK) Ltd., Odfjell Drilling Ltd. and Odfjell Rig Owning Ltd. have guaranteed as and for its own debt the due and punctual observance and performance of the obligors' obligations under the finance documents.

Odfjell Rig II Ltd. – USD 270 million Senior Secured Term Loan Facility
All of the shares in and substantially all of the assets of Odfjell Rig II Ltd., have been pledged in favour of the lenders, including a mortgage over Deepsea Bergen. Also, Odfjell Drilling Ltd., Odfjell Rig Owning Ltd., and Odfjell Offshore Ltd., have guaranteed the obligors' obligations under the finance documents.

Odfjell Rig III Ltd. – USD 530 million Facility Agreement
As security for the facilities, substantially all of the shares in and assets of Odfjell Rig III Ltd., and Odfjell Drilling Shetland Limited is pledged in favour of the lenders and hedging banks, including a mortgage of Deepsea Aberdeen. Also, Odfjell Drilling Ltd., Odfjell Rig Owning Ltd. and Odfjell Offshore Ltd., have guaranteed the obligors' obligations under the finance documents, and one of the USD 200 million export credit facilities has been guaranteed by the Norwegian Garanti-Instituttet for Eksportkreditt (for a guarantee fee).

Odfjell Rig V Ltd. – USD 325 million Facility
All of the shares in and substantially all of the assets of Odfjell Rig V Ltd., have been pledged in favour of the lenders, including a mortgage over Deepsea Nordkapp which was established at delivery of the unit on 7 January 2019. Also, Odfjell Rig Owning Ltd. and Odfjell Invest II AS, have guaranteed the obligors' obligations under the finance documents.

Guarantee liabilities

Parent company guarantee in relation to the subsidiaries' loan agreements:	2018	2017
Loan agreement in Odfjell Drilling Services Ltd.	322,381	362,195
Loan agreement in Odfjell Invest Ltd.	587,308	637,022
Loan agreement in Odfjell Rig II Ltd.	78,033	82,300
Loan agreement in Odfjell Rig III Ltd.	449,776	500,755
Loan agreement in Odfjell Rig V Ltd.	-	-
Total guarantee liabilities	**1,437,498**	**1,582,272**

Book value of assets pledged as security

USD thousands	2018	2017
Shares in Odfjell Offshore Ltd.	72,664	6,546
Shares in Odfjell Rig Owning Ltd.	830,897	400,745
Shares in Odfjell Drilling Services Ltd.	170,902	180,339
Shares in Odfjell Global Business Services AS	1,607	511
Intra-group receivables (Odfjell Drilling group)	314,324	506,110
Bank deposits	17,426	599
Total book value of assets pledged as security	**1,407,821**	**1,094,851**

Guarantees from Odfjell Drilling Ltd in relation to subsidiaries' customer agreements

Odfjell Drilling Ltd., has issued parent company guarantees regarding Odfjell Drilling Management AS' platform drilling service contracts for Johan Sverdrup with Equinor and Brage with Wintershall.

Note 11 > Taxation

Odfjell Drilling Ltd. is registered in Bermuda.

There is no Bermuda income, corporation, or profit tax, withholding tax, capital gains, capital transfer tax, estate duty or inheritance tax payable by the company or its shareholders not ordinarily resident in Bermuda. The company is not subject to Bermuda stamp duty on the issue, transfer or redemption of its shares.

The company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1996 an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not until 2035 be applicable to the company or to any of its operations, or to the shares, debentures or other obligations of the company except insofar as such tax applies to persons ordinarily resident in Bermuda and holding such shares, debentures or other obligations of the company or any land leased or let to the company.

As an exempted company, the company is liable to pay a registration fee in Bermuda at a rate presently amounting to USD 19,605 per annum.

The company is from 11 December 2018 tax resident in the United Kingdom as a consequence of the special general meetings resolution 11 December 2018, amending then bye-laws and subsequently changing the composition of the Board of Directors to a majority of UK residents. The company is as all United Kingdom resident companies residents liable for UK corporate income taxes.

The company does not expect to pay any taxes to the United Kingdom for the fiscal year 2018.

Note 12 > Events after the reporting period

Other than increase in guarantee liability due to Odfjell Rig V Ltd., facility drawn on 4 January 2019, see note 10, there have not been any events identified after the reporting period, which would materially affect these financial statements.

Responsibility statement

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2018 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole.

We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

The Board of Odfjell Drilling Ltd
26 April 2019, London, United Kingdom

Helene Odfjell
Chairman

Susanne Munch Thore
Director

Thomas Marsoner
Director

Alasdair Shiach
Director

To the General Meeting of Odfjell Drilling Ltd

Independent auditor's report

Opinion

We have audited the financial statements of Odfjell Drilling Ltd, which comprise:

- The financial statements of the parent company Odfjell Drilling Ltd (the Company), which comprise the statement of financial position as at 31 December 2018, the income statement and the statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Odfjell Drilling Ltd and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Groups business activities, which continue to evolve due to ongoing improvement projects, are largely the same as last year. We have, however, included a new key audit matter this year related to the rig Deepsea Stavanger's contract with Total in South Africa due to the complexity of the revenue recognition. Valuation of drilling rigs involves nearly the same complexity and risk as in 2017. Consequently, valuation of drilling rigs has also been a focus for this year's audit.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Key Audit Matter	How our audit addressed the Key Audit Matter

Valuation of drilling rigs

The Group has a fleet of drilling rigs with a book value of USD 1,608 million. We focused on this area because:

- the book value constitutes a substantial amount (around 70%) of the Group's total assets,
- the current condition in the oil- and oil service market suggested impairment indicators existed,
- as two of the Group's drilling rigs has been impaired in prior periods, the previously recognised impairment loss might no longer exist or may have increased, and
- impairment assessment involves significant judgement made by management about future results of the business.

The Group owns four drilling rigs, Deepsea Atlantic (DSA), Deepsea Stavanger (DSS), Deepsea Aberdeen (DAB) and Deepsea Bergen (DSB) as of 31 December 2018. In particular, we focused on the impairment assessment of the drilling rigs DSA and DSS as they have previously been impaired and were the most sensitive to changes in assumptions. These rigs constitutes 60% of the total book value of the Group's drilling rigs. Even small changes in some of the judgemental assumptions may lead to significant changes in the calculated value in use, which may trigger further impairment losses or reversal of previously recognised impairment losses.

See note 19 and 34, and the BoD report for information about the valuation of drilling rigs.

We tested the design and operating effectiveness of key controls in relation to impairment recognition of the Group's drilling rigs, with particular focus on the controls over gathering external evidence for critical inputs applied in the impairment assessment. We did not identify any material issues that would have an impact on our audit approach.

We obtained the Group's impairment model for the drilling rigs and reviewed management's identification of Cash Generating Units (CGUs). The Group identified each drilling rig as a CGU. Further, for all rigs, we examined the methodology used by the Group to assess the carrying value of tangible assets assigned to the CGUs and tested the mechanics of the underlying calculations. We found the identification of CGU and impairment methodology applied by the Group to be compliant with IFRS and the underlying calculations to be mathematically accurate.

We then, and in particular for DSA and DSS, identified the most critical assumptions in the value in use model, and found these to be day rates, operating expense (opex) levels, utilisation and discount rate. The model was divided into three periods: budget-, intermediate- and long-term period. The Group estimated the discount rate using a weighted average cost of capital, of which cost of equity was derived using CAPM. As a part of challenging the Group's assumptions, we performed key audit procedures on this area which included:

- Agreeing the day rates in the contract period to signed contracts, and the day rates in the intermediate period to board approved budgets as well as day rates used by the Group in biddings for the rigs in the same period.
- Agreeing the opex levels in the contract- and intermediate period to board approved budgets as well as comparing it to historical performance of the rigs.
- Agreeing the budgets to underlying documentation such as contracts and historically achieved opex levels.
- Comparing the applied day rates and opex levels in the long-term period to external analytical reports as well as reviewing the Group's new-build parity calculation that was used to back up the applied day rate and opex level.

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- Comparing applied utilisation for the three periods to historical performance as well as external documentation of average historical utilisation.
- Comparing the current year actual results with the FY18 results included in the prior year forecast to consider whether the Group had exercised any bias in assumptions used.
- Assessed the applied discount rate by comparing critical input to observable market data, where applicable. We compared non-observable input to external research and market reports, and challenged the Group on the reasonability of the applied inputs. We further compared the applied discount rate to discount rates used by comparable entities.

We found the above mentioned assumptions to be consistent and within an acceptable range.

We performed sensitivity calculations on inputs used in the model. As expected, we found that the calculated value-in-use was most sensitive to changes in the discount rate and normalised day rates. For DAB and DSB we calculated how much these assumptions would need to change, individually or collectively, before impairment would be necessary, and agreed this to information presented in the disclosures. In respect of DSS and DSA we found these assumptions to be acceptable, but noted that even small changes in the mentioned assumptions would lead to an impairment loss or reversal of previously recognised impairment loss.

We evaluated the appropriateness of the related note disclosures in the financial statements and found that they satisfied IFRS requirements.

Revenue recognition Deepsea Stavanger

The rig Deepsea Stavanger commenced operations on the contract with Total in South Africa on 14 December 2018. The contract is for drilling of one well, and is consequently a short contract with a long mobilisation- and demobilisation period. Short contracts combined with long mobilisation- and demobilisation periods are not typical. Consequently, the timing and accuracy of the recognition of revenue becomes an important issue, particularly when the drilling period

We obtained the contract and management's assessment of the contract and the corresponding revenue recognition schedule. We studied both the contract and management's assessment and held several discussions with management. The discussions focused on management's use of judgment in identifying performance obligations in the contract, on whether to include the customer option and the incentive bonus element as part of the revenue to be recognised during the drilling period, and the estimated drilling period which is set to 50 days.

(3)

commence close to the end of the reporting period.

This is related to a change brought on by the implementation of IFRS 15 as both the mobilisation- and demobilisation considerations, in addition to the day rates, must be recognised as income during the drilling period.

Furthermore, the contract contains elements that entails complex, judgmental assessments, e.g. an option to drill one additional well and an incentive bonus element.

Due to the complexity and use of judgment in the revenue recognition, we focused on the following elements in our audit;

- the decision of whether the customer option represents a material right that gives rise to a performance obligation, and if so, the estimate of the stand-alone selling price of the option,
- the decision of whether to include the incentive bonus element in the transaction price, and the estimate of the variable consideration, if included, and
- the estimate of the progress towards complete satisfaction of the performance obligation at the end of the reporting period, as the completion date of the drilling period is unknown at the end of the reporting period.

See note 34 for the Group's accounting principles for revenue and note 5 and 6 for an explanation of how revenue is recognised throughout the year and for this contract in particular.

Management's explanations and their assessment were compared to the facts and clauses in the contract, historical performance and other available documentation, which we then assessed towards the requirements in IFRS 15. Based on our evaluations, we found that we agreed with management's assessment about the principles for revenue recognition.

We were able to measure the progress towards completion by using time elapsed compared to estimated total time of the drilling period. There was no differences between our and management's assessments.

Our further audit procedures of the revenue recognition schedule included: testing the mechanics of the underlying calculations; agreeing input, including total transaction price, duration of the drilling period, time elapsed and payments received, to underlying documentation; and agreeing the total revenue recognised for the period and the contract liability at the end of the period in the schedule to the general ledger. We found the input to be in accordance with underlying documentation and the calculations to be mathematically correct.

We discussed the incentive bonus element again with management closer to the publication of these financial statements. There was no change in management's assessment. There are no other indications that has come to our attention which indicate that the assessment should have been changed.

We evaluated the appropriateness of the related note disclosures in the financial statements and found that they satisfied IFRS requirements.

Other information

Management is responsible for the other information. The other information in the Annual Report comprise the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report. There are other elements which will be

(4)

included in the Annual Report such as the letter from the CEO and various facts about the business, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other elements of the Annual Report, such as the letter from the CEO and various facts about the business, which is expected to be made available to us after the date of the Auditors report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

(5)

Auditors Report - Odfjell Drilling Ltd

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Bergen, 26. April 2019

PricewaterhouseCoopers AS

Hallvard Aarø

State Authorised Public Accountant

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Appendix 1

Definitions of alternative performance measures

Financial utilization

Financial utilization 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 utilization 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

Earnings per share

Net profit/number of outstanding shares

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