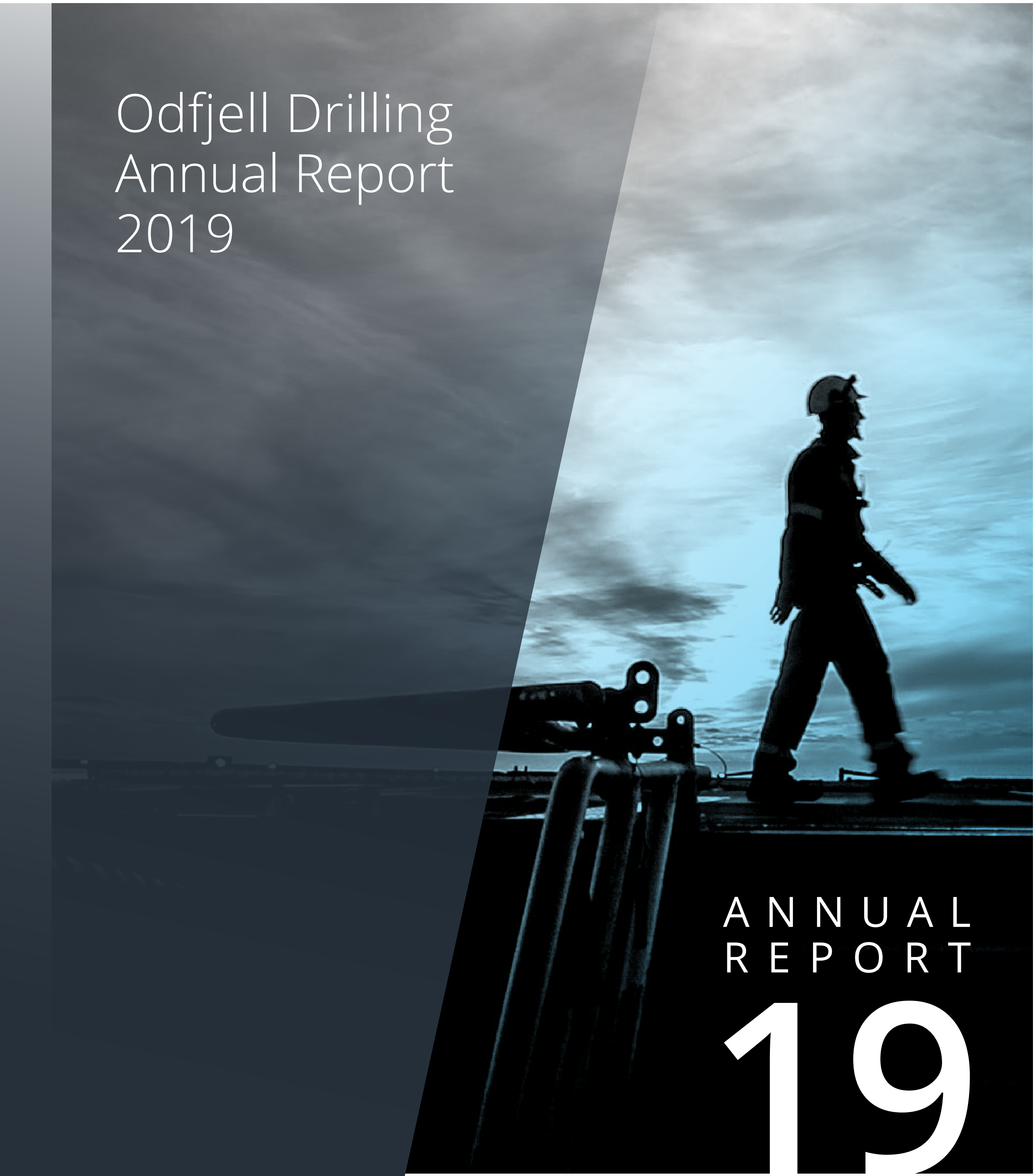
Odfjell Drilling Annual Report 2019



ODFJELL DRILLING

ANNUAL REPORT

19

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ODFJELL DRILLING

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01 Introduction

Section 01 Introduction

CEO Letter

In our annual report for 2018, we envisaged continued tough competition and challenging markets in 2019 but still with significant ambitions for Odfjell Drilling to build a solid foundation for sustainable growth.

One year after, I am pleased to see that most of our ambitious goals have been met and that we have managed to deliver in all business areas and built our portfolio further. We have continued to increase our competitiveness through operational performance and efficiency. In 2019, we have implemented important measures to develop the organisation and our people. People management and leadership training to safeguard and further develop our strong business culture is an important part of our strategy.

HSE performance is essential to stay competitive and will always be our "license to drill". We believe strongly that all accidents and incidents are preventable and we will continue to focus on maintaining the highest safety standards to safeguard the health of our employees and associates. Although we have improved in important areas, we still have a way to go to meet our zero fault philosophy. Hence, we will take the learnings from 2019 for further improvements going forward.

Entering into the third decade of the 2000's, technology poses many possibilities within our industry. Odfjell Drilling spend a lot of time and resources assessing how technology can help us operate more safely and efficiently. In 2019, we rolled out new innovative digital solutions, which will contribute to this. We are gathering and analysing new data every day, and in cooperation with operations we are learning how this can become a tool to improve predictability and therefore aide decision making.

With the Paris Accord in 2016, it became evident that regulatory requirements surrounding environment and emissions would increase. Since then, Odfjell Drilling has put major resources into assessing how we can decrease the carbon emissions from our mobile drilling units in particular. 2019 was the year where many of these efforts materialised into what we now refer to as our ambition of "zero emission drilling". In a switch towards a more sustainable future, Odfjell Drilling recognises that our industry needs to take action and contribute to reduce the carbon emissions in the oil and gas production cycle. We are ready to do our part together with our clients, partners, suppliers and employees.

By the end of 2019, the market situation was still challenging in most areas although somewhat healthier than previous years; the supply/demand balance in the harsh environment market had improved and some other areas had slowly started to pick-up. Analysis shows an increased demand for oil and gas during the next decades, largely driven by population growth.

The outbreak of the Coronavirus and the collapse of the OPEC+/Russia cooperation has, however, dramatically changed the global economy and the world's prospects for 2020.

The spread of the coronavirus is having a profound and serious impact on the global economy, how much and for how long is still to be seen. We are obviously not immune to this correction in the world economic situation, but we do what we can to keep our people healthy and to mitigate the impact of COVID-19 and its effects on our businesses.

In 2019, we have increased our capacity and added valuable contracts to our portfolio.

In May, we successfully started operations for Aker BP with our newbuild Deepsea Nordkapp and in October, we commenced another successful drilling operation with the newbuild Deepsea Yantai for Neptune Energy. Towards the end of last year, we could also announce more work for Deepsea Nordkapp and Deepsea Atlantic for Aker BP and Equinor respectively.

All our six semisubmersibles have performed very well in 2019 including our two newbuilds that performed extremely well from day one. Another highlight of 2019 was Deepsea Stavanger's successful drilling campaign for Total on the Brulpadda project in South Africa. The significant discovery made at the beginning of 2019, lead to a multi-well drilling contract with Total for further exploration, commencing in Q2-Q3/2020.

When released by Total in April, Deepsea Stavanger continued work for Aker BP under the exclusive rig alliance entered into in 2017. Deepsea Atlantic and Deepsea Aberdeen have been working for Equinor and BP UK in 2019 while Deepsea Bergen has performed drilling operations for Equinor, Ithaca Energy UK, OMV Norge and MOL Norge. Given that options are declared, all units, with the exception of Deepsea Bergen, have so far secured work until at least mid-2022.

Platform Drilling achieved some important milestones in 2019. One came at the end of the year, with a 5 + 6 year contract award with ConocoPhillips for three installations at the Greater Ekofisk Area. Further, BP UK confirmed Odfjell Drilling as their preferred partner for their Clair field in the UK. In November, we took over the Mariner drilling facilities from the project where drilling is due to commence early in 2020. Platform Drilling has in 2019 continued production drilling and drilling maintenance for Wintershall on Brage, on the Heidrun and Johan Sverdrup installations for Equinor and for Taqa and Serica Energy in the UK. With our contracts on Johan Sverdrup, Mariner and Clair Ridge, we are positioned on the three most digitally advanced field installations in the North Sea.

Although the well service market is still suffering from oversupply and pressure on margins, our well service division has seen a turning point in 2019. Well Services has successfully implemented strategic changes and expanded the business with new profitable services and products. I am pleased to say that Odfjell Well Services is commercially "back on track" - and well prepared for the future.

Odfjell Drilling & Technology had a very busy 2019 and delivered strong results.

The decision to retain the core engineering competence within the Group during some difficult years in which most others laid off their technical support functions has proven right. The Brulpadda project, a successful completion of Deepsea Atlantic's Special Periodic Survey (SPS) and two extensive yard stays with two new builds would not have been possible without this in-house capacity and expertise. Going forward, we see a number of opportunities for Odfjell Drilling & Technology, both independent projects and integrated services with platform drilling.

Despite the challenging market, Odfjell Drilling has delivered satisfactory results in 2019 within all our business areas and the best results since the downturn started in 2014. With the increased contract portfolio and our fleet renewal with two more semisubmersibles, we are in a position for further growth. The switch towards a more sustainable future for our services is a continuous innovative development, which has been characteristic for the organisation for more than 45 years. Odfjell Drilling has been a frontrunner for innovative and smarter business solutions for decades, and I look forward to the next decade with strong optimism.

02 Our Business

Odfjell Drilling in brief

COMPANY

- More than 45 years of experience from worldwide drilling and well service operations
- Continued investments in the latest and best technological solutions
- Ambitious development program for zero emission drilling services
- Multiple revenue sources from complementary business areas

PEOPLE

- Nearly 2600 employees in more than 20 countries
- Highly specialized engineers supporting all business segments
- Highly committed and experienced work force within all business areas
- Expansive management training on various levels

OPERATIONS

- Operates six semisubmersible harsh environment offshore drilling rigs
- Modern fleet with five 6th generation state-of-the-art drilling units delivered 2009 – 2019
- Production drilling on the most modern fields in UK and Norway
- Integrated world class supplier of well services across the globe

STRUCTURE

- Odfjell Drilling Ltd is tax resident in the UK and has its head office in Aberdeen, Scotland, UK where the General Manager and Corporate Secretary are based.
- Organised into three main business segments: Mobile Offshore Drilling Units (MODU), Drilling & Technology (D&T) and Well Services.
- Operational Management are primarily located in Bergen, Norway.
- Our rigs are allocated to and operated via Dubai registered branches of their respective UK tax resident companies; the branches are headed by a Branch Manager.

Three Business areas – one integrated company

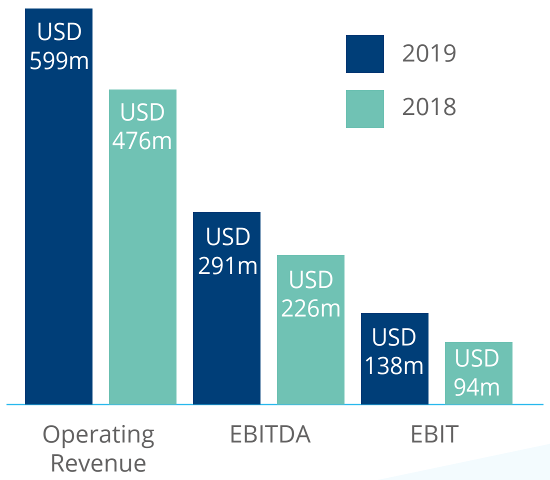
MOBILE OFFSHORE DRILLING UNITS

The business segment "Mobile Offshore Drilling Units" (MODU) is responsible for the operations of mobile drilling units wholly owned by the Group and one unit owned by another company.

Our six semisubmersible drilling units have performed drilling operations in Norway, UK, and South Africa in 2019. Deepsea Stavanger started drilling operations for Total offshore South Africa in December 2018 and returned to NCS under the alliance agreement with Aker BP on 7 April 2019. The newbuild Deepsea Nordkapp commenced drilling operations under the Aker BP alliance agreement on 10 May 2019 while the latest delivery Deepsea Yantai commenced drilling with Neptune Energy Norway on 31 October 2019. Deepsea Atlantic and Deepsea Aberdeen have been drilling for Equinor and BP UK respectively in 2019 while Deepsea Bergen has performed drilling operations for several clients in UK and Norway during the year. At 31 December the MODU business area employed 1122 people.

In 2019, a number of important steps were taken to enhance digitalisation of the 6th generation drilling units for improved operational efficiency in harsh environments. New hybrid power solutions are being developed to reduce emissions to sea and air.

KEY FIGURES 2019 COMPARED TO 2018



Section 02 Our Business

The Semisubmersible Fleet

DEEPSEA BERGEN

DEEPSEA BERGEN, built in 1983, is a 100 % owned third generation midwater semisubmersible drilling facility. The rig was drilling for Equinor, Ithaca Energy, OMV Norge and MOL Norge on the UK and Norwegian continental shelf during 2019. The drilling contract with MOL Norge continued to March 2020. The unit has since delivery in 1983 drilled more than 200 wells in the North Sea basin. Depending on the future contract situation, the next Special Periodic Survey is due within Q3 2020.

Year built:	1983
Location/operator:	Noway/UK Equinor/Ithaca/ OMV/ MOL
Day rate (KUSD/day*):	180

DEEPSEA ATLANTIC

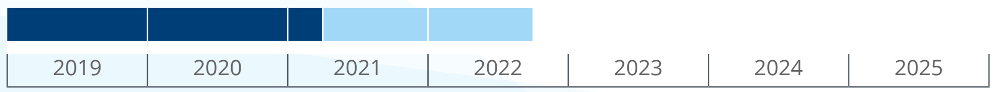
DEEPSEA ATLANTIC, delivered in 2009, is 100 % owned sixth generation ultra-deep-water and harsh environment semisubmersible rig, which in 2019 was drilling appraisal and exploration wells for Equinor on various fields on the Norwegian Continental Shelf. Following completion of the units 10 year Special Periodic Survey in January 2019, Deepsea Atlantic commenced drilling for Equinor under Master Frame Agreement (MFA) signed with Equinor on 25 May 2018. The first contract under this Agreement was for six wells. On 20 December 2019, Equinor exercised an amendment to the Master Frame Agreement for another three fixed wells. The MFA contains the option to continue operations for Equinor after the current contract period based on market pricing.

Year built:	2009
Location/operator:	Norway Equinor
Day rate (KUSD/day*):	296/339

DEEPSEA STAVANGER

DEEPSEA STAVANGER is a 100 % owned sixth generation ultra-deep-water and harsh environment semisubmersible rig delivered from the Daewoo Shipbuilding & Marine Engineering in South Korea yard in July 2010. From December 2018 to February 2019 the rig completed a very successful drilling programme for Total South Africa in an extreme challenging environment. The unit thereafter returned to Aker BP under the exclusive Drilling & Well Alliance Agreement signed in 2017. In July Deepsea Stavanger was awarded another contract with Total South Africa for one or two firm wells plus options. Estimated duration is for 10 to 14 months from end of Q2 2020.

Year built:	2010
Location/operator:	Norway South Africa Aker BP Total
Day rate (KUSD/day*):	279/438



DEEPSEA ABERDEEN

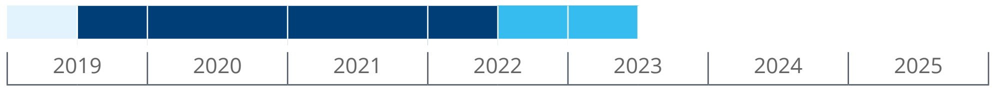
DEEPSEA ABERDEEN is a wholly owned sister rig of Deepsea Atlantic and Deepsea Stavanger – which was delivered from the Daewoo Shipbuilding & Marine Engineering in South Korea yard in November 2014 and started drilling for BP on the UK Continental Shelf under a 7 year firm contract on April 21, 2015. The drilling contract also includes three years options. The rig is equipped with two blow out preventor stacks and has performed very well in the challenging harsh environment waters West of Shetland, delivering results beyond expectations. The unit did undergo its 5 years Special Periodic Survey in Q1, 2020.

Year built:	2014
Location/operator:	UK BP Exploration
Day rate (KUSD/day*):	431

DEEPSEA NORDKAPP

DEEPSEA NORDKAPP is a 100 % owned deep-water semi-submersible rig of enhanced Moss Maritime CS-60 design, winterized and purposely built for harsh environment areas. The unit was delivered from Samsung on 7 January 2019 and commenced drilling operations for Aker BP under the Drilling & Well Alliance Agreement on 10 May 2019. The unit has in 2019 been sublet to both the Polish Oil Company PGNiG and the new Norwegian operator OKEA, drilling the very first Norwegian wells for both these companies. In December 2019 Aker BP exercised the first of two one-year options of the 2 + 1 + 1 drilling contract from 2018, which will take the rig through to June 2022.

Year built:	2019
Location/operator:	Norway Aker BP
Day rate (KUSD/day*):	300/328/350



DEEPSEA YANTAI

DEEPSEA YANTAI is a mid-water harsh environment and winterized semisubmersible rig of Global Maritime GM4-D design. The rig is owned by CIMC Raffles Offshore and operated by Odfjell Drilling under a four-year management agreement. The management agreement include an exclusive purchase option. The unit was delivered from the yard in June 2019 and commenced drilling operations for Neptune Energy Norway on 31 October 2019. The Drilling contract with Neptune is for eight fixed wells with option for additional eight wells.

Year built:	2019
Location/operator:	Norway Neptune
Day rate (KUSD/day*):	Managed unit

Contract Option Continued optionality under frame agreement Contract Preparations/Mobilization

* Rates may include mix of currencies and fluctuate based on exchange rates.

Drilling & Technology

In 2019 Drilling & Technology continued to deliver integrated drilling and engineering services in Norway and the UK. The business area provides 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.

In 2019 the main activities consisted of the following services:

- Providing integrated platform drilling services on 13 installations in the North Sea including plugging and abandonment of the Eider installation
- Conceptual engineering and engineering design
- Construction and commissioning support, modifications and upgrades
- Rig Special Periodic Surveys to DNV and ABS requirements
- Compliance assurance and maintenance management
- Marine and operational support
- Rig inspection services

The business segment Drilling & Technology consists of three business areas that, as at end December 2019, employed 686 people:

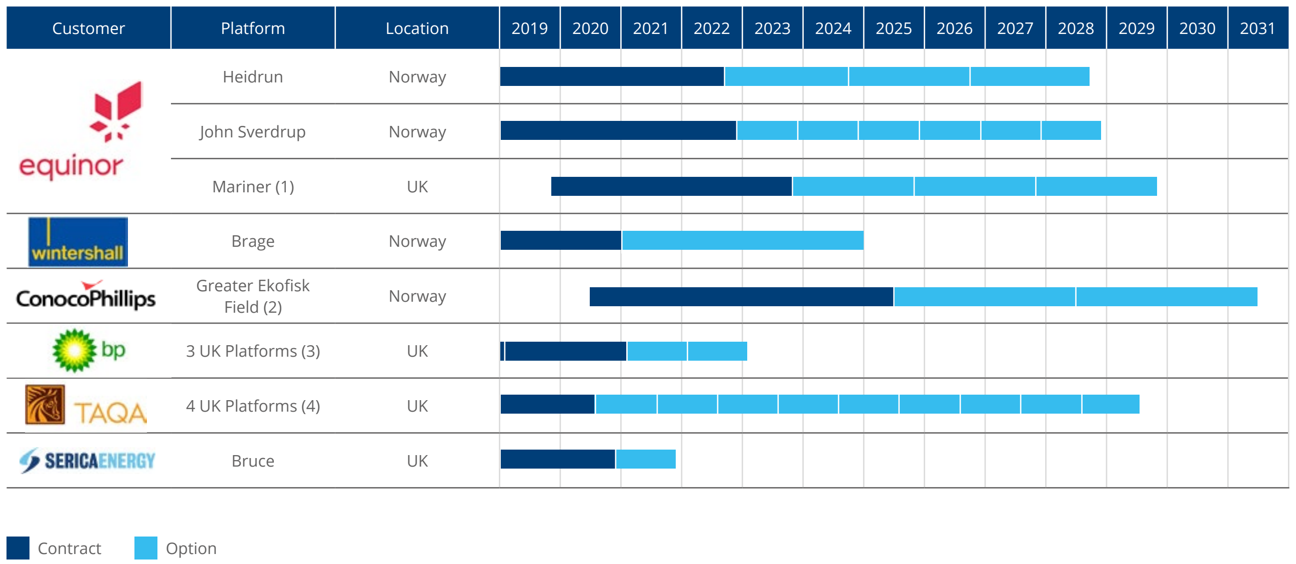
- Platform Drilling Services
- Engineering and Project Management Services
- Rig Inspection Services

PLATFORM DRILLING SERVICES

Odfjell Drilling is a major provider of drilling and maintenance services on oil and gas production facilities for international Exploration & Production 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 12 fixed installations on the Norwegian and the UK continental shelves.

During 2019 we performed drilling and maintenance operations on the four TAQA installations: Cormorant Alpha, North Cormorant, Tern Alpha and Harding and for BP on the three installations: Andrew, Clair and Clair Ridge in addition to the Bruce installation for Serica Energy. In early 2019, Odfjell Drilling also successfully finished plugging and abandonment of the Eider platform for Taqa. In 2019 manning of the huge Mariner installation for Equinor was completed and drilling operations commenced in January 2020.

On the Norwegian Continental Shelf, Odfjell Drilling has performed drilling and maintenance operations on the Heidrun and Johan Sverdrup fields for Equinor and on the Brage installation for Wintershall.



On 17 December 2019, ConocoPhillips Norway awarded the platform drilling contract for The Greater Ekofisk Area to Odfjell Drilling. The contract covers the three installations Eldfisk B, Ekofisk X, Ekofisk K in addition to delivering services for deck operations in Greater Ekofisk Area and is for five years fixed with two optional periods of three years each. Estimated commencement of the contract is on or about 1 July 2020.

The contract portfolio for platform drilling is secured through medium to long-term contracts including a number of priced options.

ENGINEERING AND PROJECT MANAGEMENT SERVICES

The Odfjell Drilling & Technology (ODT) business area provides a wide range of engineering, technology support and project management services internally to the Group and to external clients. This business segment is providing engineering services to mobile drilling units, fixed platforms, core business support services and project management. ODT operates from offices in Bergen, Stavanger and Aberdeen.

Despite failing markets with the project and engineering areas from 2014, we retained our key engineering and technology resources within the Group, a decision that made it possible to quickly respond to an improved market from late 2018 and in 2019. Hence, Drilling & Technology has provided extensive engineering services to a number of large projects in 2019 including commission support and supervision of two semisubmersible new-builds Deepsea Nordkapp and Deepsea Yantai with successful delivery on time.

Within the platform drilling market, we have seen proof of recovery and in the last year, we have delivered a number of facility modification and upgrading projects to various clients both in Norway and on the UKCS. The Johan Sverdrup project continued into 2019 and contributed positively to our portfolio.

By the end of 2019 we had a resource base of about 100 engineers with a high utilization throughout the year.

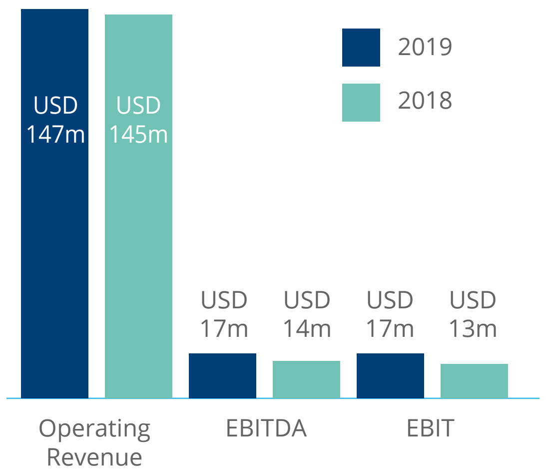
Following increased project activity on both sides of the North Sea, we have in 2019 re-established ODT offices in Aberdeen and Stavanger and expanded or capacity to support operations with integrated engineering and project services.

RIG INSPECTION SERVICES

Rig Inspection Services (RIS) had its 5th year of operation in 2019 and has had a steady growth during all these years. In 2019 we had 20 employed staff and about 120 hired operators in RIS and are today a major player within inspection, access and installation services to the offshore drilling industry. The growth in this segment on the Norwegian Continental Shelf in 2019 was approximately 50%.

Following the re-establishment of the technology division, RIS has been 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 2019 nearly 70% of the services were delivered to external clients. In 2019, the company has taken steps to further increase the range of services, improved service quality and reduced response time.

KEY FIGURES 2019 COMPARED TO 2018



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 45 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 2019 , 519 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;

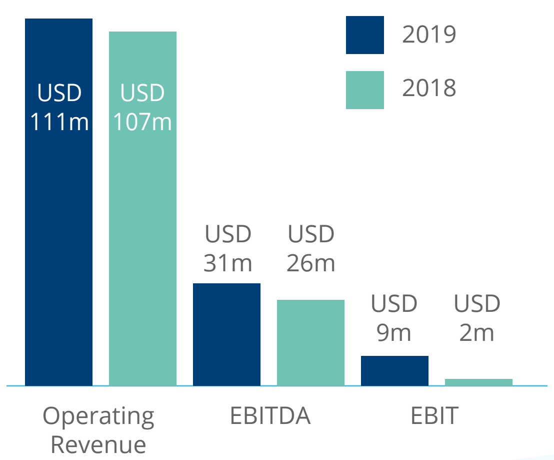
- an employer of choice, having competent and creative employees
- a true international well service company providing world class customer service
- the safest and most efficient provider of well services within our product lines
- meeting the highest quality standards
- the preferred partner for our 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.

Since the downturn in the market started in 2014, it was expected that 2019 was to be a year of recovery. Although this has not happened to the extend we hoped for, OWS has managed to increase both service portfolio and expanded into several new geographical markets. Also, despite fierce competition and the strong pressure on rates, 2019 produced positive results. The introduction into the Wired Drill Pipe (WDP) market has been a success and we expect this to grow in 2020 and beyond. In 2019 OWS implemented a number of improvements both technically and operational. We have further strengthened the management capacity and goal-oriented our business development towards the different geomarkets and clients to improve competitiveness and increase quality deliveries.

KEY FIGURES 2019 COMPARED TO 2018

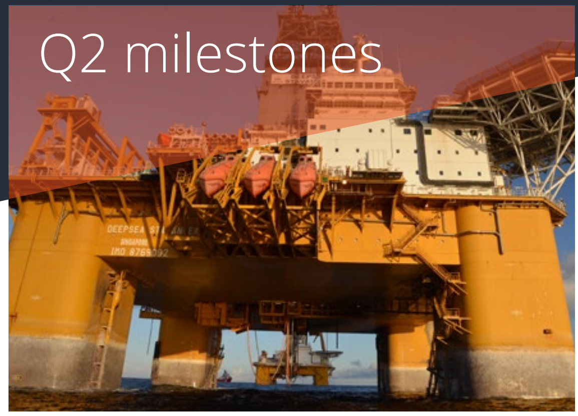


Highlights 2019

Q1 milestones

- Delivery of new semisubmersible Deepsea Nordkapp
- Awarded 2 + 2 years platform drilling contract with BP UK for Clair, Clair Ridge and Andrew installations
- Deepsea Stavanger made major discovery in the extreme challenging Brulpadda South Africa well
- Enter into a drilling contract with Neptune Energy and to take delivery of Deepsea Yantai from CIMC Raffles

Q2 milestones



- Deepsea Nordkapp commenced drilling operations for Aker BP under the exclusive Drilling and Well Alliance Agreement
- ODT announced re-establishement of the engineering and technolgy area in the Stavanger region
- Completed USD 775 refinancing
- OWS UAE recived API Q2 certification for service supply in the oil and gas industry

Q3 milestones

- Deepsea Stavanger was awarded a multi-well contract with Total South Africa with commencment in Q2/2020

Q4 milestones

- Odfjell Well Services introduced a new remotely operated 36” Forum ASD elevator
- Deepsea Yantai commenced drilling operations for Neptune Energy in Norway
- ConocoPhillips awarded Odfjell Drilling the platform drilling contract for the Greater Ekofisk Area
- Aker BP exercised the first 12 month option for Deepsea Nordkapp under the contract from April 2018
- Equinor exercised a 3 + 2 well contract for Deepsea Atlantic under the Master Frame Agreement

ODFJELL DRILLING

04 Executive Management Team

Our Management Team

Simen Lieungh
President and Chief Executive Officer

Mr. Lieungh was appointed CEO of Odfjell Drilling in 2010. He holds a Msc in Mechanical Engineering from the University of Trondheim. He has held various management positions in the oil and gas industry and was previously CEO of Aker Solutions.

Michael Boysen Nielsen
EVP Business Development

Mr. 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, Mr. Nielsen was Senior vice president, Contracts & Marketing of Ocean Rig.

Atle Sæbø
CFO

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

Kjetil Gjersdal
EVP MODU

Mr. Gjersdal has more than 25 years' experience in the drilling and well industry. After joining Odfjell Drilling in 2000, he has held various positions within Operations and Rig Management, such as Rig Manager, VP MODU Operations and SVP MODU International. He holds a Bachelor of Science in Marine & Offshore technology from Ålesund University College.

Jone Torstensen
EVP Chief of Staff

Mr. Torstensen is educated in business economics and administration at Stavanger University College 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.

George Taggart
EVP Well Services

Mr. Taggart has 30 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.

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 more than 20 years of experience from the offshore oil industry and has been working in Odfjell Drilling since 2002.

Bengt A. Olsen
SVP Communications and Information

Mr. Olsen is educated 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 and executive management program from the Norwegian Business School. He has more than 40 years' experience from the shipping and offshore markets and has been with Odfjell Drilling since 1979.

Elisabeth Cecilie Haram
EVP Platform Drilling

Ms. Haram holds a Master of Science degree in Industrial Economics from the University of Stavanger. She has held various management positions within Odfjell Drilling. such as Rig manager, Operations Manager Platform Drilling Norway and Vice President Odfjell Well Services Norway. Ms. Haram joined Odfjell Drilling in 2004 and she has 16 years' experience from the offshore oil industry.

Kurt Werner Holsæter
SVP HR

Mr. Holsæter was 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 in 2018, Mr. Holsæter was a part of the management team in NOV Norway with strategic and operational responsibility for HR in Norway, Denmark and Poland.

Janike A. Myre
SVP QHSE

Mrs. Myre is a business graduate from BI Norwegian Business School, and has completed master programs as well as executive management courses at BI. Mrs. Myre has more than 33 years' experience from leading positions in Gulf, Chevron, Sonat Offshore and Transocean. Mrs. Myre has been with Odfjell Drilling since 2002.

Per Lund
EVP Technology and Sustainability

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.

Quality, Health, Security, and Safety (QHSE)

QHSE OBJECTIVE

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

COMPANY MANAGEMENT SYSTEM WITH POLICIES

Odfjell Drilling is certified to ISO 9001 and ISO 14001 and operates in compliance with the ISO 45001 and ISO 50001 standards where applicable. The Quality and HSE policy along with the Company Management System (CMS), defines requirements and expectations in order to operate in a quality manner.

The CMS identifies responsibilities for developing, maintaining, measuring and continually improving the effectiveness of the CMS. It also stipulates the overall responsibility for compliance with the CMS requirements.

Odfjell Drilling has established Quality and Health policies which are documented in the CMS, featured on posters and published on the Odfjell Drilling website. The Policies are reviewed annually.

The PDCA cycle (Plan-Do-Check-Act) is applied to all processes of the CMS, and annual formal Management Reviews are performed in each Business Areas as part of the continuous improvement process.

QHSE AUDITS

Annual audit plans for 2019 were developed at Corporate and Business Area levels, and both Corporate Management and Business Area Management have taken an active part in the programme development process. The purpose of the audits has been to determine conformity or nonconformity with applicable defined standards, policies and procedures, and to provide the auditees with opportunity to improve their systems and operations.

All 2019 audits were documented and tracked to completion through Synergi action tracker system, including internal audits, audits of suppliers/contractors and audits of Odfjell Drilling (by external parties).

Internal audits were selected and prioritized using a risk-based approach.

RISK BASED APPROACH

Corporate management is responsible for incorporating risk-based thinking in the Group's business processes and culture.

Risks and opportunities are addressed in the strategic planning process for each business area. Through identification and evaluation of risks, opportunities and disruptions on a regular basis at operational level, we ensure objectives are achieved. Actions are taken to mitigate unacceptable risks, take advantage of opportunities and address disruptions to service.

Odfjell Drilling has implemented an enterprise risk management process capturing risks and opportunities at three levels of the organisation: Corporate level, Business area level and Unit (rig, platform, business unit) level. The Board of Directors are informed about the current risk and opportunity situation on a regular basis. The main risks and opportunities also provide input to management review meetings.

We believe that risk management provides an important tool in loss identification, prevention and mitigation. Risks from undesirable events are identified by a planned and systematic review of operations. Odfjell Drilling requires an HSE risk management process be followed for all its global operations. The process must demonstrate that hazards are identified and associated risks are understood and managed in such a way that the risk levels are reduced to as low as reasonably practicable.

ANNUAL QHSE PROGRAMME

Odfjell Drilling's Annual Corporate QHSE programme is established on corporate level, and accompanied by business area specific QHSE action plans. The annual QHSE programme is based on Corporate specific strengths and weaknesses as well as input from client and authorities.

In 2019 Odfjell Drilling has focused on the following main topics:

- Standardization and Simplification
- Risk Management
- Competence Management
- Dropped Objects
- Life Saving Rules
- Human Factors awareness
- Energy Management
- Security

In order both to improve results and to maintain good results, focus on continuous improvement is essential. This is continuous improvement work and some of the main focus areas from 2019 will be carried over to 2020.

Based on Corporate QHSE results in 2019 as well as improvement areas identified through internal management review processes, our main priorities in 2020 are:

- Prevention of Major Accidents
- Simplification and Standardization
- Cyber Security and personnel security
- Well Control
- Dropped objects
- Control of Work
- Life Saving Rules
- Human Performance
- Carbon Footprints

HSE MANAGEMENT

HSE management in Odfjell Drilling is based on the requirements of ISO 14001:2015 and ISO 45001:2018.

The Group works continually to maintain the highest safety standard and protect the health of our employees and others associated with our operations. Safety is a cornerstone in Odfjell Drilling and being 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 high HSE standard 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.

HSE is a management responsibility starting with the commitment of top management and the role of line management.

Odfjell Drilling promote a safety culture based on a solid company management system followed by competence, commitment, mutual respect, empowerment and involvement.

Safety culture reflects our commitment to manage risk and safety as stated in our CMS, and commitment to communicate and act upon safety concerns.

INCIDENT INVESTIGATIONS

Odfjell Drilling carries out investigations of incidents/ accidents at an appropriate level based on the severity and/or potential of the incident/accident. Nine Corporate Investigations were carried out in 2019. This enabled us, in each case, to:

- Discover what caused the incident so as to be able to take action to prevent recurrence
- Identify the actual circumstances surrounding the incident with a view to possible insurance or legal claims
- Satisfy internal and regulatory incident reporting requirements

Corrective and preventive actions as defined in the Investigation Reports are registered in the Synergi action tracker system, followed-up and closed out. Lessons learned are shared both internally and with the industry for further learning purposes in order to prevent recurrence.

WORKING ENVIRONMENT

Odfjell Drilling has a long standing culture of cooperation with Safety Delegates, cooperation based on mutual respect. Safety Delegates are elected/ assigned delegates among offshore personnel who are responsible for monitoring and safekeeping of the working environment, reporting concerns and issues to onshore QHSE management. Working Environment Surveys are performed onshore on an annual basis and offshore bi-annually. Results from the 2019 survey are within our target range.

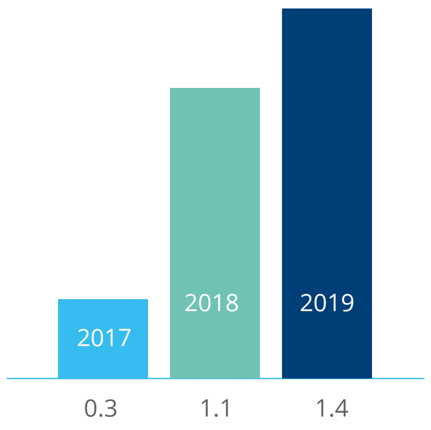
HSE INCIDENTS

In 2019, Odfjell Drilling has managed to maintain a high level of safety with no fatalities. We see continuous low frequency within dropped object high potential incidents and steadily low sickness absence. This is a result of specific improvement programmes described in the Corporate Annual QHSE programme and in the business area's annual QHSE action plans.

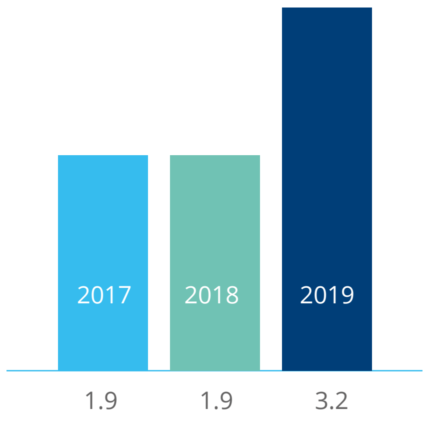
The total recordable incident frequency (TRIF) has had an increase in 2019. We experienced one serious incident in 2019 with potential for disability/fatality under slightly altered circumstances, causing 80 days away from work. None of the incidents resulted in permanent disability. Corrective and preventive mitigating actions have been initiated to turn the TRIF trend throughout the Group.

The IOGP 9 Life Saving Rules were adopted and introduced in 2019 to draw attention to the activities most likely to lead to a fatality, and the live-saving actions over which an individual has control. The reinforcement of the 9 Life Saving Rules will continue in 2020.

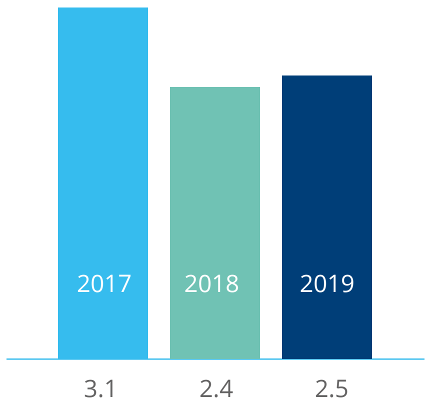
LOST TIME INCIDENT FREQUENCY (H1)*



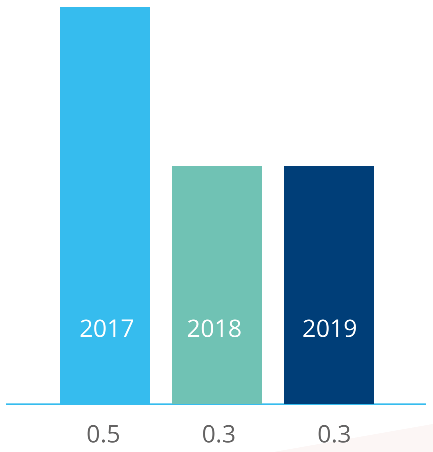
TOTAL RECORDABLE INCIDENT FREQUENCY (H2) *



DROPPED OBJECTS FREQUENCY >40 JOULE *



HIGH POTENTIAL INCIDENTS FREQUENCY



*all frequencies based on 1.000.000 working hours, onshore admin. workhours not included.

SECURITY

Security measures in Odfjell Drilling are designed to safeguard personnel, assets and business from potential security threats, including cybersecurity threats.

Security is an integral part of line management responsibility, the security and protection of employees is the overriding priority of all business activity.

This is achieved by:

- Performing risk analysis in order to identify and manage security risk
- Preventive actions implemented to reduce risk to as low as reasonable practicable
- Security training provided as required
- Facilities, systems and information adequately recorded
- All security incidents and breaches to be reported

Our employees, consultants and contractors are made aware of their personal responsibilities in respect of security matters.

No security breaches were reported in 2019.

EMERGENCY PREPAREDNESS

Annual plans for emergency drills and exercises are established across the Group. Odfjell Drilling has international operations, and in territories prone to natural disasters. The Group has Emergency Preparedness Plans for each of these locations, which are regularly reviewed and amended as part of the Group's management system. The Group is in the process of finalizing Business Continuity plans for the Manila Global Business Support.

In 2019, fourteen internal drills and exercises, in addition to participation in nine client drills and exercises, were performed. Learning from drills and exercises is captured and followed up for further learning purposes.

PERFORMANCE MEASURING AND MONITORING

Odfjell Drilling monitors and reports on agreed HSE Key Performance Indicators on a monthly basis. Reporting to Management on an Operational, Business Area, Corporate and Board level on a monthly basis.

KEY QHSE METRICS

	2017	2018	2019
Lost time incident frequency (H1)*	0.3	1,1	1,4
Total recordable incident frequency (H2) *	1.9	1.9	3,2
Dropped objects frequency <40 joule *	3.1	2,4	2,5
High Potential incidents frequency *	0.5	0.3	0,3
Fatalities	0	0	0
Corporate Incident investigations	8	10	9
Total performed internal and external audits	58	63	67
Onshore emergency preparedness drills internal and with clients	12	10	16

*all frequencies based on 1.000.000 working hours, onshore admin. workhours not included.

LIFE-SAVING RULES

International Association of Oil & Gas Producers

BYPASSING SAFETY CONTROLS

Obtain authorisation before overriding or disabling safety controls

- I understand and use safety-critical equipment and procedures which apply to my task
- I obtain authorisation before:
  - disabling or overriding safety equipment
  - deviating from procedures
  - crossing a barrier

CONFINED SPACE

Obtain authorisation before entering a confined space

- I confirm energy sources are isolated
- I confirm the atmosphere has been tested and is monitored
- I check and use my breathing apparatus when required
- I confirm there is an attendant standing by
- I confirm a rescue plan is in place
- I obtain authorisation to enter

DRIVING

Follow safe driving rules

- I always wear a seatbelt
- I do not exceed the speed limit, and reduce my speed for road conditions
- I do not use phones or operate devices while driving
- I am fit, rested and fully alert while driving
- I follow journey management requirements

ENERGY ISOLATION

Verify isolation and zero energy before work begins

- I have identified all energy sources
- I confirm that hazardous energy sources have been isolated, locked, and tagged
- I have checked there is zero energy and tested for residual or stored energy

HOT WORK

Control flammables and ignition sources

- I identify and control ignition sources
- Before starting any hot work:
  - I confirm flammable material has been removed or isolated
  - I obtain authorisation
- Before starting hot work in a hazardous area I confirm:
  - a gas test has been completed
  - gas will be monitored continually

LINE OF FIRE

Keep yourself and others out of the line of fire

- I position myself to avoid:
  - moving objects
  - vehicles
  - pressure releases
  - dropped objects
- I establish and obey barriers and exclusion zones
- I take action to secure loose objects and report potential dropped objects

SAFE MECHANICAL LIFTING

Plan lifting operations and control the area

- I confirm that the equipment and load have been inspected and are fit for purpose
- I only operate equipment that I am qualified to use
- I establish and obey barriers and exclusion zones
- I never walk under a suspended load

WORK AUTHORISATION

Work with a valid permit when required

- I have confirmed if a permit is required
- I am authorised to perform the work
- I understand the permit
- I have confirmed that hazards are controlled and it is safe to start
- I stop and reassess if conditions change

WORKING AT HEIGHT

Protect yourself against a fall when working at height

- I inspect my fall protection equipment before use
- I secure tools and work materials to prevent dropped objects
- I tie off 100% to approved anchor points while outside a protected area

HSE Policy

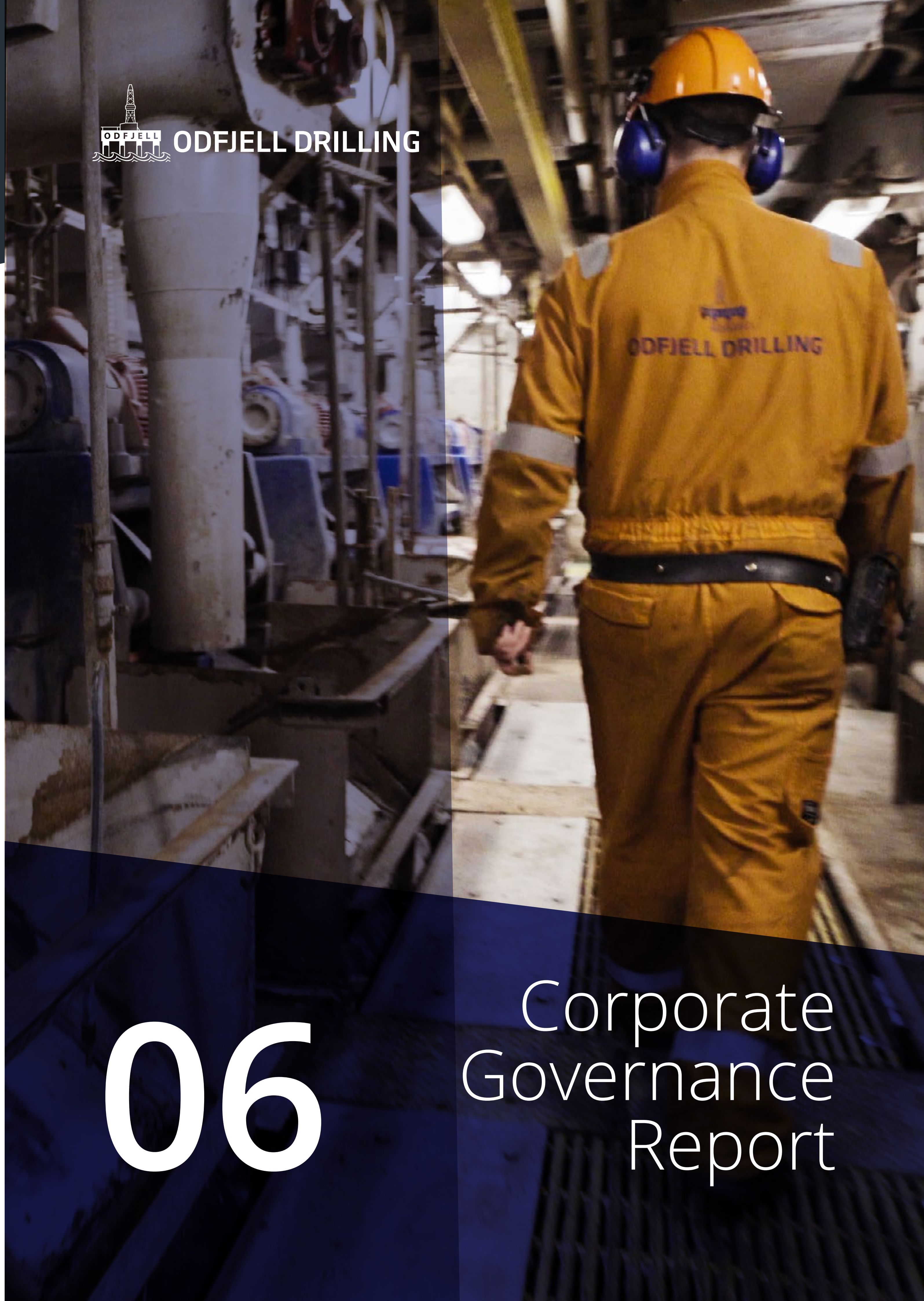
Odfjell Drilling shall maintain the highest safety standard and protect the health of our employees and others associated with our operations. Operations shall be conducted according to sound and environmental principles and in a manner to minimize any adverse environmental impact.

THIS WILL BE ACHIEVED BY:

- Complying with HSE legislation and other relevant requirements
- Developing an HSE culture based on competence, involvement and commitment from all in applying the Odfjell Drilling HSE rules:
  - I will always comply with rules and procedures
  - I will always risk assess my work
  - I will always act when I see unsafe behaviour and conditions
- Avoiding personnel injury, harm to health and the environment through effective risk management as well as by applying the Life Saving Rules
- Monitoring, reviewing and continually improving HSE performance, including energy efficiency, through management by objectives
- Ensuring safety leadership, human factors and environmental stewardship are a prioritized part of management responsibility
- Developing and maintaining emergency response plans to prevent loss to the environment
- Promoting energy saving awareness and use of environmentally preferable processes and technologies
- Evaluating energy efficiency in new design and technologies
- Considering environmental preferable and energy efficient products and services in procurement processes

Simen Lieungh, CEO
28.11.19

Through continuous improvement achieve zero fault



06 Corporate Governance Report

Corporate Governance Report

Odfjell Drilling Ltd. is incorporated in Bermuda and is subject to Bermuda law. Its shares are listed at Oslo Børs, and certain aspects of its activities are therefore governed by Norwegian law. The Company is managed and controlled from the United Kingdom, with the Company's head office being in Aberdeen, resulting in the Company being resident in the United Kingdom for tax purposes. The Company is also subject to the laws of the countries in which it at any time operates, as well as international law and conventions.

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.

The Board of Directors of the Company (the "Board of Directors" or the "Board") maintains a 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. The Corporate Governance Policy is reviewed annually.

Through good governance of the business, the Company seeks to create profitability and increased shareholder value. The Corporate Governance Policy contains measures that are 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 strives 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.

GOVERNANCE STRUCTURE

Shareholders exercise their shareholder rights at General Meetings.

In accordance with the Company's Bye-laws, the Board of Directors has authority to manage and conduct the business of the Company and in doing so may exercise all such powers which, are not by law or by the Bye-laws, required to be exercised by the Company in General Meeting. The Board of Directors is therefore responsible for the overall management, strategic direction and supervision of the Executive Management who carry out the day to day management of the Company and Group.

The General Meeting elects the members of the Board of Directors. Biographies of the Directors can be found at page 50.

The Board of Directors convenes at least seven times per year.

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. This represents a deviation from section 2 of the Code. However, the Company's and its subsidiaries' (collectively, 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 45 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 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 Group 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. In doing so, the Board aims to ensure that considerations relating to the Company's various stakeholders are integrated into the Company's decision-making processes and value-creation.

EQUITY AND DIVIDENDS

The Company had book equity of USD 1.062 million and a book equity ratio of 40 % as of 31 December 2019. The Board of Directors 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. 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.

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 limited companies listed on the Oslo Stock Exchange, 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 will arrange for a valuation to be obtained from an independent third party. An independent valuation will 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. Directors are reminded to declare any such interests at the start of every board meeting. Employees are required to report potential conflicts via an internal portal which is monitored and escalated to the Board if appropriate.

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 Board 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, were subject to a one-year lock-up which ended on 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.

The Board of Directors ensures that:

- the notice, 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 sufficiently detailed 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 if resolved by the general meeting. In accordance with Bermuda law and the Bye-laws, the Chairman of the Board of Directors will chair the Company's general meetings unless otherwise resolved by a majority vote at the general meeting. This represents a deviation 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 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 Board of Directors is comprised of three independent non-executive directors plus the Chairman who is also the majority shareholder. The composition of the Board of Directors ensures that it can act independently of any special interests. A majority of the shareholder-elected members of the Board of Directors is independent of the Company's executive personnel and material business connections of the Company. Three of the members of the Board of Directors are independent of the Company's major shareholder(s).

The chairman of the Board of Directors is determined in accordance with the Company's Bye-laws.

The term of office for members of the Board of Directors is no longer than two years at a time.

As of 31 December 2019, 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 11 meetings in 2019. The absence percentage was approximately 7% in total.

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 meetings 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 attending. If the Chairman is not present, the Directors shall elect among themselves a Chair for the Board meeting. If the Chairman has a material interest or involvement in a particular matter to be resolved by the Board, the Board will consider asking another Board member to chair the discussions regarding that particular matter.

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 business carried out by the Company;

- ensuring that the business of the Company and the Group, 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, reviewing and approving 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 and the Group;
- 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, one of which is considered to be independent.

The Company has not established a Remuneration Committee, but it should in this respect be noted that no member of the executive management is represented at the Board of Directors. Accordingly, the Board of Directors has not considered such committee to be necessary because decisions regarding compensation of executive personnel can be decided without executive involvement at Board meetings. The Board considers that the size of the Company and the Board does not warrant the creation of a remuneration committee.

The Board has not establish any other committees.

The Board of Directors annually evaluates its performance and expertise.

An annual review of Directors' interests is undertaken and Directors' are reminded to declare any potential conflicts at the start of every Board meeting. A register of Directors' interests is maintained.

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, via a whistleblower reporting portal. More information on this is contained within the Sustainability Report at page 46.

The Board receives frequent and relevant reports on financial matters. Management reports covering both operational and financial matters are provided 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 is able to immediately take any action deemed necessary.

These measures ensure that considerations related to the Company's various stakeholders are an integrated part of the Company's decision-making processes and value-creation. Please refer to the Sustainability Report at page 34 for more detail.

The Board also recognises its responsibilities with regards to the Group's values and guidelines for ethics and corporate responsibilities. Core values have been determined to reflect the Group's focus on commitment, safety consciousness, creativity, competency and result orientation, and guidelines for the behaviour of Group representatives are described in detail in the 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 Group's most significant 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 reflects the responsibility of the Board, its expertise and the level of activity in both the Board and any Board committees. The remuneration is not linked to the Company's performance. The Company does 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 Board members are associated have taken on specific assignments for the Group in addition to their appointments as members of the Board of Directors.

The remuneration to the members of the Board of Directors is set out on page 128.

The Company does not deviate from section 11 of the Code.

REMUNERATION OF THE EXECUTIVE MANAGEMENT

Pursuant to Bermuda law and common practice for Bermuda incorporated companies listed in Oslo, the Board of Directors determines the remuneration of the executive personnel of the Company. The remuneration of the Executive Management for the financial year 2019 is reported on page 128.

Taking into consideration the size of the Company and the fact that the Board members are independent of the Company's executive personnel, the Board has not deemed it necessary to establish guidelines for the remuneration of executive management.

This represents a deviation from Section 12 of the Code.

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 is 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. Within these communications, the Company attempts to clarify its long-term potential, including strategies, value drivers and risk factors. The Company maintains an open and proactive policy for investor relations. Detailed investor relations information, including contact information, is available on the Company website.

The Company publishes an annual, electronic financial 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 discloses 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. Shareholders can contact the Company using a dedicated investor relations mail address (IR@odfjelldrilling.com).

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 appointed 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.

Processes are in place to ensure that the Company does not utilise the services of the appointed auditor for advice beyond certain thresholds determined by the Board. 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.

07 Sustainability Report

Sustainability in Odfjell Drilling

97.5 Tonnes CO_2 emissions per contracted day (2018: 92)	**0** red spills to sea (2018: 0)	**2,579** employees (2018: 2,346)
10% total female staff (2018: 10%)	**40** nationalities employed (2018: 40)	**509** employees undergone anti-corruption training (2018: 398)

Odfjell Drilling represents more than 4 decades of being safety conscious, committed, competent, creative and result oriented. Going into the second decade of the 2000's, we see a rapidly changing business environment where conducting business in a sustainable manner is key. Towards the end of 2019, Odfjell Drilling started working on a sustainability strategy for the whole Group. The plan is to implement this strategy in 2020.

Reducing Odfjell Drilling's environmental footprint will be a key focus area in the sustainability strategy. We recognise that the oil and gas industry needs to contribute to emission reduction targets, and we are prepared to do our part together with clients, suppliers, partners and employees. Odfjell Drilling has a strong history for innovation, and we see this green shift as yet another challenge where we need to come up with new solutions to continue to operate safely and efficiently, also from an environmental point of view.

Odfjell Drilling is and has always been a people business, our employees are key in our vision to be chosen for experience and expertise. Consequently, our social responsibility as an employer is one very important success factor in realising this vision.

Finally, having global operations means we need to ensure that we run those operations based on an organizational culture that encourages ethical conduct, and a commitment to compliance with the law. Training and awareness among all our employees are prerequisites to governance based on these standards.

Environment

1 > The environmental program

Odfjell Drilling's environmental program is based on the following principles:

- Use energy and other natural resources efficiently
- Minimize waste generation and promote reduce, reuse and recycle opportunities
- Work systematically to replace or reduce harmful chemicals
- Integrate environmental considerations into planning and development of new activities and products
- Consider environmental performance in selecting suppliers and contractors

These environmental principles are applicable for all activities of the Group, anchored at top level of the company management system and QHSE-program. The Group's QHSE function systematically maps processes and activities that have an impact on the environment. Significant environmental aspects are identified through standardized risk assessments. Our commitment to the environmental impact of the business is reflected in the ISO 14001:1500 certificate, which was renewed on 27 May 2019 for another 3 years.

Each of the five principles, and the connected initiatives will be further detailed in the following.


DNV·GL

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 151949-2014-AE-NOR-NA
Initial certification date: 28 March 2014
Valid: 21 May 2019 - 21 May 2022

This is to certify that the management system of

Odfjell Drilling AS
Kokstadflaten 35, 5863 Bergen, Norway
and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Environmental Management System standard:
ISO 14001:2015

This certificate is valid for the following scope:
Operation of mobile offshore units and platform drilling
Rental of downhole drilling tools, handling and fishing equipment
Tubular running, wellbore cleanup, fishing and remedial services
Rig inspection services
Drilling technology, design and engineering

Place and date:
Høvik, 27 May 2019

NORWEGIAN ACCREDITATION MSYS 002

For the issuing office:
DNV GL – Business Assurance
Veritasveien 1, 1363 Høvik, Norway

Jøran Laukholm
Management Representative

Lack of fulfilment of conditions as set out in the Certification Agreement may render this Certificate invalid.
ACCREDITED UNIT: DNV GL Business Assurance Norway AS, Veritasveien 1, 1363 Høvik, Norway. TEL:+47 67 57 99 00. http://assurance.dnvgl.com

2 > "Use energy and other natural resources efficiently"

2.1 > Introduction

The impact of the Group's business, and where we can contribute the most to emission reduction, is within our Mobile Offshore Drilling Units (MODU) business area. A rig will have materially different energy consumption whether it's at a yard, in transit or operating on site. Drilling operations will also vary greatly depending on type of well, weather conditions and drilling while moored or on dynamic positioning. Drilling efficiently is the best way of reducing emissions, in addition to having operational procedures minimising energy usage while still maintaining all required back-up systems. New technology will enable us to reduce emissions even further, and hybrid technology will be implemented in the Odfjell Drilling fleet in the next couple of years.

2.2 > Energy management

The main objectives with implementing energy management systems within MODU are:

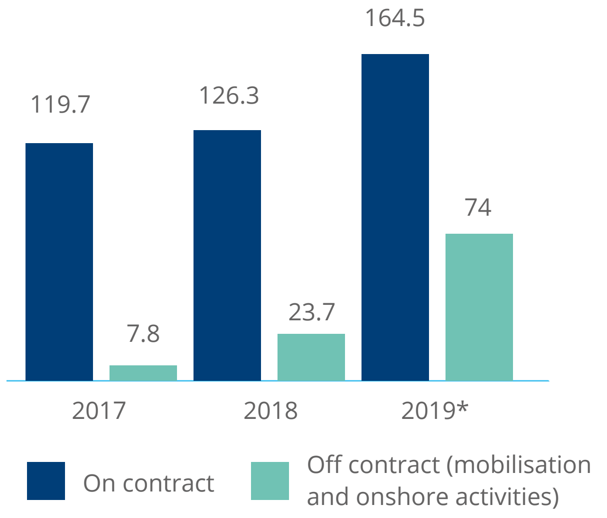
Reduce CO_2 emissions
Reduce NO_x emissions
Reduce fuel consumption
Reduce maintenance cost
Contribute to Odfjell Drilling becoming the chosen drilling contractor based on operational efficiency vs. fuel consumption

MODU has implemented an energy management system in compliance with ISO 50001, with detailed requirements for energy review, baseline definition, energy performance indicators and design improvement. Each rig operates with a separate Unit Specific Energy Management Plan, describing how energy management is implemented and adhered to on each rig. The plan details specific KPIs which are used to monitor energy improvement on a daily basis. By having a consistent focus on energy efficiency, we have so far managed to reduce emissions by approximately 15% on the rigs in question. This is a continuous improvement effort, and we expect to find new ways of operating more energy efficiently to reduce emissions from this alone even further.

One highlight of the environmental efforts in 2019 includes the commitment from the Norwegian NO_x fund to support financially in the implementation of hybrid technology on three of our mobile drilling units. This technology combined with improvements in operational efficiency should enable a CO_2 emission reduction of up to 40%, and is part of Odfjell Drilling's zero emission drilling vision.

Within the other business areas in the Group, our operations are part of a bigger supply chain, where our impact is smaller. We aim to assess this scope further as part of the Group's sustainability strategy work in 2020.

MODU FUEL CONSUMPTION (1000 TONNES)



*Introduction of two new-builds from China and South-Korea, long transit routes to South-Africa and the Barents Sea. Increase of 317 days in operation, and 165 days of transit compared to 2018.

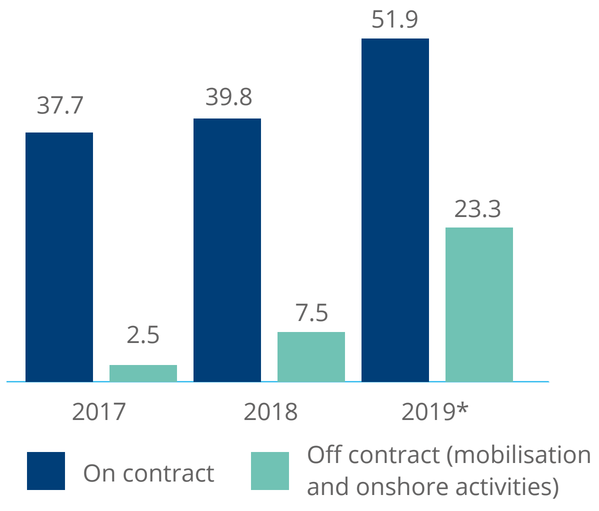
2.3 > Emission management

EMISSION TO AIR

Emission reduction in MODU focuses on finding ways to operate the rigs' diesel generators using less fuel. Operational procedures and new technology are key focus areas, as mentioned above. However, having assets drilling efficiently also has environmental benefits, in addition to reducing well cost for our clients. Reducing well time also means reducing all the other value chain activities that accompanies one day of drilling.

Through 2019, the alliance agreement with Odfjell Drilling, Aker BP and Halliburton has delivered more efficient exploration drilling than ever seen in the industry. With one exemption, all wells are on Rushmore's top 10 list (Rushmore covering all wells drilled on the Norwegian Continental Shelf). Compared to other operators, the exploration wells are delivered with approximately 50% more efficiency (meters/day) on average, and thereby 30% lower cost per meter drilled. This is achieved through integrated collaboration and planning, extreme focus on continuous learning and improvement and "out-of-the-box" thinking only made possible through the alliance.

MODU CO_2 EMISSIONS (1000 TONNES)



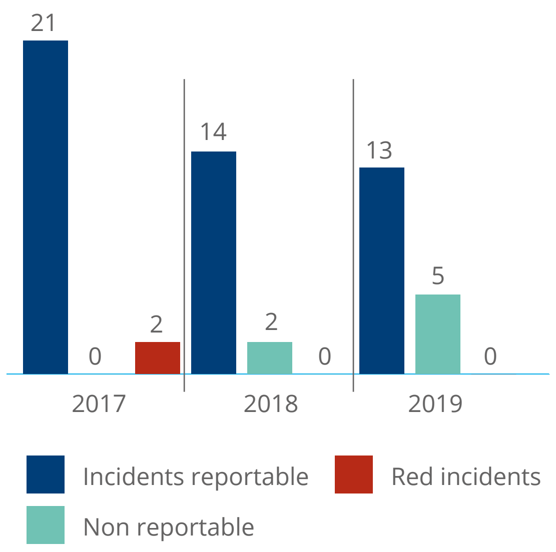
*Introduction of two new-builds from China and South-Korea, long transit routes to South-Africa and the Barents Sea. Increase of 317 days in operation, and 165 days of transit compared to 2018.

EMISSION/DISCHARGE TO SEA

Odfjell Drilling targets to reduce all its' emissions, whether it's to air or the physical environment. Drilling operations implies use of chemicals in drilling fluid, oil based mud etc. Even though a platform or rig is designed to not discharge any spillage to sea, we still have situations where this can occur. Our target is to conduct operations in a manner minimizing the environmental impact, meaning no discharge to sea of environmentally damaging substances.

Discharge to sea is heavily regulated on the UK- and Norwegian Continental Shelf, but while all spills must be reported in the UK, there are classifications of reportable and non-reportable spills on the Norwegian side. We have therefore also included non-reportable spills below, in number of discharge incidents and total annual discharge. Incidents are classified based on an incident classification matrix, where red is considered most severe. If an incident is classified as red, it means that there has been an uncontrolled discharge of a chemical classified as black or red of more than 0.010 m^3, or a chemical labelled yellow or green of more than 10 m^3. Chemicals are classified based on OSPAR and Norwegian requirements for colour coding.

TOTAL SPILLS TO SEA



Section 07 Sustainability Report

3 > "Minimize waste generation and promote reduce, reuse and recycle opportunities"

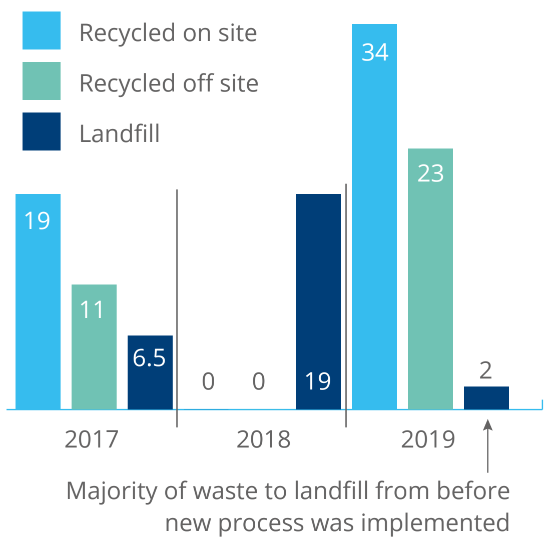
Our waste management policy states that "Odfjell Drilling maintains a high environmental standard in the conduct of onshore and offshore activities, including handling of waste in a manner that does not cause any adverse effect to health or degradation of the environment".

The Group's "green office guideline" provides the guiding principles for our onshore offices, with the purpose of setting out a best practice approach to reduce the environmental impact from office activities. Examples include implementation of energy management related to lights and heating/cooling, efforts to reduce paper consumption in printing and recycling of waste.

In the UK, we reached a milestone in 2019 by achieving close to 0% waste to landfill from our onshore activities (office and workshop) in Aberdeen, after introducing new waste processing. Any general waste will go through a second plant offsite to segregate it in detail to recover as many recycling items as possible. We have had an increase of activity the last couple of years, which also have an impact on the waste generated. In 2020, we will use the learnings from 2019 to increase recycling further on all our locations, mainly using info campaigns to increase awareness.

The data below is from the waste handling supplier's reports.

UK ABERDEEN (ONSHORE ACTIVITIES, INCLUDING OFFICE AND WORKSHOPS), % RECYCLED AND SENT TO LANDFILL OF TOTAL WASTE



Within offshore activities, our services are part of our clients' bigger supply chain, often integrated with other suppliers. Offshore operations generate waste through the drilling operation, but also from catering and other hospitality services provided to offshore crew. Our clients are typically in charge of making sure waste is disposed of in accordance with regulations, and data relating to our contribution is not always accessible. Processes will be reviewed in 2020 with the objective to get accumulated waste data for all offshore operations.

Section 07 Sustainability Report

4 > "Work systematically to replace or reduce harmful chemicals"

As mentioned above, chemicals in drilling fluids or mud can have a damaging impact on the environment. People are handling these chemicals, so there is also a safety purpose behind reducing the number of harmful chemicals in our operation. Consequently, Odfjell Drilling aims to replace as many harmful chemicals as possible, and we have implemented procedures to ensure this across the Group.

Odfjell Drilling has a systematic approach to procurement, approval, registering, usage and disposal of chemicals across all operations. Before a chemical is procured it needs to be approved, and this is subject to a risk assessment where already approved or more environmentally friendly chemicals are always considered. Phasing out harmful chemicals is a continuous effort, anchored at level one in the company management system. Within Odfjell Well Services this has led to 10 types of chemicals being phased out or substituted in the last three years. Last year, we also tested new environmentally friendly chemicals to reduce Chlorine to the wash pot water system on the mobile units, efforts that will be continued in 2020.

5 > "Integrate environmental considerations into planning and development of new activities and products"

If we are going to succeed in ensuring our environmental footprint is reduced throughout our operations, it is key to take this into consideration in an early phase of all projects. It can influence design solutions, technology or choice of project execution to name a few. Consequently, whether it is bidding for a new contract, or planning and executing projects within the organisation, Odfjell Drilling uses the environmental aspects and impact approach, and has its' own "environmental guideline for projects". Examples of environmental considerations taken in all projects phases include generation of waste, risk of discharge to sea, generation of chemical waste, use of natural resources (i.e. re-use or recycling options) and emissions to air.

6 > "Consider environmental performance in selecting suppliers and contractors"

Supply chain management in Odfjell Drilling works continuously to reduce the environmental impact within logistics and procurement. This includes follow up of vendors, pre-qualification, audits, KPI monitoring and keeping an environmental impact register. An impact reduction roadmap working as an action list of initiatives is used throughout the year to keep track of, measure and monitor ongoing efforts. Target setting and reporting will be part of the sustainability strategy in 2020.

For 2019, initiatives included:

- Switching from disposable plastic cutlery to wooden disposables in the catering operations on our mobile units.
- Switching supplier of coveralls to one which does not supply coveralls with teflon coating.

2020 measures include:

- Testing washable shoe covers to reduce the use of plastics
- Testing washing bags which eliminate micro plastics from work clothes
- Re-evaluating logistics and how it can be further optimised to reduce emissions.

ENVIRONMENTAL KEY METRICS

MODU EMISSION DATA

	2017	2018	2019	Comment
Fuel consumption on contract (1000 tonnes)	37.7	39.8	51.9	Fuel definition: Marine Gasoil
Fuel consumption off contract (1000 tonnes)	2.5	7.5	23.3	Fuel definition: Marine Gasoil
CO_2 emissions on contract (1000 tonnes)	119.7	126.3	164.5	Calculation factor based on 044 v. 18 “Recommended guidelines for emission reporting” from The Norwegian Oil and Gas Association.
CO_2 emissions off contract (1000 tonnes)	7.8	23.7	74	Calculation factor based on 044 v. 18 “Recommended guidelines for emission reporting” from The Norwegian Oil and Gas Association.
CO_2 emissions per contracted day (tonnes)	91.6	92	97.5	
NO_x emissions on contract (tonnes)	1,893	1,974	2,157	Nitrogen oxides are calculated with conversion factor tonne fuel/kg NO_x based on the Norwegian regulations on excise tax
NO_x emissions off contract (tonnes)	109	393	1,003	Nitrogen oxides are calculated with conversion factor tonne fuel/kg NO_x based on the Norwegian regulations on excise tax
NO_x emissions per contracted day (tonnes)	1.4	1.4	1.2	Nitrogen oxides are calculated with conversion factor tonne fuel/kg NO_x based on the Norwegian regulations on excise tax
SO_x emissions on contract (tonnes)	40.2	42.4	55.3	Sulphur Oxide emissions are calculated with conversion factor between tonne fuel and kilo SO_x based on Statistics Norway's "Emission factors used in the estimations of emissions from combustion"
SO_x emissions off contract (tonnes)	2.6	8	24.9	Sulphur Oxide emissions are calculated with conversion factor between tonne fuel and kilo SO_x based on Statistics Norway's "Emission factors used in the estimations of emissions from combustion"
SO_x emissions per contracted day (tonnes)	0.003	0.003	0.003	

All data reflects total fuel consumption and emissions irrespective of authority reporting requirement, and whether cost and/or tax is covered by Odfjell Drilling or client.

GROUP TOTAL DISCHARGE TO SEA

	2017	2018	2019
Incidents reportable (non reportable)	21	14 (2)	13 (5)
Total volume - incl non reportable	24.1 m^3	0.236 m^3	2.85m^3
Number of red incidents *	2	0	0

* Red incidents means an uncontrolled discharge of a chemical classified as black or red of more than 0.010 m^3, or a chemical labelled yellow or green of more than 10 m^3. Chemicals are classified based on OSPAR and Norwegian requirements for colour coding.

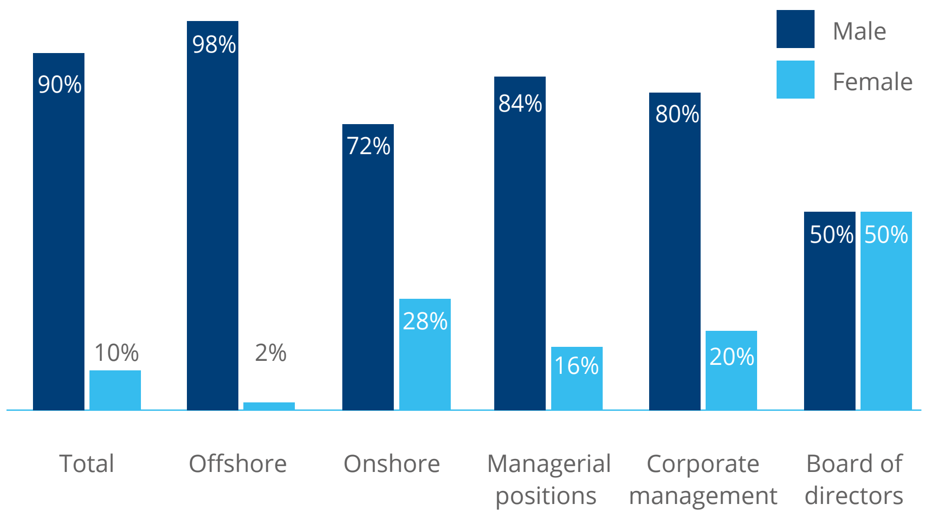
Social Responsibility

1 > The human factor

We have defined people in the organization, and the relationship between people and systems combining experience, technology and values as one of our core competencies. Odfjell Drilling strives to be regarded by employees, customers and the community as being socially and ethically responsible. We aim for:

- a high ethical standard
- commitment on the part of all employees to quality and safety in their work
- a style of management that emphasises delegation and employee development
- guidelines that generate security and trust through correspondence
- cooperation and shared responsibility through mutual respect, honesty, loyalty and responsibility vis-à-vis the society, the organisation and each other.

GENDER DISTRIBUTION ONSHORE, OFFSHORE AND MANAGEMENT POSITIONS 2019



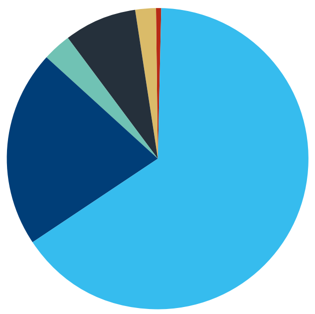
Section 07 Sustainability Report

2 > Diversity

Odfjell Drilling has an international presence and varied business activities. We recognise the importance of diversity as added value to all of our business activities, development plans, projects, growth and technology strategies. Diversity considerations in Odfjell Drilling are not limited to numbers of nationalities employed, but include a non-discrimination policy on nationality, religion, socioeconomic status, race, age, gender, sexual orientation and any other factors irrelevant in a strictly professional assessment of competence and personal characteristics. We believe that it is important to ensure that our employee base has a mix of education levels, skillsets and mind-sets.

We actively support and respect the protection of internationally proclaimed human rights, and ensure that each employee is not discriminated against. We achieve this, with the support of the Executive Management Team, via our Human Resources function. Our HR function manages procedures, recruitment, management training, talent training, and other initiatives related to organisational development, diversity and inclusion. Odfjell Drilling still has a way to go in terms of gender balance. One initiative to improve this is the Odfjell Women's Network (OWN), launched in 2019. OWN's objective is to connect and support female employees in Odfjell Drilling, onshore and offshore.

NATIONALITIES DISTRIBUTION GROUP 2019



- Scandinavia 65%
- Central/Western Europe 21%
- Eastern Europe 3%
- Asia 8%
- Middle East 2%
- Other 0.5%

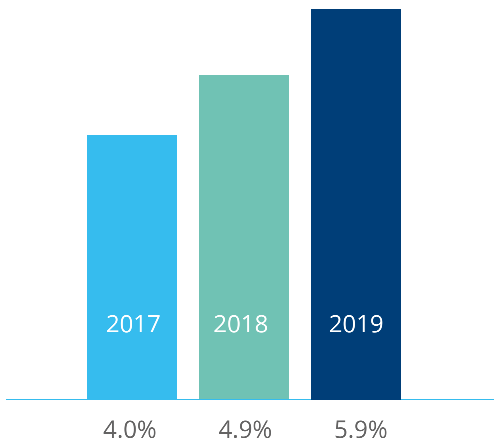
3 > Working environment

We aim to create a healthy, safe and good working environment. We want our employees to be satisfied at work, have supportive colleagues and experience job satisfaction. We continue to develop committed and motivated employees, who focus on providing customer satisfaction at the same time as achieving continuous improvements in all aspects of the Group's operations.

The Group has conducted an Annual Global Employee Work Environment Survey since 2005. They provide valuable information about the working conditions in the organisation and are important tools for promoting, developing and securing a positive working environment. As part of this systematic work, we will perform these surveys on a continuous basis.

Odfjell Drilling had a personnel turnover of 5.9 % in 2019, a small increase compared to the previous years when turnover was very low due to the general market situation for the industry. We consider this to be within an acceptable range.

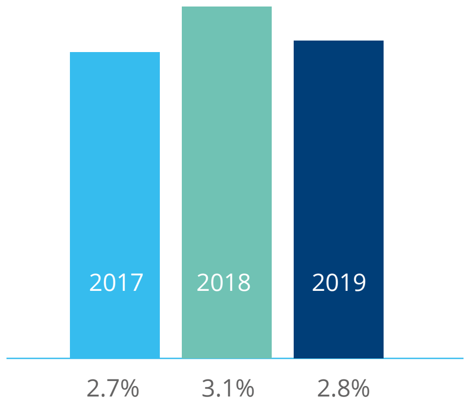
THE GROUP TURNOVER



4 > Sick leave

Improving the working environment and sickness absence management are considered important aspects of maintaining our human resources. Odfjell Drilling has well established procedures to help minimise sickness absence, and to support employees during sickness absence and their return to work. The Group's target for sick leave is <3% or 20% reduction from last year's sick leave. We consider our sick leave levels as healthy, and well within our targets. Odfjell Drilling has well established procedures aiming to prevent sickness absence. Supporting an employee during sickness absence and return to work, are important elements in managing and reducing sickness absence.This includes, but is not limited to; competence training and online courses for both managers and employees in follow-up of sick leave, and formal follow-up plans for the benefit of the employee and the employer.

THE GROUP SICK LEAVE



5 > Human capital development

The Odfjell Drilling Group strives to ensure a flexible organisation that can continuously adapt to market changes and global conditions. The goal for the continued development of our organisation lies in being able to create an organisational culture with good values, attitudes and conditions for collaboration, whereby human resources are developed and nurtured. Our Annual Global Employee Work Environment Survey describes a motivated and qualified workforce that actively contributes to the continuous improvement efforts across the company.

Odfjell Drilling has a continuous focus on employee development programs. Special focus is placed on development of personnel managers under the guiding principle that all employees deserve a trained manager.

We use data from employee surveys, feedback, and likely future scenarios to determine scope and training topics.

Our environmental and sustainability focus for the future will also impact our selection of future training platforms in 2020. Odfjell Drilling has used eLearning platforms for many years. However, our belief that relationships and trust are achieved faster through direct communication channels also means that we try to bring people together to learn. Combining these two concepts of "digital and relational" platforms, 2020 will include leadership training via "virtual classrooms". Working in small groups on a digital platform will ensure a reduction of our environmental footprint and travel time impact compared with traditional classroom participation.

In 2020, we plan to make a significant investment in leadership training targeted specifically toward offshore leaders (all leaders with personnel management responsibility). This programme will be available to over 400 line managers within a two-to-three year period.

PROGRAMMES UNDERTAKEN IN 2019

Expanding Your Leadership (EYL)	One-year program for current and future strategic leaders
Leadership Insights Program (LIP)	Every Employee deserves a trained manager
Your Expanding Talent (YET)	U37 Mentoring and engagement program for High Performers and High Potentials
Maritime Trainee Program	Masters candidates recruitment MODU
Apprentice Programs	Drilling Apprentices - Workshop Apprentices – Office Apprentices
Share Arena	Sharing of employee knowledge through seminars and webinars

6 > Local content - employing nationals

The International Petroleum Industry Environmental Conservation Association (IPIECA) defines local content as *"the added value brought to a host nation (national, regional and local areas in that country, including communities) through the activities of the oil and gas industry"*. This may be measured (by project, affiliate, and/or country aggregate) and undertaken through activities which mainly include workforce development (international oil companies/national oil companies, contractors/sub-contractors), supplier development (all oil and gas goods and services), and community development.

Odfjell Drilling is well aware of the applicable country specific local content requirements we may fall under at any specific time. Our goal is to train local nationals for all positions, including for the specific purpose of taking over positions held by expatriate personnel as we get to know the different individual capabilities and talents. This enables us to ensure safe and efficient operations based on company requirements, as well as contributing to development and economic growth in emerging markets where we are present.

% OF LOCAL STAFF BASED ON NATIONALITY ON EACH LOCATION

Country	Local staff	Country	Local staff
Brazil	100%	Norway	90%
Kurdistan	100%	Turkmenistan	89%
Netherlands	100%	Malaysia	83%
Romania	100%	Saudi Arabia	76%
Philippines	97%	Kuwait	8%
Thailand	94%	United Arab Emirates	0%
United Kingdom	93%	Vietnam	0%

7 > Data protection

While conducting our day-to-day business, we process personal data related to personnel, customers, suppliers and other business partners. As a consequence of the global presence of Odfjell Drilling, personal data is transferred between members of the Group in the course of the Group's legitimate business activities, and to locations outside EU/EEA. We respect individuals' right to privacy and the protection of personal data. We have developed appropriate procedures, in order to ensure consistent and uniform principles for processing of personal data in compliance with EU/EEA regulations.

8 > Social supplier standards

The MLC 2006 requires annual third party audits to ensure compliance in relation to the use of licensed private recruitment and placement services within the MODU segment. Audits of suppliers' frame agreement are carried out yearly by Odfjell Drilling. The general supplier conduct standards are described on our website, under supplier relations: **https://www.odfjelldrilling.com/About/Become-a-supplier/**

As a global drilling contractor, Odfjell Drilling meets all the standards and requirements under The Maritime Labour Convention, 2006 ("MLC, 2006"). This includes the use of licensed private recruitment and placement services where we perform annual third party audits to ensure compliance within the global workforce of Mobile Offshore Drilling Units. The MLC 2006 establishes minimum working and living standards for all seafarers working on ships flying the flags of ratifying countries. It's also an essential step forward in ensuring a level-playing field for countries and ship-owners who, until now, have paid the price of being undercut by those who operate substandard ships.

SOCIAL RESPONSIBILITY KEY METRICS

	2017	2018	2019	Comment
Number of employees	2,045	2,346	2,579	Change of reporting in 2019, number only includes regular and temporary employees. 2018 numbers included hired in personnel. Average hired in personnel in 2019 is 200.
Female % of total	9%	10%	10%	
Women in leadership	9%	14%	16%	From level 5 and up (managing managers, technical/discipline managers)
Sick leave	2.7%	3.1%	2.8%	
Nationalities employed	39	40	40	

Governance

Odfjell Drilling's Code of Business Conduct (COBC) applies to all directors, employees and representatives (together "Personnel"). The purpose of the COBC is to describe the requirements for ethical conduct and provide guidelines for such conduct. The COBC aims to secure an effective compliance programme, promote an organisational culture that encourages ethical conduct and a commitment to compliance with the law.

Odfjell Drilling is committed to a high standard integrity and ethical behaviour in all we do. High standards of conduct are important in maintaining the trust and confidence of our clients, shareholders, business associates and the communities in which the Group operates. All Odfjell Drilling Personnel are expected to comply with high personal and professional integrity.

We believe that having clear ethical and compliance standards in addition to the Group's core values will help to protect our reputation, give confidence to shareholders and investors and reduce uncertainty in business transactions. It is our position that a well-constructed, thoughtfully implemented and consistently formulated ethics programme will help to manage the behaviour of Personnel in compliance with desired performance.

In 2020, we intend to further improve internal awareness and understanding of the COBC.

In addition to the COBC, Odfjell Drilling has in place Corporate Social Responsibility Principles (CSR Principles). Our CSR Principles cover the following 5 aspects:

- Health and Safety
- Environment and sustainable development
- Integrity & anti-corruption
- Diversity & labour standards
- Respect for human rights and contribution to local communities

Our CSR Principles are promoted by:

- Communicating
- Monitoring
- Impact assessments
- Assigning responsibility for promoting CSR Principles
- Seeking to contribute to organisations that are making remarkable efforts to promote good CSR in the communities within which we operate

BUSINESS ETHICS

The Group actively supports and respects the protection of human rights, as confirmed in our COBC. Our global operations are consistent with the spirit and intent of the United Nations Universal Declaration of Human Rights; the International Labour Organization Declaration on Fundamental Principles and Rights at Work, where applicable to the Group's business; and other applicable international principles.

Our Competition Compliance Manual reiterates the importance of compliance with competition law. It clarifies responsibilities, gives Personnel practical advice, explains the implications of infringement and confirms internal contacts for further assistance. In 2019 we carried out Competition law compliance training for approximately 30 employees identified as key resources in this aspect.

ANTI-CORRUPTION AND BRIBERY

Odfjell Drilling strives for high standards of integrity, and we conduct our operations with honesty, fairness and transparency as described through detailed principles and guidelines defined in the COBC. Anti-corruption is included in the COBC.

Odfjell Drilling takes a firm stance in relation to corruption and bribery. Odfjell Drilling has a zero tolerance approach to bribery and corruption, and is committed to acting professionally, fairly and with integrity in business dealings and relationships. To counter bribery and / or corruption the Group has implemented reporting systems such as our whistleblowing portal.

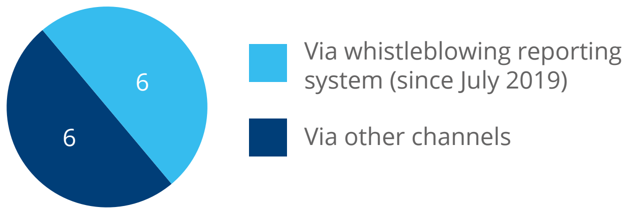
During the year, Odfjell Drilling established a new whistleblowing portal to enable Personnel to report infringements of the COBC or any other ethical concerns. The portal is also accessible for external parties, like clients and suppliers through Odfjell Drilling's external web site.

The portal was announced via intranet news pages, Town Hall meetings and during training- and awareness sessions of the COBC. **The whistleblowing system** is available on the Group's website and intranet.

The system allows concerns and infringements to be reported anonymously. The solution supports anonymous whistleblowing, and an anonymous 2-way dialogue between the whistle-blower and the case investigator from Odfjell Drilling's compliance team. The whistleblowing system is available in English and Norwegian languages. All reported cases are processed seriously by our compliance team, and responded back to the whistleblower without any unreasonable delay. Cases of significant importance will be reported to the Audit committee and to the Board of Directors on a periodic basis.

Personnel will receive protection for making a good faith report of a suspected violation of the COBC.

WHISTLEBLOWING CASES REPORTED



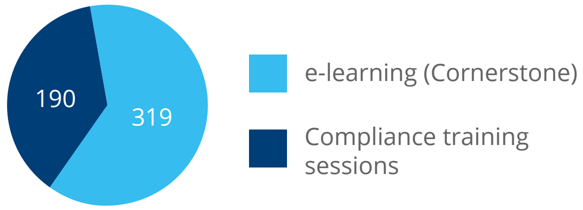
Odfjell Drilling does not tolerate and will not get involved in unethical or illegal business. Facilitation payments are strictly forbidden in our organisation. Odfjell Drilling has a clear ambition that all stakeholders can rely on our integrity.

The Group holds regular information and training sessions to promote compliance with applicable laws, rules and regulations, including applicable securities laws relating to insider trading and anti-corruption laws relating to bribery and corruption. During 2019, the COBC was a topic in the Group's Leadership Insight Programme, and the participants played a new Odfjell Drilling developed Dilemma game to learn more about ethics and the COBC.

The COBC is a featured e-learning course in our HR training portal, and is conducted on an annual basis. All new Personnel are required to complete the COBC course as part of their onboarding. The Group measure the participation and execution of the e-learning course.

Through implemented procedures and training tools, Odfjell Drilling seeks to ensure that all Personnel are aware that any suspicious activity, particularly in relation to bribery and corruption, must be reported. All reports will be investigated and, where necessary, appropriate action taken.

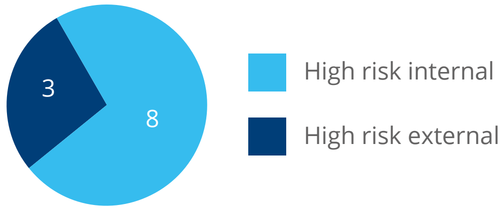
EMPLOYEES UNDERGONE ANTI-CORRUPTION TRAINING



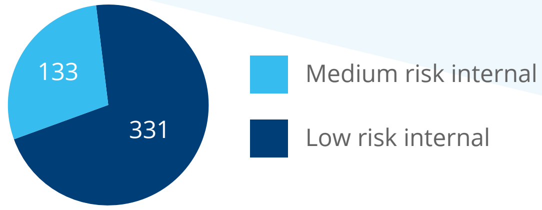
SUPPLIER AUDITS

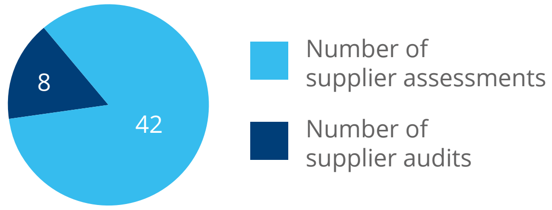
Prior to any form of commitment or entering into contracts, agreements or placing orders with new unknown third parties, Odfjell Drilling conducts a series of risk assessments. The general process for **becoming a supplier** of Odfjell Drilling is a risk driven process, i.e. for a potential high risk supplier a more detailed integrity due diligence is applicable. The suppliers are categorised in different risk classes based on type of transaction, geographical area of provided services, the counterparts residing jurisdiction and type of corporation.

NUMBER OF ANTI-CORRUPTION ASSESSMENTS COMPLETED



NUMBER OF BECOME A SUPPLIER ASSESSMENTS COMPLETED





The audits focus on clarifying to what extent any red flags exists that are not found acceptable for Odfjell Drilling. For a high risk third party, the audit actions would typically involve; monitoring activities such as follow-up visits, audits, compliance checks and invoice checks etc. The audit team would be composed of resources from supply chain and/or the compliance team reporting to the Compliance Officer of the group, based on specific risk assessments.

The supplier assessments are more simplistic audits going through routines of logistics, paper trail etc, typically performed by resources from the supply chain group.

BUSINESS COMPLIANCE PORTAL

Personnel are required to report conflicts of interest for themselves and connected parties via a case-handling portal. Following a comprehensive review of the portal towards the end of 2019, a new compliance portal will launch during 2020. The new portal will enhance the controls and management of gifts and hospitality and potential conflicts of interest. The objective is that programmes and communications associated with the launch of the revised system will raise awareness of anti-corruption measures internally.

No Personnel may accept any personal gift from existing or potential suppliers, vendors, customers or government representatives, unless the gift has insignificant value or a refusal to accept it would be discourteous or otherwise harmful to the Group. This applies equally to offering gifts to any of the abovementioned parties. It is important for the Group to avoid any potential conflict of interests and in the portal Personnel shall report external board positions and ownership in other businesses that may be perceived to be in conflict with the Group's interests, such as competitors, customers or suppliers of the Group.

MODERN ANTI-SLAVERY

Slavery, child labour and human trafficking are serious crimes and a violation of fundamental human rights. The Odfjell Drilling Group conduct our business fairly, ethically and with respect to fundamental human rights. We are fully committed to the prevention of all forms of slavery, forced labour or servitude, child labour and human-trafficking, both in our business and in our supply chains.

We have in place processes surrounding our supply chain management to ensure our suppliers are appropriately vetted and verified in advance of doing business. See "Become a supplier" section above.

Odfjell Drilling publishes its **Code of Business Conduct** on its website.

FREEDOM OF ASSOCIATION

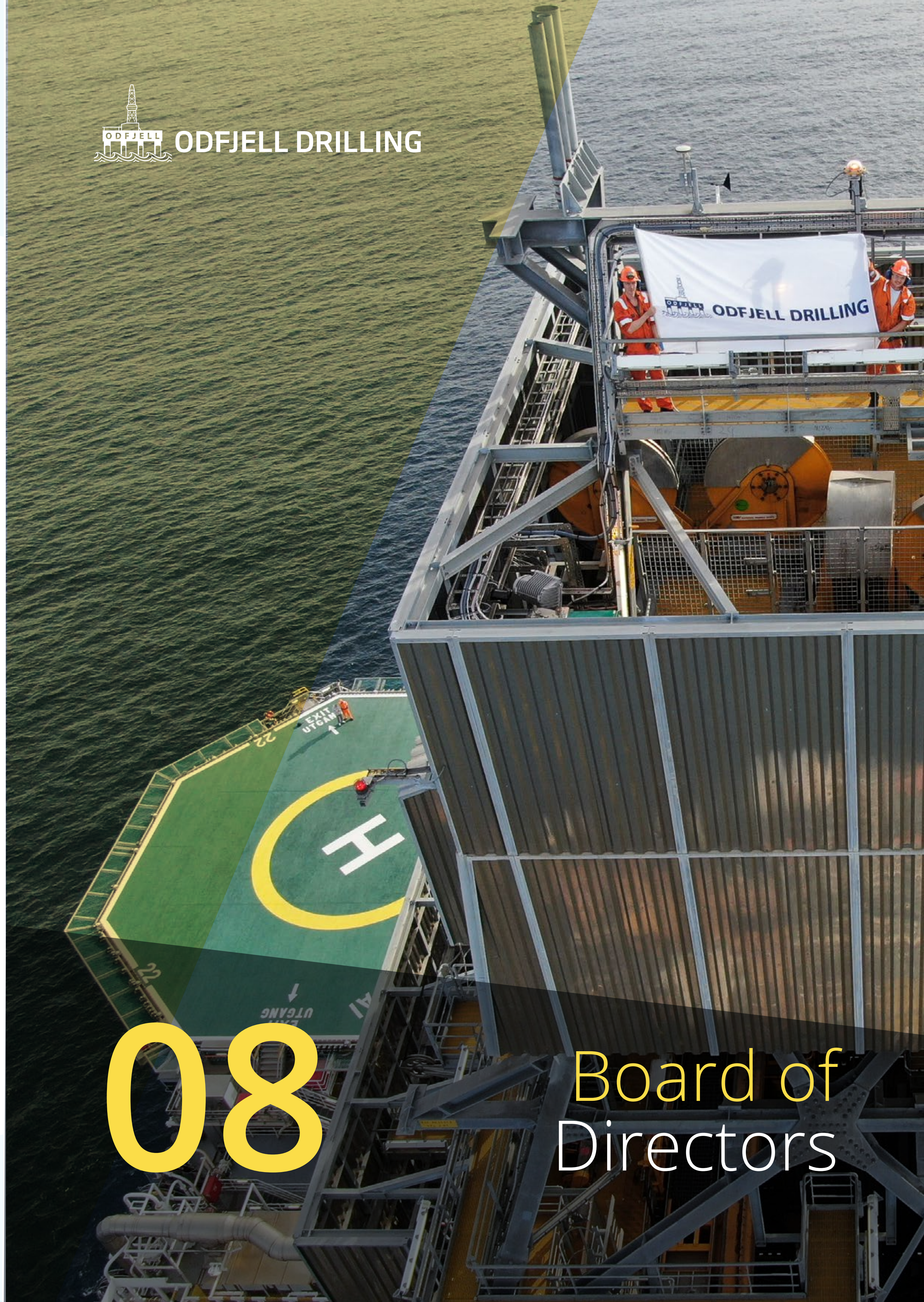
Odfjell Drilling maintains the right to freedom of association and the right to collective bargaining.

TAX TRANSPARENCY

Odfjell Drilling publishes its **tax strategy** on its website.

GOVERNANCE KEY METRICS

	2017	2018	2019
Completed COBC courses	316	335	319
Attendees on compliance training	47	63	190
High risk internal anti-corruption assessments	20	5	8
High risk external anti-corruption assessments	2	5	3
New supplier assessments – medium risk internal	25	100	133
New supplier assessments – low risk internal	129	297	331
Supplier assessments	46	27	42
Supplier audits	12	13	9
Whistleblowing reports- all channels	8	9	12



Board of Directors

Helene Odfjell
Chairman of the Board

Helene Odfjell (born 1965) 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. She was elected Director in September 2013. Mrs. Odfjell controls 142,476,191 shares in the Company."

Susanne Munch Thore
Director

Susanne Munch Thore (born 1960) is a partner with the Norwegian law firm Arntzen de Besche. She 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. Mrs. Munch Thore owns 3,000 shares in the Company.

Thomas Marsoner
Director

Thomas Marsoner (born 1960) 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. Mr Marsoner owns 20,000 shares in the Company.

Alasdair Shiach
Director

Alasdair Shiach (born 1956) 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.

Odfjell Drilling Ltd., (the "Company") is the ultimate parent company of the Odfjell Drilling group, comprised of the Company and its subsidiaries (the "Group"). The Group is an integrated offshore drilling, well service and engineering business 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. The Group also has significant activity in platform drilling and engineering services. The Company has been listed on the Oslo Stock Exchange since 2013. The Group maintains a presence in several regions worldwide, supporting a client base consisting primarily of major oil and gas companies. The Group generated operating revenues of USD 823 million and a net profit of USD 41 million in 2019.

Business and Market Overview

HISTORY

Odfjell Drilling was founded in 1973 and began operating as a drilling contractor in 1974. Over the past 45 years the business has built a rock solid reputation as a trusted drilling partner and services supplier – one that is focused on delivering quality, value and results for its growing customer base.

The firm has extensive contracting experience covering all aspects of operations and the manning of fixed and mobile installations, well services and platform engineering work. Odfjell Drilling is a truly international business, currently conducting projects in more than 20 countries, and has operational expertise in semi-submersibles, jack-up platforms and drillships, as well as modular drilling and well intervention rigs.

CORPORATE STRUCTURE

The Company is incorporated in Bermuda with registered address at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and is tax resident in the United Kingdom with its head office at Bergen House, Crawpeel Road, Altens, Aberdeen, AB12 3LG.

Information regarding related parties can be found at note 30 to the Consolidated financial statements.

The Group is organised into three main business segments:

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

CORPORATE STRATEGY

The mission of Odfjell Drilling is to continue to be an experienced, competence-driven international drilling contractor for harsh and deepwater operations, chosen by clients for our expertise and reputation.

Quality, Health, Safety and Environment Management are considered by Odfjell Drilling to be of paramount importance. We strive for high quality performance and safe and secure operations through continuous improvement strategies. We aim for organisational robustness, zero injuries and failures, strong cyber and physical security and stringent well controls.

Market Position

Become number one harsh environment offshore driller

Mobile Offshore Drilling Units

Continue high performance and increase capacity

Services

Continue to develop a stronger service provider within Well Services, Platform Drilling and Technology

Improvement Programmes

Drive continuous business improvement

Business Predictability

Sustain a healthy contract portfolio consisting of medium to long term contracts

Section 09 Board of Directors Report

Strategic focus and financial priorities

Strategic Focus

- Be the preferred harsh environment driller
- Frontrunner in the green shift
- Continue to develop as a strong service provider
- Health order backlog
- Continuous business improvement program

Financial Priorities

- Maintain sufficient financial strength and sound leverage ratio
- value adding growth
- secure sustainable dividend capacity

We continue to maintain our onshore support centre and real time collaboration. This philosophy defines not only the team-focused character of the Group, but also the way we run our rigs. Odfjell Drilling has invested in onshore support centres to operate as the nerve centres of our offshore rigs, providing the best technological and management support to back up the hands-on expertise of our colleagues at sea. This integrated approach delivers tangible benefits for our clients, namely -

- Increased efficiency
- Reduced down time
- Reduced costs
- Improved planning and security

Odfjell Drilling has a clearly defined process for developing and managing strategic direction which involves analysis, planning, monitoring and executing strategies.

Core Values

Our core values are to be committed, safety conscious, creative, competent and result orientated.

Commited	Safety conscious	Creative	Competent	Result oriented
We develop committed and motivated employees who focus on providing customer satisfaction at the same time as achieving our goals.	We operate in such a manner that our employees, partners, customers and owners can be assured that safety is at the centre of all we undertake.	We are forward-looking and creative in finding new ways of handling challenges that result in safer and more effective solutions.	We deliver products and services of the highest quality by providing state-of-the-art management systems and highly qualified personnel.	We focus on financial discipline by being competitive and by delivering superlative results for our stakeholders.

EQUITY & SHARES

The Group had book equity of USD 1,062 million and a book equity ratio of 40 % as at 31 December 2019. The Company has only one class of ordinary 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 are treated on an equal basis.

Preference shares are issued to an affiliate of Akastor ASA. The preference shares do not carry any voting rights. The preference shares entitle the holder(s) to a preferred payment in kind dividend of 5% per annum capitalised semi-annually, as well as a cash dividend of 5% per annum paid semi-annually.

The Company's constituting documents do not impose any transfer restrictions on the Company's ordinary shares and the shares are freely transferable in Norway, except, 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 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. The Company does not foresee that this provision will impact on the free transferability of its shares.

The number of ordinary shares issued in Odfjell Drilling Ltd. as at 31 December 2019 is 236,783,202.

On 30 May 2018 the Company issued warrants for 5,925,000 ordinary shares for a total consideration of USD 1.00. The Warrants remain exercisable in six equal tranches from 2019 to 2024.

The Company has not established any share purchase program for employees as at 31 December 2019.

The Company is not aware of any shareholder agreements or any other agreements which limits trading of the Company's ordinary shares or voting rights as at 31 December 2019.

TAXATION

The Company, and a number of its subsidiaries are tax resident in the United Kingdom. The Company has published its tax strategy on its website in compliance with the UK Finance Act 2016 Schedule 19.

The overall aim of the tax strategy is to support the business by maintaining a sustainable tax rate, while mitigating tax risks and complying with rules and regulations in the applicable jurisdictions in which Odfjell Drilling operates.

The Group maintains internal policies and procedures to support its tax control framework and provides training to its personnel to manage tax risk.

The tax strategy aligns to the Group's wider risk and control framework. Key risks and issues related to tax are escalated to and considered by the Group Audit Committee and Board of Directors on a regular basis.

The Group operates presently in approximately 20 countries and is exposed to a variety of tax risks as follows:

a) Tax compliance and reporting risks;

b) Transactional risks; and

c) Reputational risks

Tax risks are managed by oversight functions. Where appropriate, the Group looks to engage with tax authorities to disclose and resolve issues, risks and uncertain tax positions. The subjective nature of global tax legislation means that it is often not possible to mitigate all known tax risks. As a result, at any given time, the Group may be exposed to financial and reputational risks arising from its tax affairs.

The Group recognises it has a responsibility to pay the level of tax as required by the laws of the jurisdictions in which it operates. The Group also has a responsibility to its shareholders to structure its affairs in an efficient manner.

The Group seeks to comply with its tax filing, tax reporting and tax payment obligations globally and to foster good relationships with tax authorities.

Focus Areas

During 2019, Odfjell Drilling has continued to build upon initiatives set in previous years. We have also launched some new projects to ensure that we adapt to changes in the market. Odfjell Drilling strives to be competitive in everything that we do.

EDGE (EXPERTISE, DISCIPLINE, GROWTH AND EFFICIENCY)

Continuous improvement is something which Odfjell Drilling considers to be vital. EDGE was launched in 2017 as our business performance management system, and continues to support and develop progression of the business in a structured manner by reinforcing our focus on strategic direction and sustainability; operational and commercial performance; people; risks and opportunities and business improvement.

EDGE – OUR MANDATORY BUSINESS PERFORMANCE MANAGEMENT SYSTEM

Strategic Direction & Sustainability
✓ Pro-active and flexible strategic approach
✓ Ahead of our competitors
✓ Improved competitive edge through integrated sustainability strategy
Operational & Commercial Performance
✓ Hands on approach
✓ Focused and disciplined
✓ Monitoring and improving
People
✓ Leadership capacity and capabilities
✓ Motivated and skilled workforce
✓ Positioning for next generation workforce
Risk & Opportunities
✓ No surprises!
✓ Early warnings
✓ Increased focus on risk management
Business Improvement
✓ Continuous improvement
✓ Priotities based on current business needs, issues and/or opportunities

SWITCH

SWITCH was launched in April 2019 and forms a part of the EDGE program. SWITCH focusses on moving more activities to a shared services centre in Manila, Philippines. Utilizing and growing our Manila location is helping to support growth at stable cost levels. This predictability is helping to maintain our competitive edge. SWITCH is about streamlining and standardising processes; either through digitalisation and/or centralising of tasks. In 2019 the Manila ratio (headcount in Manila/total headcount) for the Global Business Services function (GBS) has increased from 22 % to 29 %. The Switch project has a total duration of 3 years (end 2021) with a target GBS Manila ratio of 38 %.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT (QHSE)

HSE management in Odfjell Drilling is based on the requirements of ISO 14001:2015 and ISO 45001:2018.

The Group works continually to maintain the highest safety standard and protect the health of our employees and others 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 considered essential. The systematic work of improving QHSE never ends and we are working purposefully and relentlessly to maintain a high QHSE standard within all our activities. A safe operation is also an efficient one, and we consider it vitally important to treat safety as an integrated part of our operations.

More detail regarding QHSE activities and related data can be viewed at page 19 of this report.

ENVIRONMENT, SOCIAL & GOVERNANCE (ESG)

In 2020, the Group will implement a sustainability strategy where Environment, Social Responsibility and Governance form the foundation. Odfjell Drilling has a vision to be a frontrunner in the green shift, and 2019 included several milestones for our initiatives within the "zero emission drilling" concept. As a global organisation, we have a diverse group of employees from all over the world. In 2019, we implemented new data analytics tools that has materially improved our ability to track the demographics of our employee base, and measure the impact on improvement initiatives. Odfjell Drilling's Code of Business Conduct sums up how the Group shall conduct its' business. In order to ensure that we have a centralised tool for appropriate reporting of any breaches of this code, a new whistle-blower portal was introduced for the whole Group in 2019. More detail regarding ESG matters and sustainability can be viewed at page 34 of this report.

TECHNOLOGY & DIGITALISATION

The Group's strategy for technology and digitalisation is to strengthen its competitive edge, and to create value for the Group and its customers. The main focus areas are:

- Automated drilling control
- Rig efficiency, in particular for harsh environment drilling operations
- Expansion of well service products and services
- Cost efficient operations and support functions
- Reduced carbon footprint

The Group participates actively in joint industry research and development projects in the automated drilling control domain and has an ambition to be a leader in implementing such solutions in its drilling operations.

The Group's fleet of 6th generation, harsh environment mobile offshore drilling units have proven to have a world leading operability with capabilities of working efficiently through storms and challenging conditions. Digital solutions are being developed and implemented to improve understanding of the operational limits while operating in harsh environments.

Odfjell Well Services continues to develop the portfolio of products and services relevant for its main product lines. During 2019, the main focus has been on wellbore cleanup, tubular running and casing while drilling services.

Cost efficient operations and support functions are considered key to maintaining competitiveness and EBITDA margins. Significant effort has been spent on improving IT systems and implementing new digital technologies to support this objective. The Well Services business has successfully implemented additive manufacturing for production of parts, thus reducing cost of ownership significantly.

The increased environmental focus (known as the green shift) and the requirements for operating with a minimum carbon footprint are key areas for the Group's technology focus. The Group participates in research and development projects piloting hybrid power solutions with flywheels, and sees these solutions as important enablers to reduce emissions to air from its fleet of mobile offshore drilling units. Further technology initiatives are being worked on as part of the Group's journey towards zero emission drilling.

Development of new technologies and digital solutions is carried out in close collaboration with the Group's strategic suppliers. The internal focus for the Group is to develop the concepts and actively use external suppliers to deliver and support the solutions required to realise the concepts.

Segment Overview

Activity in respect of the three main business segments is summarised below.

MOBILE OFFSHORE DRILLING UNITS

The Group's semisubmersible drilling units have performed drilling operations in Norway, UK, and South Africa during 2019.

Deepsea Stavanger

Deepsea Stavanger started drilling operations for Total offshore South Africa in December 2018 and returned to the Norwegian Continental Shelf (NCS) under the alliance agreement with Aker BP on 7 April 2019. A new contract was signed with Total in July 2019 for a drilling project in South Africa. The contract value including compensation for mobilisation and demobilisation periods is estimated as being USD 145 – 190 million plus incentives.

Deepsea Nordkapp

The newbuild, Deepsea Nordkapp was delivered in January 2019 and commenced drilling operations under the Aker BP alliance agreement on 10 May 2019. Aker BP exercised the first optional year.

Deepsea Atlantic

Deepsea Atlantic has been drilling for Equinor on the NCS.

Deepsea Aberdeen

Deepsea Aberdeen has been operating for BP West of Shetland (UK).

Deepsea Bergen

Deepsea Bergen performed drilling operations for Ithaca on the UK Continental Shelf (UKCS) until May 2019 and thereafter commenced operations with OMV Norge and MOL Norge on the NCS.

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.

Deepsea Yantai

In March 2019, a four year management agreement for Deepsea Yantai was secured. The agreement also secures the exclusive right to purchase the unit and a right of first refusal on any offers to purchase after the exclusivity period has ended. Deepsea Yantai commenced drilling with Neptune Energy Norway on 31 October 2019. The contract is for 8 + 8 wells.

DRILLING & TECHNOLOGY

Drilling & Technology comprises three business areas:

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

Platform Drilling

In 2019, Platform Drilling delivered integrated drilling and engineering services in Norway and the UK. The business area provides 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. Drilling services on 12 fixed installations on the NSC and UKCS were achieved during the year.

The business area comprises a balanced and commercially robust portfolio which has delivered a strong performance for the year.

Drilling and maintenance operations were undertaken for TAQA, BP and Serica Energy installations. Plugging and abandonment of the Eider platform was also completed. In 2019 manning of the Mariner installation for Equinor was completed.

On the Norwegian Continental Shelf, Odfjell Drilling has performed drilling and maintenance operations for Equinor and Wintershall.

In December 2019, ConocoPhillips Norway awarded a five year platform drilling contract for The Greater Ekofisk Area to Odfjell Drilling.

Engineering and Project Management Services

A wide range of engineering, technology support and project management services are provided by this part of the business to the Group's other segments and external clients.

Extensive engineering services were provided to a number of large projects in 2019 including commission support and supervision of two semisubmersible new-builds: Deepsea Nordkapp and Deepsea Yantai.

Following increased project activity on both sides of the North Sea, we have in 2019 re-established Drilling Technology offices in Aberdeen and Stavanger and expanded our capacity to support operations with integrated engineering and project services.

Rig Inspection Services (RIS)

Rig Inspection Services has achieved a steady growth during the year.

Following the re-establishment of the technology division, RIS has been fully integrated under the Odfjell Drilling Technology umbrella with synergies across both business areas. In 2019, steps were taken to further increase the degree of services, improved service quality and reduced response time.

WELL SERVICES

Well 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.

Since the downturn in the market started in 2014, it was expected that 2019 was to be a year of recovery. Although this has not happened to the extend we hoped for, Well Services has increased its portfolio and expanded into new markets. Despite fierce competition and the strong pressure on rates, 2019 delivered relatively positive results. The introduction into the Wired Drill Pipe market has been a success. During the year, a number of improvements both technical and operational were made. Management capacity has also been strengthened.

More detail regarding the activities of each business segment can be found at page 6 to 12 of this report.

Outlook

The drilling and oil service market has developed positively in recent years due to strong focus on cost discipline and more efficient operations, combined with a healthier oil price development. We have over time observed an increased appetite for field development and production spending across the segment, however with some regional differences.

The recent negative developments, with the COVID-19 outbreak and the negative shift in the oil price, have however increased the uncertainty within the drilling and oil service market. It is expected that the oil companies will continue to monitor the market fundamentals closely and adjust their activities in the short to medium term.

We consequently expect the overall utilization of the total available drilling fleet to remain at low levels, in particular for ultra deep and benign water operations. The modern harsh environment drilling fleet is currently fully utilized and we believe utilization will remain at high levels also going forward, however some reduction in overall demand and prices should be expected. We further expect that the market weakness will trigger more scrapping and further eliminate any new supply in the short to medium term.

Odfjell Drilling is benefiting of having a modern fleet, primarily consisting of high end harsh environment 6th generation units with strategic frame agreements with core clients such as Equinor and AkerBP. Despite the uncertain demand for drilling services, we believe our Group is well positioned to add more backlog in these challenging times due to our operational track record, strong client relationships combined with a healthy financial balance sheet.

OWS is still facing fierce competition for its services globally. Even though we have observed an increase in operational activity in the European and Middle East markets recently, the current market turbulence is expected to impact the demand for OWS' activities in the short to medium term.

Lastly, the Drilling & Technology division has experienced an increase in demand for its services over the last period. In general, the market for Platform Drilling activities has traditionally been stable during the last decade and we expect this to continue. The Technology division will continue to face low activity as maintenance and upgrade projects are expected to be put on hold due to the overall situation.

Section 09 Board of Directors Report

Financial Review

CONSOLIDATED ACCOUNTS

(Comparable figures in brackets)

INCOME STATEMENT

Odfjell Drilling generated operating income of USD 823 million in 2019, an increase of 18% (USD 698 million).

The operating profit (EBIT) amounted to USD 147 million (USD 99 million). The increase of USD 48 million is mainly due to increased EBIT from the MODU segment. Implementation of IFRS 16 Leases has affected EBIT 2019 positively with USD 8 million, while the EBIT 2018 was positively impacted by a pension adjustment of USD 6 million.

Net financial expenses amounted to USD 103 million (USD 67 million). The gain of USD 10 million from bonds and warrants in Golden Close Maritime Corp. Ltd., affected the net financial expenses positively in 2018. The remaining increase of USD 26 million includes change in fair value of warrant liabilities and recognised modification loss related to the extension and amendment of the Drilling Services USD 250 million bank facility, in addition to an increase in interest expenses.

The profit before tax amounted to USD 44 million (USD 31 million).

The income tax expense amounted to USD 3 million (USD 4 million) and the net profit for the Group was USD 41 million (USD 27 million).

Profit for the period was USD 41 million (USD 27 million).

Total comprehensive income was USD 42 million (USD 22 million).

BALANCE SHEET

Consolidated total assets as at 31 December 2019 amounted to USD 2,686 million (USD 2,276 million).

Total non-current assets amounted to USD 2,313 million (USD 1,960 million), an increase of USD 353 million, mainly due to the new mobile drilling unit (Deepsea Nordkapp) in addition to right-of-use assets (IFRS 16 Leases) amounting to USD 46 million.

Current assets amounted to USD 373 million (USD 316 million), of which USD 170 million was cash and cash equivalents (USD 175 million).

Total equity amounted to USD 1,062million (USD 1,024 million), and increase of USD 38 million. The equity ratio was 40 % (45 %).

Total liabilities amounted to USD 1,624 million (USD 1,253 million), reflecting an increased interest-bearing debt of USD 296 million, mainly due to financing of the new mobile drilling unit (Deepsea Nordkapp). Net interest bearing debt (excluding lease liabilities) amounted to USD 1,221 million (USD 920 million). In addition lease liabilities (IFRS 16 Leases) amounting to USD 47 million.

CASH FLOW

Cash flow from operating activities amounted to USD 198 million (USD 221 million). The difference from EBIT in 2019 is mainly explained by depreciation and amortization offset by interest paid and a negative change in working capital.

The cash outflow from investing activities amounted to USD 428 million (USD 293 million). mainly due to capital expenditures related to the new mobile drilling unit (Deepsea Nordkapp).

The cash flow from financing activities amounted to USD 231 million (USD 88 million). Net cash flow in 2019 from the drawn credit facilities amounted to USD 805 million. USD 400 million was used for repayment of the former Odfjell Invest facility, while USD 164 million was used for instalments on credit facilities.

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 2019, 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 18 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 2019.

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 loss for the period of USD 2 million (profit USD 170 million). The net loss for 2019 was mainly due to change in fair value of the warrant liability, offset by guarantee commissions from subsidiaries and reversal of impairment of investment in subsidiaries. The change from 2018 was mainly due to dividends from subsidiaries received in 2018.

Total assets in the Parent Company amounted to USD 1,387 million as at 31 December 2019 (USD 1,408 million). The decrease of USD 21 million was mainly due to change in other current receivables towards subsidiaries.

Equity in the Parent Company amounted to USD 1,036 million (USD 1,042 million), corresponding to an equity ratio of 75 % (74 %).

Cash outflow from operating activities was USD 6 million (Cash flow USD 6 million). The cash outflow in 2019 was mainly related payment of current liabilities.

Cash flow from investing activities was USD 65 million (cash outflow USD 221 million). The cash flow in 2019 was proceeds received from subsidiaries related to current and con-current loans and receivables.

Cash outflow from financing activities was USD 67 million (cash flow USD 236 million). The cash outflow in 2019 is mainly explained by payments on borrowing facilities from subsidiaries.

ALLOCATION OF PROFITS

The Board of Directors proposed the following allocation of the year's loss of USD 2,347,000 in 2019 for the Parent Company Odfjell Drilling Ltd.:

Transferred from other equity: USD 2,347,000

Total allocated USD 2,347,000.

SEGMENT REPORTING

Mobile Offshore Drilling Units

Operating revenue for the segment in 2019 was USD 599 million (USD 476 million), an increase of USD 123 million. This change is mainly due to Deepsea Nordkapp commencing operations in the second quarter of 2019, added revenue for Deepsea Stavanger from the Total South Africa project in the first quarter of 2019, and management for Deepsea Yantai.

EBITDA in 2019 for the segment was USD 291 million (USD 226 million), an increase of USD 65 million. The EBITDA margin in 2019 was 49% (47%). The change in EBITDA is mainly due to the operation of Deepsea Nordkapp and the Total South Africa project for Deepsea Stavanger.

EBIT in 2019 for the segment was USD 138 million (USD 94 million), an increase of USD 44 million. The increase in EBIT relates to the changes as explained above.

Drilling & Technology

Operating revenue for the segment in 2019 was USD 147 million (USD 145 million), an increase of USD 2 million due to increased activity level.

EBITDA in 2019 for the segment was USD 17 million (USD 14 million), an increase of USD 3 million. The EBITDA margin in 2019 was 12% (9 %). The increase in margin shows improving operational performance.

EBIT in 2019 for the segment was USD 17 million (USD 13 million), an increase of USD 4 million from 2018 due to the same reasons as mentioned above.

Well Services

Operating revenue in 2019 for the segment was USD 111 million (USD 107 million). An increase in both the European and MEAA markets full year revenue was offset by a reduction in the Norwegian market, which suffered a difficult first quarter.

EBITDA in 2019 for the segment was USD 31 million (USD 26 million). The EBITDA margin in 2019 was 28% (24%).

EBIT in 2019 for the segment was USD 9 million (USD 2 million).

Risk Review

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 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 clients' 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. Reference is made to chapter about subsequent events regarding Covid-19 and oil prices. 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 2020, by (i) further cost reduction and efficiency improvement programmes 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 GIEK (Garantiinstituttet for eksportkredit) / 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 2019.

Liquidity Risk

Odfjell Drilling held cash and cash equivalents amounting to USD 170 million at the end of 2019, in addition to available drawing facilities of USD 25 million. This is deemed to be sufficient funding for the Group's current activity levels and committed capital expenditures during 2020. The Group monitors the total liquidity and will take measures if necessary.

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

Going Concern

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.

Taking all relevant risk factors and available options for financing into consideration, including subsequent events regarding Covid-19 and oil prices, the Board has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

Subsequent Events

EQUINOR AWARDED MORE WORK TO DEEPSEA ATLANTIC

On 26 February 2020, Equinor exercised two optional wells for Deepsea Atlantic under the Master Frame Agreement. The wells have been awarded under the Continued Optionality mechanism in the Contract entered into between the parties in May 2018.

CORONAVIRUS AND OILPRICES

Given the recent outbreak of Coronavirus disease (COVID-19), it is extremely difficult to estimate the further development of the pandemic and its consequences. The crisis situation in combination with the ongoing oil price war has significant implications for the global economy, which has resulted in a sharp decline in oil prices, as well as the stock markets during the first half of March.

The consequences have also reached the oil service industry, as most segments have transformed to reduced activity. Although it is still too early to measure the full economic impact of Coronavirus, we will be fighting this new pandemic for some time to come, and in the short term, we will probably see a reduction in demand and day rates. This in turn could reduce revenue and thereby worsen the liquidity situation. The current order backlog and no signals from customers about the use of force majeure clauses, reduces the Group's exposure to a limited degree as long as operations are maintained.

In response to the outbreak, numerous governments and central banks are launching programmes to provide assistance to certain industries and populations. These programmes and additional assistance that are likely to come will help to stabilise the financial situation. The Group has prepared action plans to maintain operations, and through this achieve access to sufficient liquidity as a basis for the going concern assumption.

The Board of Odfjell Drilling Ltd.

21 April 2020, Aberdeen, United Kingdom

Helene Odfjell Chairman	Susanne Munch Thore Director	Alasdair Shiach Director	Thomas Marsoner Director	Bjarte Mossefinn General Manager

Consolidated Income Statement for the year ended 31 December

USD thousands	Note	2019	2018
Operating revenue	4,5	823,195	698,476
Total operating income		**823,195**	**698,476**
Other gains/losses	7	1,312	2,211
Total other items		**1,312**	**2,211**
Personnel expenses	8,20,31	(328,353)	(303,669)
Depreciation, amortisation and impairment loss	17,18,19	(185,192)	(160,630)
Other operating expenses	7,8	(164,395)	(137,871)
Total operating expenses		**(677,940)**	**(602,170)**
Operating profit (EBIT)		**146,567**	**98,517**
Interest income	7	2,661	2,060
Interest expenses	7,14	(91,759)	(74,366)
Other financial items	7	(13,664)	4,929
Net financial expenses		**(102,762)**	**(67,377)**
Profit / (loss) before tax		**43,805**	**31,139**
Income tax (expense) / income	9	(2,984)	(3,789)
Profit / (loss) for the period		**40,820**	**27,350**
Of which attributable to common shareholders		33,003	22,932
Of which attributable to preference shareholders		7,817	4,418
Earnings per share (USD)			
Basic earnings per share	33	0.14	0.10
Diluted earnings per share	33	0.14	0.10

The accompanying notes are an integral part of these financial statements

Section 10 Group Financial Statements

Consolidated Statement of Comprehensive Income for the year ended 31 December

USD thousands	Note	2019	2018
Profit / (loss) for the period		**40,820**	**27,350**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain / (loss) on post employment benefit obligations	9,20	(304)	479
Total		**(304)**	**479**
Items that are or may be reclassified to profit or loss:			
Cash flow hedges	23	1,124	186
Currency translation differences		446	(5,597)
Total		**1,569**	**(5,411)**
Other comprehensive income for the period, net of tax		**1,265**	**(4,932)**
Total comprehensive income for the period		**42,085**	**22,419**
Total comprehensive income for the period is attributable to:			
Common shareholders		34,268	18,001
Preference shareholders		7,817	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	31.12.2019	31.12.2018
Assets			
Intangible assets	17	29,678	29,811
Deferred tax asset	9	777	1,271
Property, plant and equipment	18,19	2,280,867	1,928,132
Derivative financial instruments	10,23	1,606	599
Other non-current assets	12	120	170
Total non-current assets		**2,313,048**	**1,959,983**
Spare parts		1,873	1,574
Trade receivables	11	174,158	103,056
Contract assets	6	9,392	–
Other current assets	12	18,231	36,971
Cash and cash equivalents	13	169,694	174,761
Total current assets		**373,348**	**316,363**
Total assets		**2,686,396**	**2,276,345**
Equity and liabilities			
Share capital	21	2,529	2,529
Other contributed capital		562,430	562,430
Other reserves	22	(108,045)	(110,142)
Retained earnings		605,464	568,856
Total equity attributable to owners of the parent		**1,062,378**	**1,023,673**
Non-current interest-bearing borrowings	14,15	1,173,882	311,819
Non-current lease liabilities	19	38,901	–
Post-employment benefits	20	7,725	9,934
Non-current contract liabilities	6	1,559	369
Derivative financial instruments	10,23	9,663	–
Total non-current liabilites		**1,231,730**	**322,122**
Current interest-bearing borrowings	14,15	216,581	782,980
Current lease liabilities	19	7,757	–
Contract liabilities	6	39,265	27,584
Trade payables		46,168	42,047
Current income tax	9	593	178
Other current liabilities	16	81,924	77,761
Total current liabilities		**392,288**	**930,550**
Total liabilities		**1,624,018**	**1,252,672**
Total equity and liabilities		**2,686,396**	**2,276,345**

The accompanying notes are an integral part of these financial statements

The Board of Odfjell Drilling Ltd., Aberdeen, United Kingdom, 21 April 2020

Helene Odfjell
Chairman

Susanne
Muncah Thore
Director

Alasdair Shiach
Director

Thomas Marsoner
Director

Bjarte Mossefinn
General Manager

Consolidated Statement of Changes in Equity

							Equity attributable to:		
USD thousands	Note	Share capital	Other contributed capital	Other reserves	Retained earnings	Total equity	Common shares	Preference shares	Total equity
Balance at 1 January 2018		**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		380	171,414	–	–	171,794	171,794	–	171,794
Capital increase preference shares		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**
Profit/(loss) for the period		–	–	–	40,820	40,820	33,003	7,817	40,820
Other comprehensive income for the period		–	–	1,569	(304)	1,265	1,265	–	1,265
Total comprehensive income for the period		**–**	**–**	**1,569**	**40,516**	**42,085**	**34,268**	**7,817**	**42,085**
Cash dividend to preference shareholders		–	–	–	(3,909)	(3,909)	–	(3,909)	(3,909)
Cost of share-based option plan	32	–	–	528		528	528	–	528
Transactions with owners		**–**	**–**	**528**	**(3,909)**	**(3,381)**	**528**	**(3,909)**	**(3,381)**
Balance at 31 December 2019		**2,529**	**562,430**	**(108,045)**	**605,464**	**1,062,378**	**981,260**	**81,118**	**1,062,378**

Consolidated Statement of Cash Flows for the year ended 31 December

USD thousands	Note	2019	2018
Cash flows from operating activities:			
Profit / (loss) before tax		43,805	31,139
Adjustments for:			
Depreciation, amortisation and impairment loss		185,192	160,630
Change in fair value derivatives		9,757	(180)
Interest expense - net		77,642	66,309
Amortised transaction costs borrowings		11,456	5,997
Net (gain)/loss from shares and other financial investments		(915)	(9,739)
Net (gain) / loss on sale of tangible fixed assets		(1,364)	(1,879)
Post-employment benefit expenses less post-employment benefit payments		(2,488)	(6,966)
Net currency loss / (gain) not related to operating activities		991	(2,169)
Other provisions and adjustments for non-cash items		1,371	–
Changes in working capital:			
Spare parts		(310)	81
Trade receivables and contract assets		(80,192)	31,114
Trade payables		(5,129)	8,898
Other accruals		38,991	4,291
Cash generated from operations		***278,808***	***287,526***
Interest paid		(77,940)	(65,805)
Net income tax paid		(2,549)	(1,191)
Net cash flow from operating activities		**198,319**	**220,530**
Cash flows from investing activities:			
Purchase of property, plant and equipment	17,18	(425,579)	(305,876)
Capitalised interest paid		(7,027)	–
Proceeds from sale of property, plant and equipment		3,345	2,590
Other non-current receivables		46	56
Proceeds from financial investments incl. joint ventures		967	9,739
Net cash flow used in investing activities		**(428,247)**	**(293,491)**

Consolidated Statement of Cash Flows for the year ended 31 December (continued)

USD thousands	Note	2019	2018
Cash flows from financing activities:			
Net proceeds from borrowings financial institutions	14	805,162	–
Repayments of borrowings to financial institutions	14	(564,253)	(145,300)
Repayment of lease liabilities	19	(6,297)	–
Net proceeds from capital increases		–	236,118
Dividends paid to preference share holders		(3,909)	(2,209)
Net cash flow from financing activities		**230,704**	**88,609**
Effects of exchange rate changes on cash and cash equivalents		(5,843)	(6,858)
Net change in cash and cash equivalents		**(5,067)**	**8,791**
Cash and cash equivalents at 01.01		174,761	165,970
Cash and cash equivalents at 31.12		**169,694**	**174,761**

The accompanying notes are an integral part of these financial statements

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Notes to the Consolidated Financial Statements 2019

All amounts are in USD thousands unless otherwise stated

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:

DELIVERY OF DEEPSEA NORDKAPP FROM SHIPYARD AND COMMENCEMENT OF CONTRACT

Odfjell Drilling has, on 7 January 2019, taken delivery of Deepsea Nordkapp from Samsung Heavy Industries in Korea. After a successful transit, Deepsea Nordkapp arrived CCB shipyard outside Bergen, Norway in early April for pre operational preparations. The rig commenced its 2+1+1 year contract with Aker BP on 10 May 2019.

DRILLING CONTRACTS AWARDED

Odfjell Drilling has, on 29 January 2019, been awarded a contract for platform drilling and maintenance services on three of BP's 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 1 February 2019 and the firm contract period has an estimated value of up to USD 50 million.

On 11 July 2019 a contract with oil major, Total, was entered into for drilling offshore South Africa with the 6th generation semi-submersible, Deepsea Stavanger. The contract value including compensation for mobilization and demobilization periods is estimated as being USD 145 – 190 million plus incentives. The company expects the drilling program to take 180-280 days. Mobilization to South Africa is expected to start in Q2 2020.

Odfjell Drilling was, on 18 December 2019, awarded the contract for Platform Drilling and Maintenance and Minor Modifications for ConocoPhillips Skandinavia AS. The contract work includes drilling operations, work-over campaigns, P&A activities and all preventative and corrective maintenance of ConocoPhillips' drilling facilities on three offshore platforms in the Greater Ekofisk Area. The contract period is for five years, with an option to extend two times, each time by up to three years. The contract is estimated to start in beginning of Q3 2020.

Aker BP exercised, on 18 December 2019, the first 12 months option for Deepsea Nordkapp under the contract entered into between the parties in April 2018. The first 12 month option shall commence after expiry of the two year firm period in May 2021. The approximate contract value for the firm scope is USD 128 million (excluding any integrated services). In addition, a performance bonus will be applicable.

Equinor exercised, on the 20 December 2019, three new wells for Deepsea Atlantic. Two additional wells were executed on 26 February 2020. The wells have been exercised under the Continued Optionality mechanism in the Contract entered into between the parties in May 2018, as part of the overall Master Frame Agreement. The work shall commence after the completion of the current scope estimated to be in Q2 2020. The approximate contract value for the firm scope is USD 85 million (excluding any integrated services). In addition, a performance bonus will be applicable.

MANAGEMENT AGREEMENT FOR DEEPSEA YANTAI

CIMC Raffles and Odfjell Drilling entered into a 4 year management agreement applicable from 19 March 2019 whereby Odfjell Drilling will manage and operate Deepsea Yantai on behalf of CIMC Raffles based on terms and conditions customary for these type of agreements. The agreement also secures Odfjell Drilling the exclusive right to purchase the unit and a right of first refusal on any offer to purchase the unit following the exclusivity period.

USD 775 MILLION REFINANCING

Odfjell Drilling, did on 28 May 2019, receive firm bank commitments for a refinancing related to its 2019 debt maturities. The final documentation for the USD 775 million refinancing was signed on 26 June 2019.

The former facility covering Deepsea Atlantic and Deepsea Stavanger, with USD 400 million outstanding, was replaced by a new senior facility of USD 425 million. In addition, a junior facility of USD 100 million was entered into. The senior facility will be repaid by quarterly instalments of USD 12.5 million, first time six months after drawdown. The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from Q3 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million. Interest is payable at LIBOR plus an overall margin depending on the level of net debt to EBITDA for the Odfjell Drilling group, resulting in an estimated combined average margin of around 400 bps over LIBOR during the tenor of the facilities. The tenor of both facilities is 5 years.

The former Drilling Services facility, with USD 250 million outstanding, was amended and extended to November 2021. The facility is divided in two tranches; Tranche A of USD 150 million which is non-amortising, and Tranche B of USD 100 million with semi-annual instalments of USD 20 million. Interest is payable at LIBOR plus an average margin of 470 bps.

Note 2 > New accounting standards

IFRS 16 LEASES

As of 1.1.2019 the group implemented IFRS 16 Leases using a modified retrospective approach for adoption. As permitted under the specific transition provisions in the standard, comparative figures for the 2018 reporting periods have not been restated.

On adoption of IFRS 16 Leases, the group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.7%.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted for the amount of any prepaid or accrued lease payments related to that lease recognised in the balance sheet as at 31 December 2018.

In applying IFRS 16 for the first time, the group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs from the measurement of right–of-use assets as at 1.1.2019
- the use hindsight, such as in determining the lease term if the contract contains options to extend or terminate.

As at implementation date, the group had non-cancellable operating lease commitments of USD 61 million. The following table provides reconciliation from operating lease commitments as of 31 December 2018 under IAS 17 and lease liabilities recognised in the statement of financial position as of 1 January 2019:

USD thousands	
Operating lease commitments discloses as at 31 December 2018	**61,198**
Effect of discounting using incremental borrowing rates for the relevant assets	(14,586)
Short-term leases recognised on a straight-line basis as expense	(225)
Low-value leases recognised on a straight-line basis as expense	(421)
Adjustment for leases not yet commenced	(241)
Lease liabilities recognised as at 1 January 2019	**45,725**

Section 10 Group Financial Statements

The following tables show the impacts arising from IFRS16 on the opening balance and for the full year of 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Closing balance			Opening balance		
USD thousands	IFRS 16 31.12.2019	Impact IFRS 16	IAS 17 31.12.2019	IFRS 16 01.01.2019	Impact IFRS 16	IAS 17 31.12.2018
Assets						
Deferred tax asset	777	227	550	1,271	–	1,271
Property, plant and equipment	2,280,867	45,911	2,234,956	1,974,092	45,960	1,928,132
Other non-current assets	31,404	–	31,404	30,580	–	30,580
Total non-current assets	**2,313,048**	**46,138**	**2,266,910**	**2,005,943**	**45,960**	**1,959,983**
Trade receivables and contract assets	183,549	–	183,549	103,056	–	103,056
Other current assets	20,104	(407)	20,511	38,310	(235)	38,545
Cash and cash equivalents	169,694	–	169,694	174,761	–	174,761
Total current assets	**373,348**	**(407)**	**373,754**	**316,128**	**(235)**	**316,363**
Total assets	**2,686,396**	**45,731**	**2,640,665**	**2,322,070**	**45,725**	**2,276,345**
Equity and liabilities						
Total paid-in capital	564,959	–	564,959	564,959	–	564,959
Other equity	497,419	(928)	498,346	458,714	–	458,714
Total equity	**1,062,378**	**(928)**	**1,063,305**	**1,023,673**	**–**	**1,023,673**
Non-current interest-bearing borrowings	1,173,882	–	1,173,882	311,819	–	311,819
Non-current lease liabilities	38,901	38,901	–	37,814	37,814	–
Other non-current liabilities	18,947	–	18,947	10,303	–	10,303
Total non-current liabilites	**1,231,730**	**38,901**	**1,192,829**	**359,936**	**37,814**	**322,122**
Current interest-bearing borrowings	216,581	–	216,581	782,980	–	782,980
Current lease liabilities	7,757	7,757	–	7,911	7,911	–
Other current liabilities	167,950	–	167,950	147,571	–	147,571
Total current liabilities	**392,288**	**7,757**	**384,530**	**938,461**	**7,911**	**930,550**
Total liabilities	**1,624,018**	**46,659**	**1,577,359**	**1,298,397**	**45,725**	**1,252,672**
Total equity and liabilities	**2,686,396**	**45,731**	**2,640,665**	**2,322,070**	**45,725**	**2,276,345**
Equity ratio	40%		40%	44%		45%

CONSOLIDATED INCOME STATEMENT

USD thousands	IFRS 16 2019	Impact IFRS 16 2019	IAS 17 2019	IAS 17 2018
Operating revenue	**823,195**	**–**	**823,195**	**698,476**
Other gains and losses	1,312	–	1,312	2,211
Personnel expenses	(328,353)	–	(328,353)	(303,669)
Other operating expenses	(164,395)	8,094	(172,489)	(137,871)
EBITDA	**331,759**	**8,094**	**323,665**	**259,147**
Depreciation, amortisation and impairment	(185,192)	(6,698)	(178,494)	(160,630)
Operating profit (EBIT)	**146,567**	**1,395**	**145,171**	**98,517**
Net financial items	(102,762)	(2,530)	(100,232)	(67,377)
Profit/(loss) before tax	**43,805**	**(1,135)**	**44,940**	**31,139**
Income taxes	(2,984)	212	(3,196)	(3,789)
Profit/(loss) for the period	**40,820**	**(923)**	**41,744**	**27,350**

CONSOLIDATED STATEMENT OF CASH FLOWS

USD thousands	IFRS 16 2019	Impact IFRS 16 2019	IAS 17 2019	IAS 17 2018
Cash flows from operating activities:				
Profit/(loss) before tax	43,805	(1,135)	44,940	31,139
Adjustment for provisions and non-cash elements	281,642	9,229	272,414	212,003
Changes in working capital	(46,640)	153	(46,793)	44,384
Cash generated from operations	***278,808***	***8,247***	***270,561***	***287,526***
Interest paid	(77,940)	(1,950)	(75,990)	(65,805)
Net income tax (paid) / refunded	(2,549)	–	(2,549)	(1,191)
Net cash flow from operating activities	**198,319**	**6,297**	**192,022**	**220,530**
Net cash flow from investing activities	**(428,247)**	**–**	**(428,247)**	**(293,491)**
Net (payments)/proceeds from borrowings financial institutions	805,162	–	805,162	–
Repayment of borrowings to financial institutions	(564,253)	–	(564,253)	(145,300)
Repayment of lease liabilities	(6,297)	(6,297)	–	–
Cash flow from other financial activities	(3,909)	–	(3,909)	233,909
Net cash flow from financing activities	**230,704**	**(6,297)**	**237,001**	**88,609**
Effects of exchange rate changes on cash and cash equivalents	(5,843)	–	(5,843)	(6,858)
Net change in cash and cash equivalents	**(5,067)**	**–**	**(5,067)**	**8,791**

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 2019.

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 2024. In the periods without contract prior to 2024, 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 18 demonstrate, the impairment assessment is sensitive to changes in key assumptions. Please refer to sensitivity analyses in note 18 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.

Taking all relevant risk factors and available options for financing into consideration, including subsequent events regarding Covid-19 and oil prices, 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 drilling units; 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External segment revenue	598,915	476,450	130,551	130,457	85,348	77,449	8,380	14,121	823,195	698,476
Inter segment revenue	–	–	16,352	14,082	25,834	29,327	(42,186)	(43,410)	–	–
Total revenue	**598,915**	**476,450**	**146,904**	**144,539**	**111,182**	**106,776**	**(33,806)**	**(29,289)**	**823,195**	**698,476**
EBITDA	290,770	226,188	17,303	13,544	30,659	25,995	(15,530)	(7,383)	323,202	258,344
Depreciation and impairment	(153,203)	(132,675)	(84)	(71)	(21,717)	(24,151)	(3,490)	(3,734)	(178,494)	(160,630)
EBIT	**137,567**	**93,513**	**17,219**	**13,473**	**8,942**	**1,845**	**(19,020)**	**(11,116)**	**144,708**	**97,714**

Reconciliation:	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Accounting differences affecting EBITDA	544	394	107	98	1,440	23	6,466	287	8,557	802
EBITDA – IFRS	**291,314**	**226,581**	**17,410**	**13,642**	**32,099**	**26,019**	**(9,063)**	**(7,095)**	**331,759**	**259,147**
Accounting differences affecting Depreciation and impairment	(304)	–	–	–	(1,268)	–	(5,126)	–	(6,698)	–
EBIT – Consolidated	**137,807**	**93,906**	**17,326**	**13,571**	**9,113**	**1,868**	**(17,679)**	**(10,829)**	**146,567**	**98,517**
Net financial items									(102,762)	(67,377)
Profit / (loss) before tax – Consolidated Group									**43,805**	**31,139**

EBIT and EBITDA in column Corporate / Eliminations represent the Group's corporate overhead cost.

The accounting differences in 2019 are related to IFRS 16 *Leases* and IAS 19 *Employee Benefits*, while accounting differences in 2018 relate to IAS 19 *Employee Benefits* only.

Note 5 > Revenue

USD thousands	2019	2018
Revenue from contracts with customers (IFRS 15)	790,312	672,246
Other operating revenue	32,883	26,230
Operating revenue	**823,195**	**698,476**

REVENUES FROM SINGLE EXTERNAL CUSTOMERS

(more than 10% of revenues)	2019	2018
Equinor	172,252	231,407
BP	182,060	176,987
Aker BP	146,678	63,474

DISAGGREGATION OF REVENUE 2019

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	2019	2019	2019	2019	2019
Primary geographical markets					
Norway	364,521	93,126	49,766	(30,289)	477,124
United Kingdom	166,079	53,778	9,906	(3,637)	226,125
Europe - other countries	-	-	22,769	-	22,769
Asia	487	-	27,508	120	28,115
Africa	67,829	-	1,024	-	68,853
Other geographical markets	-	-	209	-	209
Total operating revenue	**598,915**	**146,904**	**111,182**	**(33,806)**	**823,195**

DISAGGREGATION OF REVENUE 2018

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

REVENUE RECOGNITION

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.

Sometimes, the Group receives short-term advances from 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.

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.

MOBILE OFFSHORE DRILLING UNITS (MODU)

The revenue is primarily derived from drilling service contracts with customers. The core service promised in the contracts towards the customers is to be available to provide drilling services over the operation period of a contract. Drilling services comprise primarily of providing the mobile offshore drilling unit, crews, related equipment and services necessary to operate the rig. Services are provided as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Therefore, the Group follow the series guidance in IFRS 15 and treat the series of distinct services as a single performance obligation.

Revenue is based on the transactions price in the contracts with the customers. The main part of the transaction price is day-rates, which range from a full operating day rate to lower or zero rates for periods when drilling operations are interrupted. Payment of the day-rate based transaction price is usually due on a monthly basis. Some contracts entitles the Group to receive compensation for mobilisation and demobilisation, contract preparation, customer-requested goods and services or capital upgrades. The compensations are either as fixed lump-sums or based on variable day rates. Lump-sums are usually paid up-front or when certain milestones are met. The payment terms does not contain any significant financing components.

Most of the contracts include fees for variable or conditional service fee arrangements, such as bonuses for meeting or exceeding certain performance targets. The Group estimate these variable fees 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 upon completion of a well or drilling program).

Revenue from drilling contracts is generally recognised in the period from commencing a contract and until completion of the drilling programme ("the drilling operation period"). No revenue is recognised in the mobilisation and demobilisation period.

Since the customers continuosly gain control over the drilling services, revenue is recognised over time, in line with transfer of control.

The likelihood of options being exercised, and thereby included in estimates for expected total revenue and the drilling operation period, is based on an assessment of whether a customer option provides a material right for the customer. If a contract includes an option that provides a material right for the customer, a proportion of contract revenue will be allocated to the material right and recognised as revenue when the additional service is provided or when the option expires.

Day-rate considerations in the drilling operation period is attributed to the period to which the drilling operations are performed, and recognised as revenue in the same period. Other compensations, as described above, are allocated to the contract and recognised as revenue on a staight-line basis over the drilling operation period. Refer to note 6 *Contract balances*. Bonuses and other variable or conditional service fees are allocated to either the entire drilling operation period or to individual periods during the contract (using the series of services guidance in IFRS 15) depending on what the variable contract revenue relates to.

The costs to prepare the rig for contract and the cost for mobilisation of the rig to the drilling location, are capitalised as *Assets from contract costs* and expensed as operating cost over the drilling operations period. Refer to note 6 *Contract balances*. Demobilisation expenses are expenses as incurred.

The MODU segment also offers management services to other owners of drilling units; mainly operational management, management of regulatory requirements, marketing, contract negotiations and client relations, preparations for operation and mobilisation. The transaction price is mainly day-rate base management fees, usually payable on a monthly basis. Refer to note 6 *Contract balances* for payment terms related to the management agreement with CIMC Raffles. The payment terms does not contain any significant financing components. The Group generally recognise revenue over time because of the continuous transfer of control to the customer. Variable or conditional service fee arrangements, such as bonuses, are treated according to principles described above. The period for recognising revenue is generally equal to the contract period.

DRILLING & TECHNOLOGY

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. Services are provided as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer.

Revenue is based on the transaction price in the contracts with customers. The main part of the transaction price is fixed dayrates, which can vary depending on the phase of contract. Payment of the day-rate based transaction price is usually due on a monthly basis. Some contracts may contain milestone payments or prepayment for maintenance services not yet performed. In these cases, the Group may accrue revenue classified as a contract asset. Refer to note 6 *Contract balances*.

The Group generally recognise revenue over time because of the continuous transfer of control to the customer. Variable or conditional service fee arrangements, such as bonuses, are treated according to principles described above. The period for recognising revenue is generally equal to the contract period.

The Technology business area offers engineering services, including design, project management and operation and support. The transactions price in the contracts are mainly based on rates per hour, but the business area have had some lump sum projects during 2018 and 2019. The Group generally recognise revenue over time because of the continuous transfer of control to the customer. The period for recognising revenue is generally equal to the contract period.

WELL SERVICES

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.

Revenue for the rental services are recognised according to IFRS 16 *Leases* and is accounted for on a straight-line basis over the lease terms.

Services related to contracts with customers are provided as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Revenue is based on the transaction price in the contracts with customers, which is a combination of fees for equipment used, personnel onboard and other pricing elements. Payment of the transaction price is usually due on a monthly basis. The Group generally recognise revenue over time because of the continuous transfer of control to the customer. The period for recognising revenue is generally equal to the contract period.

Note 6 > Contract balances

CONTRACT BALANCES

USD thousands	31.12.2019	31.12.2018
Contract assets	9,392	–
Contract liabilities	(40,823)	(27,953)

The contract assets as at 31 December 2019 are mainly related to the management agreement with CIMC Raffles regarding management and operation of Deepsea Yantai. Accrued revenue for the services provided during transit and first mobilisation is payable at the expiry or the termination of the management agreement, or will be offset in the purchase price of the rig, should Odfjell Drillling purchase the unit.

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

Of the Contract liabilities as at 31 December 2019, approximatly USD 26 million are related to drilling operations under the contract with Total entered into in 2019 for a drilling program offshore South Africa, and is expected to be recognised as revenue in 2020 when drilling operations are expected to be performed. Approximately USD 13 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	2019	2018
Amounts included in contract liabilites at the beginning of the year	22,317	28,055
Performance obligations satisfied in the previous years (*)	6,319	163

(*) Mainly related to variable considerations regarding the contract with Total offshore South Africa where drilling operations commenced in December 2019 and ended in February 2020.

PERFORMANCE OBLIGATIONS RELATED TO UNSATISFIED LONG-TERM CONTRACTS

The Group's firm contract backlog is USD 1.3 billion, of which USD 0.9 billion is related to Mobile Drilling Unit contracts and USD 0.4 billion related to Platform Drilling services. Approximately USD 0.7 billion is related to services that will be provided in 2020. 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	2019	2018
Asset recognised from costs incurred to fulfil a contract	12	4,555	21,427
Amortisation recognised as cost of providing services during the period		21,427	11,936

The asset from contract costs as at 31 December 2018 was related to drilling operations under the one well contract with Total offshore South Africa, and consisted of accrued costs in the mobilisation period as well as other cost incurred regarding this specific drilling contract. The asset was 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 was recognised as cost in 2019.

The assets from contract costs as at 31 December 2019 is related to drilling operations under the contract with Total entered into in 2019 for a drilling program offshore South Africa, and consisted of cost incurred regarding this specific drilling contract, including modification projects that does not meet requirements for classification as fixed assets. The asset will be 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 2019 is expected to be recognised as cost in 2020.

Note 7 > Combined items, income statement

OTHER GAINS AND LOSSES

USD thousands	2019	2018
Losses on sale of shares in subsidiaries	(52)	–
Net gain on disposal of tangible fixed assets	1,364	2,211
Net gain on disposal of assets	**1,312**	**2,211**

OTHER OPERATING EXPENSES

USD thousands	Note	2019	2018
Hired services		23,770	23,350
Hired equipment		14,143	9,327
Repair and maintenance, inspection, tools, fixtures and fittings		64,588	54,946
Insurance		3,915	3,207
Freight and transport		7,769	7,287
Costs of premises		3,793	11,853
Travel and course expenses		16,488	15,266
Other operating and administrative expenses		13,075	8,564
Capitalised contract cost	6	–	(5,291)
Amortised other operating contract cost	6	16,855	9,364
Total other operating expenses		**164,395**	**137,871**

FINANCIAL INCOME / (EXPENSES)

INTEREST INCOME

USD thousands	2019	2018
Interest income	2,661	2,060
Total interest income	**2,661**	**2,060**

INTEREST EXPENSES

USD thousands	Note	2019	2018
Interest expenses borrowings		(85,208)	(67,993)
Amortised transaction costs borrowings (*)	14	(11,456)	(5,997)
Capitalised borrowing costs (**)		7,914	–
Interest expenses lease liabilities	19	(2,515)	–
Other interest expenses		(494)	(375)
Total interest expenses		**(91,759)**	**(74,366)**

(*) Amortised transaction costs borrowings includes recognised modification loss related to the extension and amendment to the Drilling Services USD 250 million bank facility, as a result of recalculating amortised cost according to IFRS 9.

(**) Capitalised borrowing costs consist of direct financing cost in the period from drawdown of the loan and seller's credit related to the purchase of the newbuild Deepsea Nordkapp, and until the final completion activities was concluded on 10 May 2019.

OTHER FINANCIAL ITEMS

USD thousands	Note	2019	2018
Net currency gain / (loss)		(3,712)	(3,017)
Income from financial investments (*)		967	9,739
Other financial income		11	13
Change in value of market-based derivatives (**)	23	(9,757)	180
Other financial expenses		(1,173)	(1,987)
Total other financial items		**(13,664)**	**4,929**

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

(**) Change in value of market-based derivatives includes change in fair value of warrant liabilities.

Note 8 > Personnel expenses

PERSONNEL EXPENSES

USD thousands	Note	2019	2018
Salaries and wages		252,973	247,275
Employer`s national insurance contributions		34,966	34,535
Pension expenses	20	18,816	12,431
Cost of share-based option plan	32	528	288
Other benefits		13,100	12,354
Hired personnel		31,561	30,184
Capitalised personnel expenses		(28,163)	(35,970)
Amortised personnel contract cost		4,572	2,572
Total personnel expenses		**328,353**	**303,669**
No. of employees (annual average)		2,449	2,297

AUDIT FEES

USD thousands	2019	2018
Audit (incl. technical assistance with financial statements)	609	914
Other assurance services	–	4
Tax advisory fee (incl. technical assistance with tax returns)	109	–
Fees for other services	–	106
Total audit fees	**718**	**1,023**

The fees are net of VAT.

Note 9 > Tax

USD thousands	2019	2018
Withholding tax paid / payable	(1,578)	(1,349)
Payable tax	(833)	(349)
Change in deferred tax	(574)	(2,091)
Total tax expense	**(2,984)**	**(3,789)**
Effective tax rate	6.8 %	12.2 %

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	2019	2018
Profit / (loss) before tax	**43,805**	**31,139**
Tax calculated at domestic tax rates applicable to profits in respective countries* (including withholding tax)	3,727	(12,224)
Net utilisation of unrecognised tax losses	5,525	8,377
Effect of changes in tax rates	–	(45)
Effect of adjustments recognised related to prior periods	153	401
Effect of net non-taxable income / (expenses)	(12,390)	(297)
Taxes	**(2,984)**	**(3,789)**

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

The majority of non-tax deductible expenses are related to limitations regarding tax-deductible interest expenses in the UK, and the increase from 2019 is due to migration of companies to the UK in December 2019.

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

TAX LOSSES

USD thousands	31.12.2019	31.12.2018
Unused tax losses for which no deferred tax asset has been recognised	170,392	197,591
Potential tax benefit 22%	37,542	43,527

THE MOVEMENT IN UNRECOGNISED TAX ASSETS IS AS FOLLOWS:

USD thousands	2019	2018
Unrecognised tax asset as at 01.01	43,527	57,407
Net utilisation of unrecognised tax losses	(5,525)	(8,377)
Effect of changes in tax rates	–	(1,957)
Currency translation differences	(459)	(3,546)
Unrecognised tax asset as at 31.12	**37,542**	**43,527**

In 2017, Odfjell Offshore Ltd, a subsidiary of Odfjell Drilling Ltd., filed for a tax deduction for losses on redemption of shares in Deep Sea Metro Ltd. Since then, the Group has utilized approximately USD 20 million, and has an unrecognised tax asset of USD 37 million as at 31 December 2019. The Norwegian tax authorities have requested further information, and are investigating whether the tax losses are deductible. The Group is of the opinion that the most likely outcome of any further proceedings is that the company maintains the right to tax loss deduction.

The Group has un unrecognised tax asset of USD 37.5 million, which is mainly related to operations in Norway as explained above. Due to current 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	2019	2018
Net deferred tax assets/(deferred tax liabilities) at 01.01	1,271	3,566
Income statement charge	(574)	(2,091)
Change in deferred tax on other comprehensive income	86	(143)
Currency translation differences	(7)	(60)
Net deferred tax assets/(deferred tax liabilities) at 31.12	**777**	**1,271**

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	Lease liabilities	Total
Closing balance 31.12.2018	218	407	2,185	746	–	3,556
Adjustment on adoption of IFRS 16 (see note 2)		26			9,646	9,672
Balance 01.01.2019	218	432	2,185	746	9,646	13,228
Income statement charge	(172)	(233)	(547)	(276)	325	(904)
Change in deferred tax on other comprehensive income	–	–	86	–	–	86
Currency translation differences	2	(1)	(24)	(9)	(80)	(112)
Closing balance 31.12.2019	**48**	**199**	**1,700**	**461**	**9,891**	**12,298**

Deferred tax liabilities	Share in limited partnership	Deferred capital gains	Right-of-use Assets	Total
Closing balance 31.12.2018	(577)	(1,708)	–	(2,285)
Adjustment on adoption of IFRS 16 (see note 2)			(9,672)	(9,672)
Balance 01.01.2019	(577)	(1,708)	(9,672)	(11,957)
Reclassification	577	(577)		–
Income statement charge		451	(121)	330
Currency translation differences		25	80	105
Closing balance 31.12.2019		**(1,809)**	**(9,712)**	**(11,522)**

Deferred tax liabilities offset in deferred tax assets	(11,522)
Net book value of deferred tax asset at 31.12.2019	**777**

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**

THE TAX (CHARGE)/CREDIT RELATING TO COMPONENTS OF THE COMPREHENSIVE INCOME IS AS FOLLOWS:

USD thousands	Before tax 2019	Tax (charge)/ credit 2019	After tax 2019	Before tax 2018	Tax (charge)/ credit 2018	After tax 2018
Actuarial loss on post employment benefit obligations	(390)	86	(304)	622	(143)	479
Other comprehensive income	**(390)**	**86**	**(304)**	**622**	**(143)**	**479**
Deferred tax		86	–		(143)	–

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:

USD thousands	Note	Level	2019	2018
Financial assets at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps – Other non-current assets	23	2	–	599
- Foreign exchange forward contracts – Other current assets	23	2	23	–
Derivatives designated as hedging instruments				
- Interest rate swaps – Other non-current assets	23	2	1,606	–
Debt instruments at amortised cost				
- Other non-current receivables	12	3	120	170
- Trade receivables	11	3	174,158	103,056
- Contract assets	6	3	9,392	–
- Other current receivables	12	3	3,972	3,639
- Cash and cash equivalents	13	3	169,694	174,761
Total assets as at 31.12			**358,964**	**282,226**

USD thousands	Note	Level	2018	2018
Financial liabilities at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps – Other non-current liabilities	23	2	70	–
Derivatives designated as hedging instruments				
- Interest rate swaps – Other non-current liabilities	23	2	482	–
Warrant liabilities – Other non-current liabilities	23	3	9,111	
Financial liabilities at amortised cost				
- Non-current interest-bearing borrowings	14	3	1,173,882	311,819
- Current interest-bearing borrowings	14	3	216,581	782,980
- Non-current lease liabilities	19	3	38,901	–
- Current lease liabilities	19	3	7,757	–
- Trade payables		3	46,168	42,047
- Other current liabilities	16	3	81,924	77,761
Total liabilities as at 31.12.			**1,574,876**	**1,214,607**

Note 11 > Trade receivables

USD thousands	Note	2019	2018
Trade receivables		144,006	77,630
Earned, not yet invoiced operating revenues		31,157	26,933
Loss allowance	23	(1,005)	(1,506)
Trade receivables – net		**174,158**	**103,056**

THE FAIR VALUE OF OTHER RECEIVABLES ARE AS FOLLOWS:

USD thousands	2019	2018
Trade receivables	174,158	103,056
Total	**174,158**	**103,056**

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.

For information about currencies, aging and loss allowance, refer to note 23 *Financial Risk Management.*

Note 12 > Other assets

OTHER NON-CURRENT ASSETS

USD thousands	Note	2019	2018
Other non-current receivables		120	170
Total other non-current assets		**120**	**170**

OTHER CURRENT ASSETS

USD thousands	Note	2019	2018
Derivative financial instruments	23	23	–
Prepaid expenses		9,040	11,905
Assets from contract costs	6	4,555	21,427
Income tax receivables		641	99
VAT– receivables		2,925	2,831
Other current receivables		1,046	710
Total other current assets		**18,231**	**36,971**

THE FAIR VALUE OF OTHER RECEIVABLES ARE AS FOLLOWS:

USD thousands	2019	2018
Other non-current receivables	120	170
Other current receivables	1,046	710
Total	**1,167**	**880**

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	2019	2018
Cash in bank	58,408	95,170
Time deposits	67,992	27,328
Retention accounts	13,754	19,252
Restricted bank deposits	29,540	33,011
Total	**169,694**	**174,761**

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

As at 31 December 2019 the restricted bank deposits include a cash collateral of USD 18 million (USD 24.2 million as at 31 December 2018) related to the Odfjell Rig II Ltd. facility Agreement, see note 14. The remaining restricted bank deposits are mainly related to tax withholdings for employees.

Note 14 > Interest-bearing borrowings

INTEREST-BEARING BORROWINGS

USD thousands	Non-current 2019	Current 2019	Total 2019	Non-current 2018	Current 2018	Total 2018
Bank borrowings	1,146,737	208,211	1,354,947	319,200	775,000	1,094,200
Transaction cost, unamortised	(17,617)	(164)	(17,781)	(7,381)	(2,018)	(9,399)
Seller's credit	44,762	–	44,762	–	–	–
Accrued interest cost	–	8,534	8,534	–	9,997	9,997
Carrying amounts interest-bearing borrowings	**1,173,882**	**216,581**	**1,390,462**	**311,819**	**782,980**	**1,094,798**

MOVEMENTS IN INTEREST-BEARING BORROWINGS ARE ANALYSED AS FOLLOWS:

USD thousands	Non-current 2019	Current 2019	Total 2019	Non-current 2018	Current 2018	Total 2018
Carrying amount as at 1 January	311,819	782,980	1,094,798	1,076,103	157,472	1,233,575
Cash flows:						
New bank loan raised	825,000	–	825,000	–	–	–
Repayment bank loan	–	(564,253)	(564,253)	–	(145,300)	(145,300)
Paid transaction costs related to new bank loan	(19,838)	–	(19,838)	–	–	–
Non-cash flows:						
Reclassified	4,212	(4,212)	–	(767,565)	767,565	–
Seller's credit raised	43,250	–	43,250	–	–	–
Change in transaction cost, unamortised	9,438	2,018	11,456	3,280	2,717	5,997
Change in accrued interest cost	1,512	48	1,560	–	525	525
Carrying amount as at 31 December	**1,173,882**	**216,581**	**1,390,462**	**311,819**	**782,980**	**1,094,798**

The interest-bearing borrowings are secured debt and are all denominated in USD. Interest rates are generally based on LIBOR rates.

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.

Maturiry USD thousands	Non-current 2019	Current 2019	Total 2019	Non-current 2018	Current 2018	Total 2018
Maturity within 3 months	–	28,053	28,053	–	19,500	19,500
Maturity between 3 and 6 months	–	74,053	74,053	–	65,500	65,500
Maturity between 6 and 9 months	–	39,053	39,053	–	407,000	407,000
Maturity between 9 months and 1 year	–	67,053	67,053	–	283,000	283,000
Maturity between 1 and 2 years	511,211	–	511,211	82,200	–	82,200
Maturity between 2 and 3 years	84,211	–	84,211	237,000	–	237,000
Maturity between 3 and 4 years	263,816	–	263,816	–	–	–
Maturity between 4 and 5 years	332,262	–	332,262	–	–	–
Maturity beyond 5 years	–	–	–	–	–	–
Total contractual amounts	**1,191,499**	**208,211**	**1,399,709**	**319,200**	**775,000**	**1,094,200**

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

THE ODFJELL DRILLING SERVICES LTD. FACILITY

On 26 June 2019 the Group entered into agreements for a refinancing. The Drilling Services facility, with USD 250 million outstanding at refinancing date, was amended and extended to November 2021. The facility was divided in two tranches; Tranche A of USD 150 million which is non-amortising, and Tranche B of USD 100 million with semi-annual instalments of USD 20 million, first time in November. Interest is payable at LIBOR plus an average margin of 470 bps.

The financial covenants applicable for the facility will be the same as those already in place at Odfjell Drilling Ltd group level in other loan agreements. The debt service coverage ratio measured on Odfjell Drilling Services group level will be replaced by an interest coverage ratio that will gradually increase from 1.5x to 2.0x measured based on consolidated EBITDA to net finance charges for the Odfjell Drilling Services group.

This refinancing was accounted for as a modification of the original financial liability and the carrying amount was recalculated in accordance with IFRS 9, resulting in a modification loss being recognised as finance cost in 2019.

Remaining contractual amount of USD 230 million as at 31 December 2019.

THE ODFJELL INVEST LTD. FACILITIES

On 26 June 2019 the Group entered into agreements for a refinancing. The previous facility covering Deepsea Atlantic and Deepsea Stavanger, with USD 400 million outstanding at refinancing date, was replaced by a new senior facility of USD 425 million. In addition, a junior facility of USD 100 million was entered into.

The senior facility will be repaid by quarterly instalments of USD 12.5 million, first time December 2019. The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from Q3 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million, however so that any such repayment shall be limited to 50% of the previous year's net result and adjusted for any identified liquidity requirements. Dividends and other distributions on the common shares of Odfjell Drilling are subject to lender's prior written consent for as long as the junior facility is outstanding.

Interest is payable at LIBOR plus an overall margin depending on the level of net debt to EBITDA for the Odfjell Drilling group, resulting in an estimated combined average margin of around 400 bps over LIBOR during the tenor of the facilities.

The financial covenants applicable for the facilities is materially the same as those already in place for the Odfjell Drilling group in other loan agreements. The tenor of both facilities is 5 years.

This refinancing was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability in accordance with IFRS 9.

The senior facility of USD 425 million was utilised 28 June 2019. USD 40 million of the junior facility was drawn 28 June 2019, while USD 35 million was drawn in December 2019. The remaining USD 25 million is available for additional drawing until 31 March 2020.

Remaining contractual amount for the senior bank facility of USD 412.5 million and USD 75 million for the junior facility as at 31 December 2019.

THE ODFJELL RIG II LTD. FACILITY

Remaining contractual amount of USD 32 million as at 31 December 2019.

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).

THE ODFJELL RIG III LTD. FACILITY

Remaining contractual amount of USD 289 million as at 31 December 2019.

The ECA tranches of the facility mature in July 2024, subject that the commercial tranche, which matures in November 2021, has been extended at terms satisfactory to GIEK and Kexim. In the tables above, full repayment of the USD 211 million then outstanding, has been included in November 2021.

THE ODFJELL RIG V LTD. FACILITY

The Odfjell Rig V Ltd. facility of USD 325 million was fully drawn on 3 January 2019 in relation to the delivery of Deepsea Nordkapp that took place on 7 January 2019. At the same day, the seller's credit of USD 43.25 million from Samsung Heavy Industries was made effective.

Remaining contractual amount of USD 316.4 million as at 31 December 2019 for the bank facility.

THE CARRYING AMOUNT AND FAIR VALUE OF THE NON-CURRENT LIABILITIES ARE AS FOLLOWS:

	Carrying amount		Fair value	
USD thousands	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Bank borrowings	1,390,462	1,094,798	1,390,462	1,094,798
Total	**1,390,462**	**1,094,798**	**1,390,462**	**1,094,798**

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 Invest Ltd. junior facility of USD 25 million mentioned above, the Group has no undrawn borrowing facilties as of 31.12.2019.

FINANCIAL COVENANTS

COMPLIANCE WITH COVENANTS AS AT 31.12.2019

The Odfjell Drilling Group is compliant with all financial covenants as at 31 December 2019.

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, increasing 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 425 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 valuation, operation and maintenance of Deepsea Stavanger and Deepsea Atlantic.

Up to and including 31 December 2020, dividends on the common shares of Odfjell Drilling are subject to the majority lenders' prior written consent. From 1 January 2021, Odfjell Drilling may pay dividends in an amount up to 50% of its net income in its previous financial year. 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 only applicable to the Odfjell Drilling Group in relation to a default on indebtedness of more than USD 5 million.

ODFJELL INVEST LTD – USD 100 MILLION JUNIOR FACILITY

The junior facility contains undertakings and covenants materially as for the USD 425 million facility.

The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from 3Q 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million, however so that any such repayment shall be limited to 50% of the previous year's net result and adjusted for any identified liquidity requirements. Dividends and other distributions on the common shares of Odfjell Drilling are subject to lender's prior written consent for as long as the junior facility is outstanding.

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 valuation, 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

Payment of dividends from Odfjell Drilling Ltd., on ordinary shares shall be limited to 50% of its net income, provided that GIEK and Kexim have on each occasion given their prior written consent. 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 valuation, 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 250 MILLION FACILITY

The Odfjell Drilling Services Group has agreed to maintain, at all times, a minimum liquidity of at least USD 35 million. 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 interest coverage ratio (ebitda to net finance charges) of the Odfjell Drilling Services Group calculated on a 12 months' rolling basis shall be above 1.5x from the first quarter date following the first anniversary of the effective date, above 1.75x following the second anniversary and above 2.0x thereafter.

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 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 are subject to the majority lenders' prior written consent. 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 loan facility was fully drawn on 3 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.

Otherwise, the facility contains provisions that are regarded as customary for these type of facilities, 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 valuation, operation and maintenance of the semi-submersible drilling rig "Deepsea Nordkapp".

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, which is subordinated to the USD 325 million facility. The facility contains covenants that are customary for these type of facilities.

Note 15 > Securities and mortgages

LIABILITIES SECURED BY MORTGAGE

USD thousands	31.12.2019	31.12.2018
Non current liabilities – contractual amounts	1,146,737	319,200
Current liabilities	216,581	782,980
Total	**1,363,318**	**1,102,180**

CARRYING AMOUNT OF MORTGAGED ASSETS:

USD thousands	31.12.2019	31.12.2018
Property, plant and equipment	2,280,867	1,928,132
Receivables and contract assets	201,780	140,028
Bank deposits	169,694	174,761
Total	**2,652,341**	**2,242,920**

ODFJELL INVEST LTD. – USD 425 MILLION FACILITY

USD 425 million term loan facility agreement entered into on 26 June 2019 with Odfjell Invest 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 552.5 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 Atlantic and Deepsea Stavanger 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 INVEST LTD. – USD 100 MILLION JUNIOR FACILITY

USD 100 million junior facility agreement entered into on 26 June 2019 with Odfjell Invest 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 130 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.

Per year-end 2019 USD 75 million of the junior facility is utilized and the remaining USD 25 million shall be utilized in one drawing latest by 31 March 2020.

The facility is covered by the same security package as the USD 425 million facility on a second priority basis.

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.

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The cash collateral established in 2017 is USD 18 million at year-end 2019 and will be reduced with USD 2 million quarterly.

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 in 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 250 MILLION FACILITY

USD 250 million senior secured credit facility agreement originally entered into in an amount of up to USD 450 million on 6 May 2014 with Odfjell Drilling Services Ltd., as borrower and DNB Bank ASA acting as agent on behalf of the lenders. The facility was amended and extended on 26 June 2019.

As security for the loan, Odfjell Drilling Ltd., Odfjell Well Services II Ltd., Odfjell Partners Invest Ltd., Odfjell Drilling AS, Odfjell Platform 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 AS 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., and 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.,. 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 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.In addition, Odfjell Drilling AS has pledged its shares in Odfjell Invest II AS as security.

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 16 > Other liabilities

OTHER CURRENT LIABILITIES

USD thousands	2019	2018
Social security and other taxes	21,172	18,047
Accrued salaries, holiday pay and employee bonus provisions	27,424	22,976
Other payables and financial liabilities	12,558	13,451
Other accrued expenses	20,769	23,288
Total other current liabilities	**81,924**	**77,761**

Note 17 > Intangible assets

USD thousands	Goodwill	Software	Patents and acquired R&D	Internally developed assets	Total intangible assets
Cost					
At 1 January 2019	18,638	20,240	–	724	39,602
Additions	–	1,553	1,650	63	3,266
Currency translation differences	(195)	(208)	–	–	(403)
Cost as at 31 December 2019	**18,443**	**21,585**	**1,650**	**787**	**42,465**
Accumulated amortisation and impairment					
At 1 January 2019	–	9,718	–	72	9,791
Amortisation	–	3,003	14	74	3,090
Currency translation differences	–	(94)	–	–	(94)
As at 31 December 2019	**–**	**12,627**	**14**	**146**	**12,787**
Net book value at 31 December 2019	**18,443**	**8,958**	**1,636**	**641**	**29,678**
Useful lifetime		3-7 years	5-10 years	10 years	
Depreciation schedule		Straight line	Straight line	Straight line	

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USD thousands	Goodwill	Software	Patents and acquired R&D	Internally developed assets	Total intangible assets
Cost					
At 1 January 2018	19,736	20,465	–	–	40,201
Additions	–	976		724	1,700
Currency translation differences	(1,098)	(1,201)		–	(2,299)
Cost as at 31 December 2018	**18,638**	**20,240**	**–**	**724**	**39,602**
Accumulated amortisation and impairment					
At 1 January 2018	–	7,345	–	–	7,345
Amortisation		2,971		72	3,044
Currency translation differences		(598)			(598)
As at 31 December 2018	**–**	**9,718**	**–**	**72**	**9,791**
Net book value at 31 December 2018	**18,638**	**10,521**	**–**	**652**	**29,811**

SOFTWARE – GLOBAL STANDARD INTEGRATED SYSTEM

Software includes the Global Standard integrated system. This 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 in 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 2019.

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

USD thousands	Mobile Offshore Drilling Units 2019	Drilling & Technology 2019	Well Services 2019	Total 2019	Mobile Offshore Drilling Units 2018	Drilling & Technology 2018	Well Services 2018	Total 2018
At 1 January	3,357	11,097	4,184	18,638	3,554	11,751	4,431	19,736
Translation differences	(35)	(116)	(44)	(195)	(198)	(654)	(247)	(1,098)
Net book value at 31 December	**3,322**	**10,981**	**4,141**	**18,443**	**3,357**	**11,097**	**4,184**	**18,638**

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 2020 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 31.12.2019.

THE KEY ASSUMPTIONS FOR VALUE-IN-USE CALCULATIONS WERE AS FOLLOWS:

USD thousands	Mobile Offshore Drilling Units 2019	Drilling & Technology 2019	Well Services 2019	Mobile Offshore Drilling Units 2018	Drilling & Technology 2018	Well Services 2018
EBITDA margin in prognosis period	14% - 16%	5% - 7%	30% - 34%	15%	5% - 6%	26% - 35%
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	8.5 %	8.4%	8.6%	8.4 %	8.5%	9.1%

SENSITIVITY ANALYSIS FOR GOODWILL IMPAIRMENT TEST AS AT 31.12.2019

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 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 2019.

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Note 18 > Tangible fixed assets

USD thousands	Mobile drilling units	Periodic main-tenance	Newbuild in progress	Well Services equipment	Other fixed assets	Right-of-use assets	Total fixed assets
Cost							
At 1 January 2019	2,509,088	193,779	246,788	352,106	20,049	–	3,321,811
Effect change in accounting policies	–	–	–	–	–	45,960	45,960
Additions	40,230	48,778	367,583	25,205	2,413	6,997	491,207
Disposals	(2,344)	(21,113)	–	(11,806)	(1,352)		(36,614)
Reclassification from new building contracts	579,371	35,000	(614,371)				–
Currency translation differences	–	–	–	(447)	(35)	(314)	(796)
Cost as at 31 December 2019	**3,126,346**	**256,445**	**–**	**365,058**	**21,076**	**52,643**	**3,821,568**
Accumulated depreciation and impairment							
At 1 January 2019	969,137	125,508	–	280,869	18,166	–	1,393,680
Depreciation	107,788	45,384	–	21,286	946	6,698	182,102
Disposals	(1,149)	(21,113)	–	(11,020)	(1,352)		(34,633)
Currency translation differences	–	–	–	(439)	(41)	34	(447)
As at 31 December 2019	**1,075,777**	**149,779**	**–**	**290,695**	**17,719**	**6,732**	**1,540,701**
Net book value at 31 December 2019	**2,050,569**	**106,666**	**–**	**74,363**	**3,357**	**45,911**	**2,280,867**
Useful lifetime	5 - 37.5 years	5 years		3 - 10 years	3 - 5 years	2-12 years	
Depreciation schedule	Straight line	Straight line		Straight line	Straight line	Straight line	

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 197 million at 31 December 2019.

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Other fixed assets	Right-of-use 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**
Useful lifetime	5 - 37.5 years	5 years		3 - 10 years	3 - 5 years	2-12 years	
Depreciation schedule	Straight line	Straight line		Straight line	Straight line	Straight line	

NEWBUILD IN PROGRESS

Newbuild in progress was related to Deepsea Nordkapp, a 6G harsh environment semi-submersible. The rig was constructed at Samsung Heavy Industries, South Korea, and was delivered from the shipyard 7 January 2019. The rig arrived in Norway primo April 2019, and the final completion activities was concluded 10 May 2019 when the rig commenced its contract with Aker BP.

The cost price include capitalised borrowing costs of USD 7.9 milllion related to direct financing cost in the period from drawdown of the loan and seller's credit related to the purchase and until the final completion activities was concluded.

BASIS FOR DEPRECIATION/ ALLOCATION OF EXPENDITURE

The total expenditures on the rigs Deepsea Bergen, Deepsea Atlantic, Deepsea Stavanger, Deepsea Aberdeen and Deepsea Nordkapp are allocated into groups of components that have different expected useful lifetimes. Periodic maintenance is one of the allocated components. Estimated residual value is taken into consideration for all mobile offshore drilling units. 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. The rigs are depreciated using the straight line method.

For Deepsea Bergen the main group of components are expected to have an economic useful lifetime of 37.5 years.

Deepsea Atlantic is depreciated from 4 August 2009, Deepsea Stavanger is depreciated from 16 September 2010, Deepsea Aberdeen is depreciated from 21 April 2015, and Deepsea Nordkapp is depreciated from 10 May 2019

IMPAIRMENT TESTS MOBILE DRILLING UNITS

The Group has during 2019 identified impairment indicators for the MODU segment related to the rig market in general and the day rates, as the market is still not back to normalised levels.

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 2019, 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) 31.12.2019	483,266	473,450

THE FOLLOWING KEY ASSUMPTIONS HAVE BEEN USED WHEN CONDUCTING IMPAIRMENT TESTS FOR MOBILE DRILLING UNITS:

Key Assumptions	Deepsea Atlantic	Deepsea Stavanger	Deepsea Aberdeen	Deepsea Nordkapp	Deepsea Bergen
	6G Semi	6G Semi	6G Semi	6G Semi	3G semi
Weighted Average Cost of Capital (WACC)	10.0%	10.0%	10.0%	10.0%	8.9%
Firm contract days	196	370	841	882	75
Firm contract day rates (weighted average)	309	404	426	329	180
Future normalised base case day rates – at full market recovery	435	435	435	435	200
Financial utilisation in normalised period	95%	95%	95%	95%	95%

SENSITIVITY ANALYSIS MOBILE DRILLING UNITS

		Deepsea Atlantic	Deepsea Stavanger	Deepsea Aberdeen	Deepsea Nordkapp	Deepsea Bergen
Estimated impairment write-down if:						
• WACC increased by	1 pp	33,000	38,000	12,000	49,000	–
• WACC increased by	2 pp	63,000	71,000	56,000	92,000	–
• Day rate level(*) decreased by	5%	53,000	48,000	15,000	51,000	2,000
• Day rate level(*) decreased by	10%	105,000	96,000	67,000	103,000	4,000
• Normalised opex level increased by	5%	26,000	26,000	–	26,000	–
• Normalised opex level increased by	10%	52,000	53,000	23,000	53,000	–
• Financial utilisation in normalised period decreased by	1 pp	12,000	12,000	–	11,000	–
• Financial utilisation in normalised period decreased by	2 pp	23,000	23,000	–	23,000	1,000
• Financial utilisation in normalised period decreased by	3 pp	35,000	35,000	–	34,000	1,000

(*) excluding firm contractual day rates

Note 19 > Leases

THE BALANCE SHEET SHOWS THE FOLLOWING AMOUNTS RELATED TO LEASES:

USD thousands	Properties	Other fixed assets	Total Right-of-use assets
Cost			
At 1 January 2019	–	–	–
Effect change in accounting policies	45,158	802	45,960
Additions	6,989	8	6,997
Currency translation differences	(296)	(18)	(314)
Cost as at 31 December 2019	**51,851**	**792**	**52,643**
Accumulated depreciation and impairment			
At 1 January 2019	–	–	–
Depreciation	6,289	409	6,698
Currency translation differences	33	1	34
As at 31 December 2019	**6,322**	**411**	**6,732**
Net book value at 31 December 2019	**45,530**	**382**	**45,911**

The Right-of-use assets are included in the line item "Property, plant and equipment" in the balance sheet, refer to note 18 *Tangible fixed assets*.

LEASE LIABILITIES

USD thousands	31.12.2019	01.01.2019
Non-current	38,901	37,814
Current	7,757	7,911
Total	**46,659**	**45,725**

MOVEMENTS IN NON-CURRENT LEASE LIABILITIES ARE ANALYSED AS FOLLOWS:

USD thousands	2019
Carrying amount as at 1 January	37,814
Cash flows:	
Payments for the interest portion of the lease liability	(1,950)
Non-cash flows:	
New lease liabilities recognised in the year	6,981
Interest expense on lease liabilities	2,515
Reclassified to current portion of lease liabilities	(6,189)
Currency exchange differences	(270)
Carrying amount as at 31 December	**38,901**

MOVEMENTS IN CURRENT LEASE LIABILITIES ARE ANALYSED AS FOLLOWS:

USD thousands	2019
Carrying amount as at 1 January	7,911
Cash flows:	
Payments for the principal portion of the lease liability	(6,297)
Non-cash flows:	
Reclassified from non-current portion of lease liabilities	6,189
Currency exchange differences	(45)
Carrying amount as at 31 December	**7,757**

RENTAL COSTS FOR EXEMPTIONS

USD thousands	2019
Expenses relating to short-term leases	11,317
Expenses relating to low value items	570

THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

The Group leases various offices, workshops and warehouses in addition to some equipment. Rental contracts are typically made for fixed periods of 6 months to 12 years, but may have extension or termination options. Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. The impact of the change is described in note 2 *New accounting standards*.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payment that are based on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable by the group under residual value guarantees, the exercise price of a purchase option if the group is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the group exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group and makes adjustments specific to the lease, eg term, country, currency and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising ofthe amount of the initial measurement of lease liability,any lease payments made at or before the commencement date less any lease incentives received,any initial direct costs, and anyrestoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT-equipment and small items of office equipment.

The variable lease payments in the lease agreements currently held by the Group are based on an index or a rate, and are therefore included in the calculcated lease liability as decribed above.

EXTENTION AND TERMINATION OPTIONS

Extention and termination options are included in a number of property and equipment leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extention option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonable certain to be extended (or not terminated).

Most extention options have not been included in the lease liability, because the group could replace the asset without significant cost of business disruption, or because the group is not certain the it would need the asset in the option period.

As at 31 December 2019, potential future cash outflows of USD 47 million (undiscounted) have not been included in the lease liability because it is not reasonable certain that these leases will be extended (or not terminated).

Note 20 > Post-employment benefits

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.

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DEFINED BENEFIT PENSION PLANS

The Group has funded defined benefit pension schemes in six Norwegian companies covering a total of 424 active members and 81 pensioners as at 31 December 2019 (438 active members and 73 pensioners as at 31 December 2018). 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 100,000 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 2019 and 2018 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 million, see table below.

AMOUNTS RECOGNISED IN THE BALANCE SHEET:

USD thousands	31.12.2019	31.12.2018
Present value of funded obligations	48,055	45,585
Fair value of plan assets	42,190	37,687
Deficit of funded plans	5,865	7,898
Present value of unfunded obligations	1,860	2,036
Total deficit of defined benefit pension plans	**7,725**	**9,934**

MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION OVER THE YEARS:

USD thousands	Present value of obligation 2019	Fair value of plan assets 2019	Total 2019	Present value of obligation 2018	Fair value of plan assets 2018	Total 2018
At 1 January	47,621	(37,687)	**9,934**	52,857	(34,772)	**18,084**
Current service cost	3,708	–	3,708	3,880	–	3,880
Gains on plan amendment, curtailment and settlement		–	–	(6,244)	–	(6,244)
Interest expense/ (income)	1,219	(860)	359	1,121	(689)	432
Total amount recognised in profit or loss	4,928	(860)	**4,067**	(1,242)	(689)	**(1,932)**
Remeasurements:						
Loss from change in discount rate	3,813	–	3,813	(3,120)	–	(3,120)
Gain from change in other financial assumptions	(2,323)	321	(2,002)	4,174	(121)	4,053
Experience (gains)/loss	(1,738)	85	(1,653)	(25)	(1,836)	(1,861)
Investment management cost	–	232	232	–	306	306
Total amount recognised in other comprehensive income	(249)	639	**390**	1,030	(1,652)	**(622)**
Exchange differences	(490)	380	(110)	(2,715)	2,153	(562)
Contributions:						
Employers	(792)	(5,618)	(6,411)	(563)	(3,992)	(4,555)
Payments from plans:			–			–
Benefit payments	(1,102)	957	(145)	(1,324)	1,265	(59)
Settlements	–	–	–	(421)	–	(421)
At 31 December	49,915	(42,190)	**7,725**	47,621	(37,687)	**9,934**

THE SIGNIFICANT ACTUARIAL ASSUMPTIONS WERE AS FOLLOWS:

	31.12.2019	31.12.2018
Discount rate	2.30%	2.60%
Salary growth rate	2.25%	2.75%
Expected growth in G (base social security amount)	2.00%	2.50%
Pension growth rate	0.5%-2.0%	0.8%-2.5%

THE FAIR VALUE OF PLAN ASSETS IS DISAGGREGATED BY CLASS AS FOLLOWS

	31.12.2019	31.12.2018
Shares	12%	12%
Short term bonds	13%	13%
Money market	18%	11%
Long term bonds	31%	29%
Loans & Receivables	14%	25%
Real estate	11%	9%
Other	1%	1%

Estimated premium payments to funded defined benefit obligations in 2020 amounts to about USD 4 million.

THE SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION TO CHANGES IN THE WEIGTHED PRINCIPAL ASSUMPTIONS ARE:

	Change in assump-tion by:	Impact on Present value of obligation:		Change in assump-tion by:	Impact on Present value of obligation:	
		2019	2018		2019	2018
Discount rate	+0.5%	(3,823)	(3,327)	-0.5%	4,252	3,699
Salary growth rate	+0.5%	3,143	2,833	-0.5%	(3,419)	(3,072)
Pension growth rate	+0.5%	1,895	1,466	-0.5%	(1,689)	(1,824)

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	2019	2018
Pension expenses (-net gain) from defined benefit scheme included in personnel expenses	3,708	(2,364)
Pension expenses from defined contribution schemes	10,706	11,333
Pension expenses from multi-employer plans accounted for as defined contribution schemes	4,401	3,462
Total pension expenses included in personnel expenses	**18,816**	**12,431**

See also note 8 for further information regarding personnel expenses.

Note 21 > Share capital and shareholder information

Listed shares	No.of shares	Nominal value	Share capital
Common shares issued as at 1 January 2019	236,783,202	USD 0.01	2,368
Common shares issued as at 31 December 2019	**236,783,202**		**2,368**

Preference shares	No.of shares	Nominal value	Share capital
Preference shares issued as at 1 January 2019	16,123,125	USD 0.01	161
Total issued preferance shares as at 31 December 2019	**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.

At 30 June 2019 and at 31 December 2019 preferred payment in kind dividend in a total of USD 3.9 million was capitalised, increasing the accrued preference capital balance to USD 81.1 million.

For information about warrants, refer to note 23 *Financial risk management*.

LARGEST COMMON SHAREHOLDERS AT 31 DECEMBER 2019

	Holding	% of shares
Odfjell Partners Ltd.	142,476,191	60.17%
Morgan Stanley & Co. Int. Plc.	7,642,337	3.23%
J.P.Morgan Securities PLC	5,634,131	2.38%
J.P.Morgan Chase Bank N.A. London	4,675,361	1.97%
J.P.Morgan Chase Bank N.A. London	4,608,776	1.95%
J.P.Morgan Bank Luxembourg S.A.	3,308,253	1.40%
Goldman Sachs & Co. LLC	3,042,616	1.28%
The Bank of New York Mellon SA/NV	2,550,229	1.08%
State Street Bank and Trust Co.	2,425,163	1.02%
Schroder International Selection	2,401,249	1.01%
The Bank of New York Mellon SA/NV	2,214,327	0.94%
State Street Bank and Trust Co.	2,198,092	0.93%
Citybank, N.A.	2,048,292	0.87%
J.P.Morgan Securities LLC	1,953,132	0.82%
Fidelity Select Portfolios: Energy	1,842,482	0.78%
Verdipapirfondet DNB Norge Selektiv	1,654,123	0.70%
BNP Paribas Securities Services	1,223,605	0.52%
Cape Invest AS	1,217,459	0.51%
Verdipapirfondet Nordea Kapital	1,196,806	0.51%
Goldman Sachs International	1,195,891	0.51%
Total 20 largest common shareholders	**195,508,515**	**82.57%**
Other common shareholders	41,274,687	17.43%
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 2018		**(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)**
Financial instruments, under hedge accounting	23	1,124	–		–	1,124
Currency translation difference - Group		–	446		–	446
Cost of share-based option plan	32	–	–	528	–	528
At 31 December 2019		**1,124**	**(75,488)**	**816**	**(34,496)**	**(108,045)**

Note 23 > Financial risk management

FINANCIAL RISK FACTORS

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

Note 23 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.

Section 10 Group Financial Statements

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.

Odfjell Drilling held cash and cash equivalents amounting to USD 170 million at the end of 2019. In addition, the Group had USD 25 million in undrawn credit in the Odfjell Invest junior facility as of 31 December 2019, available for additional drawing until 31 March 2020. This is deemed to be sufficient funding for the Group's current activity levels and committed capital expenditures during 2020.

The liquidity risk is connected with the market risk and the 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.

In response to subsequent events regarding the Covid -19 outbreak, numerous governments and central banks are launching programmes to provide assistance to certain industries and populations. These programmes and additional assistance that are likely to come will help to stabilise the financial situation. The Group has prepared action plans to maintain operations, and through this achieve access to sufficient liquidity as a basis for the going concern assumption.

Operating in more than 20 jurisdictions Odfjell Drilling do from time to time receive enquiries from authorities about compliance related matters. The Group has per 31 December 2019 not received any formal material assessment which is not recognised in the financial statements. However, there might be a risk of demand for payment from relevant authorities during such process, even if the final conclusion is in the Groups favour. See note 9 *Tax* and note 25 *Contingencies* for further information.

The Group's refinancing risk is diversified with each loan facility maturing at different times until January 2024. The Group has one facility maturing in 2020. The 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. See note 14 for further information about maturity of contractual amounts.

MATURITY OF FINANCIAL LIABILITIES

The amounts disclosed in the table are the contractual undiscounted cash flows. The table include 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.

31.12.2019

USD thousands	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Interest-bearing borrowings	139,180	140,539	572,216	759,242	–	1,611,177	1,390,462
Lease liabilities	4,323	3,450	6,547	17,625	28,410	60,355	46,659
Trade payables	45,974	194	–	–	–	46,168	46,168
Other current payables	74,910	7,014	–	–	–	81,924	81,924

31.12.2018

USD thousands	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Interest-bearing borrowings	118,500	723,500	98,200	249,000	–	1,189,200	1,094,798

Note 23 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 2020, as all units in the fleet has medium to long-term contracts.

CONTRACT STATUS AND RIG RATES

Deepsea Atlantic is working under the Master Frame Agreement entered into between Equinor and Odfjell Drilling in May 2018. The current contract ends in Q2 2019 with a dayrate of USD 296,000 and the unit will thereafter continue on a five well contract also under the Master Frame Agreement agreed to a dayrate of USD 340,000 per day.The dayrates have a USD element and a NOK element. This work is expected to keep Deepsea Atlantic occupied throughout 2020.

Deepsea Stavanger commenced its current contract with Aker BP on the NCS on 7 April 2019 and will continue until commencement of its next contract with Total in South Africa whereby mobilization is expected to start in Q2 2020. The dayrate for the Aker BP work is agreed to USD 279,000 and the contract was the first call off under the Alliance Agreement with Aker BP. The total duration including mobilization and demobilization periods for the Total work in South Africa is expected to be minimum 300 days with an average dayrate of USD 438,000 per day. The dayrates have a USD element and a NOK element.

Deepsea Bergen operated for MOL until March this year at a dayrate of USD 180,000. The unit has no new employment beyond this. The dayrate has a USD element and a NOK element.

Deepsea Nordkapp is operating for Aker BP under the Alliance Agreement on a 3+1 year contract, which started in May 2019. The dayrate for the first operational year is set to USd 300,000 per day, for the second year USD 327,500 per day and for the third year USD 350,000 per day.The dayrates includes USD and NOK elements in order to hedge the local currency exposure

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 USD 431,000. 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.

Section 10 Group Financial Statements

DERIVATIVES

The group has the following derivative financial instruments in the following line items in the balance sheet:

USD thousands	31.12.2019	31.12.2018
Current assets		
Foreign exchange contracts – at fair value through profit or loss	23	–
Total current derivative financial instruments asset	**23**	**–**
Non-current assets		
Interest rate swaps – at fair value through profit or loss	–	599
Interest rate swaps – cash flow hedges under hedge accounting	1,606	–
Total non-current derivative financial instruments asset	**1,606**	**599**
Current liabilities		
Interest rate swaps – at fair value through profit or loss	70	–
Total current derivative financial instruments liabilities	**70**	**–**
Non-current liabilities		
Interest rate swaps – cash flow hedges under hedge accounting	482	–
Warrant liability – at fair value through profit or loss	9,111	–
Total non-current derivative financial instruments liabilities	**9,594**	**–**

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They arepresented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

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
31.12.2019						
Interest rate swap	1.860 %	USD-LIBOR-BBA	79,112	2019-2023	4 years	(482)
Interest rate swap	1.496 %	USD-LIBOR-BBA	39,556	2019-2023	4 years	192
Interest rate swap	1.350 %	USD-LIBOR-BBA	38,487	2019-2023	4 years	383
Interest rate swap	1.550 %	USD-LIBOR-BBA	38,487	2019-2023	4 years	1,031
Interest rate swap	1.853 %	USD-LIBOR-BBA	32,000	2014-2021	7 years	23
Foreign exchange contracts		NOK 70,484,500		2019-2020	10 months	(70)
31.12.2018						
Interest rate swap	1,853%	USD-LIBOR-BBA	39,000	2014-2021	7 years	599

WARRANT LIABILITIES

On 30 May 2018 the company issued warrants for 5,925,000 common shares to an affiliate of Akastor ASA for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024. A tranche which has become exercisable may also be exercised on the exercise dates for the subsequent tranches if the conditions for such subsequent exercise(s) are satisfied. Each tranche may be exercised if the price of the Shares has increased by a defined percentage over NOK 36 on the relevant exercise date (i.e. 31 May in 2019, 2020, 2021, 2022, 2023 and 2024 respectively), being NOK 43.20 for tranche 1, NOK 51.84 for tranche 2, NOK 62.21 for tranche 3, NOK 74.65 for tranche 4, NOK 89.58 for tranche 5 and NOK 107.50 for tranche 6. 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.

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. The derivative liabilities will ultimately be converted into the Company's equity (common shares) if and when the warrants are exercised, or will be extinguished on the expiry of the outstanding warrants, and will not result in the outlay of any cash by the Company. Immediately prior to exercise, the warrants are remeasured at their estimated fair value. Upon exercise, the intrinsic value is transferred to share capital (the intrinsic value is the share price at the date the warrant is exercised less the exercise price of the warrant) . Any remaining fair value is recorded through the statement of operations and comprehensive loss as part of the change in estimated fair value of derivative warrant liabilities.

The Company has calculated fair value of the warrant liability using a modelling technique with Monte Carlo simulation together with judgement regarding modelling assumptions.The path-dependent nature of the instrument is modelled using a Monte Carlo simulation approach which uses computer generated random numbers to simulate share price paths.The price paths are generated using a process known as Geometric Brownian Motion (GBM). The price distributions generated by GBM are consistent with the assumptions underlying the widely used Black-Scholes model to price equity options. The key modelling parameter is the expected ODL share price volatility. While data is available to estimate this volatility, specialists can reasonably arrive at different assumptions depending on their judgement.

The calculations are based on the following assumptions:

- Valuation date : 31 December 2019
- Share price: NOK 32,72
- Volatility of share price: 40,42%
- Risk-free interest rate: 1.38%
- USDNOK exchange rate: 8.7803
- Dividend yield: zero
- Series A warrants have not been exercised in May 2019

Based on the valuation, fair value of the warrant liability is estimated to be NOK 80 million / USD 9.1 million as at 31 December 2019.

The change in fair value from 31 December 2018 of USD 9.1 million was recognised as finance cost in 2019.

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. 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 had eight foreign exchange contracts at 31 December 2019. Quoted mark-to-market values from financial institutions have been used to determine the fair value of the contracts at the end of the year. The foreign exchange contracts are only used for economic hedging purposes and not as speculative investments. However, these derivatives did not meet the hedge accounting criteria, and are accounted for at fair value through profit or loss.

During 2019 there were no effects recognised as other comprehensive income relating to foreign exchange contracts qualified for hedge accounting, compared to a gain of USD 0.2 million in 2018.

For foreign exchange contracts accounted for at fair value through profit or loss, a gain of USD 0.02 million was recognised as finance cost in 2019. There were no profit or loss effects in 2018.

FOREIGN EXCHANGE RISK – EXPOSURE

The group's exposure to foreign currency risk at the end of the reporting period, expressed in USD, was as follows:

31.12.2019

USD thousands	NOK	GBP	Other non-USD currencies
Cash and cash equivalents	62,085	2,053	6,059
Trade receivables	75,676	25,523	12,519
Contract assets	5,638	1,214	–
Interest-bearing borrowings	–	–	–
Lease liabilities	(42,494)	(2,087)	(2,077)
Trade payables	(19,574)	(6,877)	(2,845)
Other current payables	(53,585)	(5,338)	(2,840)
Foreign currency forwards			
Buy foreign currency	8,028	–	

31.12.2018

USD thousands	NOK	GBP	Other non-USD currencies
Cash and cash equivalents	66,411	8,675	6,956
Trade receivables	36,473	20,795	12,423
Interest-bearing borrowings	–	–	–

The aggregate net foreign exchange gains/losses recognised in profit or loss were:

USD thousands	2019	2018
Net currency gain / (loss) included in finance costs	(3,712)	(3,017)

SENSITIVITY

As shown in the table above, the Group is primarily exposed to changes in USD/NOK exchange rates.

USD thousands	USD is strengthened by 20 % against NOK 2019	USD is strengthened by 10 % against NOK 2019	USD is weakened by 10 % against NOK 2019	USD is weakened by 10 % against NOK 2018
Cash and cash equivalents	6,472	3,530	(4,315)	4,220
Current receivables	4,352	2,374	(2,901)	3,609
Current liabilities	(2,192)	(1,196)	1,461	(8,958)
Net effect on profit before tax	**8,632**	**4,708**	**(5,755)**	**(1,129)**
Effect on Other comprehensive income	(20,615)	(11,245)	13,743	
Net effect on total comprehensive income / equity	**(11,983)**	**(6,536)**	**7,989**	

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. Apart from the GIEK / Export Credit tranche of the Deepsea Aberdeen facility, none of the Group's borrowings are at fixed 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 five interest rate swap agreements at 31 December 2019. 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 table under 23 b) *Derivatives*.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans.

Including interest rate swaps entered into, the fixed-rate portion of the group's interest bearing debt per 31 December 2019 is approximately 29%

The swap contracts require settlement of net interest receivable or payable. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Average interest rate for 2019 was 5.8% (5.7% for 2018), including the effect of interest rate hedging.

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.

During 2019 a gain of USD 1.1 million was recognised as other comprehensive income relating to interest rate swap agreements qualified for hedge accounting.There were no effects recognises as other comprehensive income relating to interest rate swaps in 2018.

For derivatives accounted for at fair value through profit or loss, a cost of USD 0.7 million was recognised as finance cost in 2019, compared to a gain of USD 0.2 million in 2018.

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 entered into as at 31 December):

- If interest is increased by 1.0 %, the effect will be an increase in financing costs of USD 10.0 million for 2019, compared to 9.8 million for 2018.

In first quarter 2020, the Group entered into five additional interest rate swaps for a total notional amount of USD 192 million. These swaps will reduce the sensitivity to increase in financing costs stated above with approximately USD 1.4 million.

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	31.12.2019	31.12.2018
6 months or less	1,354,947	1,094,200
6-12 months	–	–
1-5 years	–	–
Later than 5 years	–	–
Total contractual amounts	**1,354,947**	**1,094,200**

Note 23 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 2019, 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 174 million.

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 months before 31 December 2019 or 31 December 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 and 31 December 2019 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 2019.

THE AGEING OF THE TRADE RECEIVABLES

USD thousands	Expected loss rate	Gross amount 2019	Loss allowance 2019	Net amount 2019
Not due	0.0%	124,998	0	124,998
0 to 3 months	0.1%	40,541	(25)	40,516
3 to 6 months	0.3%	1,519	(5)	1,514
Over 6 months	12.0%	8,105	(975)	7,129
Total		**175,163**	**(1,005)**	**174,158**

CONTRACT ASSETS

USD thousands	Expected loss rate	Gross amount 2019	Loss allowance 2019	Net amount 2019
Not due	0.0%	9,392	–	9,392

THE AGEING OF THE TRADE RECEIVABLES

USD thousands	Expected loss rate	Gross amount 2018	Loss allowance 2018	Net amount 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

USD thousands	Expected loss rate	Gross amount 2018	Loss allowance 2018	Net amount 2018
Not due	0.0%	–	–	–

MOVEMENTS IN LOSS ALLOWANCE / THE PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES AND CONTRACT ASSETS ARE AS FOLLOW:

USD thousands	Trade receivables 2019	Trade receivables 2018	Contract assets 2019	Contract assets 2018
Loss allowance as at 1 January	1,506	1,481	–	–
Utilised	(462)	(11)	–	–
Released provision	(165)	(46)	–	–
New provisions	149	140	–	–
Translation differences	(23)	(58)	–	–
Loss allowance as at 31 December	**1,005**	**1,506**	**–**	**–**

USD thousands	2019	2018
Net gain (loss) related to trade receivables	17	(69)

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

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 14 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 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.

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.

	31.12.2019	31.12.2018
Equity	1,062,378	1,023,673
Total assets	2,686,396	2,276,345
Equity ratio	**40%**	**45%**
Cash and cash equivalents excl.restricted capital	140,154	141,750
Available drawing facilities, see note 14	25,000	325,000
Total available liquidity	**165,154**	**466,750**

Note 25 > Contingencies

The Group is aware of challenges to the historical application of National Insurance Contributions to workers in the UK Continental Shelf. At this point, the Group considers this to be a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and, accordingly, no provision has been recognised. Management does not believe it is possible to make a reliable estimate of the potential financial effect in the event that the Group was determined to have any liability that may arise from this matter.

There are no other material contingencies to be disclosed as at 31 December 2019.

Note 26 > Commitments

CAPITAL COMMITMENTS

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

	2019	2018
Newbuild in progress	–	317,936
Rig investments	8,869	22,727
Rental and casing equipment, due in 1 year	4,619	1,927
Total	**13,488**	**342,590**

Newbuild in progress as per 31 December 2018 was related to Deepsea Nordkapp.

OPERATING LEASE COMMITMENTS

The Group leases various offices under operating lease arrangements. The lease terms are between 1 and 11 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.

From 1 January 2019, the group has recognised right-of-use assets for these leases, except for short term and low-value leases, see note 2 *New accounting standards* and note 19 *Leases* for further information.

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

	2019	2018
No later than 1 year	–	8,859
Later than 1 year and no later than 5 years	–	23,184
Later than 5 years	–	29,155
Total	**–**	**61,198**

Note 27 > Events after the reporting period

The following material events have occurred after balance date:

EQUINOR AWARDED MORE WORK TO DEEPSEA ATLANTIC

On 26 February 2020, Equinor exercised two optional wells for Deepsea Atlantic under the Master Frame Agreement. The wells have been awarded under the Continued Optionality mechanism in the Contract entered into between the parties in May 2018.

CORONAVIRUS AND OIL PRICES

The recent outbreak of the Coronavirus disease (COVID-19) and the ongoing oil price war have had significant implications for the global economy. The consequences have also reached the oil service industry, as most segments have transformed to reduced activity. Although it is still too early to measure the full economic impact of Coronavirus, we will be fighting this new pandemic for some time to come, and in the short term, we will probably see a reduction in demand and day rates. The current order backlog and no signals from customers about the use of force majeure clauses, reduces the Group's exposure to a limited degree as long as operations are maintained.

In response to the outbreak, numerous governments and central banks are launching programmes to provide assistance to certain industries and populations. These programmes and additional assistance that are likely to come will help to stabilise the financial situation. The Group has prepared action plans to maintain operations, and through this achieve access to sufficient liquidity as a basis for the going concern assumption.

There have been no other events after the balance date with material effect for the financial statements ended 31 December 2019.

Note 28 > Interests in other entities – Material subsidiaries

The group's principal subsidiaries at 31 December 2019 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 - % 2019	Ownership interest held by group - % 2018	Principal activities
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.	England	United Arab Emirates	USD	100	100	Rig owning
Deep Sea Stavanger (UK) Ltd.	England	United Arab Emirates	USD	100	100	Rig owning
Odfjell Drilling South Africa Ltd.	Scotland	South Africa	USD	100	100	Drilling operations
Odfjell Rig II Ltd.	Bermuda	United Arab Emirates	USD	100	100	Rig owning
Odfjell Rig III Ltd.	Bermuda	UK	USD	100	100	Holding company
Odfjell Drilling Shetland Ltd.	Scotland	United Arab Emirates / UK	USD	100	100	Rig owning / Drilling operations
Odfjell Rig V Ltd.	England	United Arab Emirates	USD	100	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	100	Drilling operations
Deep Sea Management International AS	Norway	Norway	USD	–	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.	Scotland	UK	GBP	100	100	
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.	Scotland	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 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

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Note 29 > Investments in joint ventures and associates

SINGLE PURPOSE COMPANIES (SPC'S)

The Group has, through subsidiary Odfjell Drilling Brasil BV, a owner share of 20% in Guarapari Drilling BV, Itaoca Drilling BV and Siri Drilling BV. These three companies are all SPC's related to the Sete newbuild projects in Brazil. Odfjell Drilling Brasil BV has suspended further equity contributions into the Sete newbuild projects. The SPS's are now in the process of being liquidated.

The estimate for the value of the investments in the SPC's., recognised as per 31 December 2019, 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.

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

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 60.17% 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 2019.

Simen Lieungh (CEO in Odfjell Drilling AS) controls 473.190 (0.40%) of the common shares in the company as per 31 December 2019.

See note 32 *Share-based payments* 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	2019	2018
Operating expenses:		
Kokstad Holding AS group (related to main share holder)	–	6,293
Total	**–**	**6,293**

The Group have lease agreements with the related party Kokstad Holding AS Group (related to main shareholder). Following the implementation of IFRS 16 *Leases*, refer to note 2 and 19, reported lease liability to Kokstad Holding AS Group as at 31 December 2019 is USD 38 million, while payments in 2019 amounted to USD 5.4 million.

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 to Board of Directors and key executive management*.

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.

From 1 January 2019, the group has recognised right-of-use assets for these leases, note 2 *New accounting standards* and note 19 *Leases* for further information.

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

USD thousands	2019	2018
No later than 1 year	–	5,301
Later than 1 year and no later than 5 years	–	16,108
Later than 5 years	–	26,914
Total	**–**	**48,323**

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

Details of salary, variable pay and other benefits provided to Group management in 2019:

USD thousands	Salary	Bonus	Pension premium	Other remuneration	Total
Simen Lieungh CEO - Odfjell Drilling AS	646	1,931	12	41	2,631
Atle Sæbø CFO - Odfjell Drilling AS	309	182	20	27	537
Bjarte Mossefinn General Manager - Odfjell Drilling Ltd.	304	40	0	17	361
Total	**1,259**	**2,153**	**32**	**85**	**3,530**

Details of salary, variable pay and other benefits provided to Group management in 2018:

USD thousands	Salary	Bonus	Pension premium	Other remuneration	Total
Simen Lieungh CEO - Odfjell Drilling AS	672	246	11	76	1,005
Atle Sæbø CFO - Odfjell Drilling AS	313	184	20	23	540
Total	**985**	**430**	**31**	**99**	**1,545**

FEES PAID TO BOARD OF NON EXECUTIVE DIRECTORS:

USD thousands	2019	2018
Helene Odfjell	85	28
Susanne Munch Thore	36	–
Alasdair Shiach	22	–
Thomas Marsoner	22	–
Carl-Erik Haavaldsen	27	58
Kirk L. Davis	7	28
Henry Hamilton III	27	28
Bengt Lie Hansen	27	28
Total remuneration paid during the year to Board of non-executive directors	**252**	**169**

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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. 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:

	2019	2018
Outstanding options 1.1	960,000	–
Options granted	–	960,000
Options forfeited	–	–
Options exercised	–	–
Options expired	–	–
Outstanding options 31.12	**960,000**	**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 23 *Financial risk management*, and has in addition a share option plan for 960,000 common shares, see further description in Note 32 *Share-based payments*. The warrants represent contingently issuable shares.

Neither the warrants nor the options affect the basic or dilluted number of shares in 2018 or 2019, 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.

USD thousands	2019	2018
Profit/(loss) for the period	40,820	27,350
Adjustment for dividends on preference shares	(7,817)	(4,418)
Profit/(loss) for the period due to holders of common shares	**33,003**	**22,932**
Adjustment related to warrants and share option plan	–	–
Diluted profit/(loss) for the periode due to the holders of common shares	**33,003**	**22,932**

USD thousands	2019	2018
Weighted average number of common shares in issue	236,783,202	222,599,942
Effects of dilutive potential common shares:		
Warrants	–	–
Share option plan	–	–
Diluted average number of shares outstanding	**236,783,202**	**222,599,942**

USD thousands	2019	2018
Basic earnings per share	**0.14**	**0.10**
Diluted earnings per share	**0.14**	**0.10**

Note 34 > Summary of significant accounting principles

This note provides a list of the significant accounting policied adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 2019 comply with IFRS as endorsed by EU.

The consolidated financial statements ended 31 December 2019 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 2019 that have been adopted by the Group

- IFRS 16 Leases,
- IFRS 9 Financial instruments
- Payment Features with Negative Compensation – Amendments to IFRS 9
- Long-term interests in Associates and Joint Ventures– Amendments to IAS 28
- Annual Improvements 2015-2017 cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The group had to change its accounting policies following the adoption of IFRS 16. The group elected to apply the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. 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, 2019 and not early adopted

- Definition of Material – Amendment to IAS 1 and IAS 8.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current of 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 asset.

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:

	2019	2018	2019	2018
NOK	0.11360	0.12293	0.11389	0.11509
GBP	1.27688	1.33408	1.32041	1.28000
EUR	1.11945	1.18045	1.12340	1.14500

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

Refer to Note 5 Revenue.

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.

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.

(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.

Section 10 Group Financial Statements

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

As explained in above, the group has changed its accounting policy for leases where the group is the lessee. The new policy is described in note 19 *Leases* and the impact of the change is described in note 2 *New accounting standards.*

Until 31 December 2018, leases were 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.

The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

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

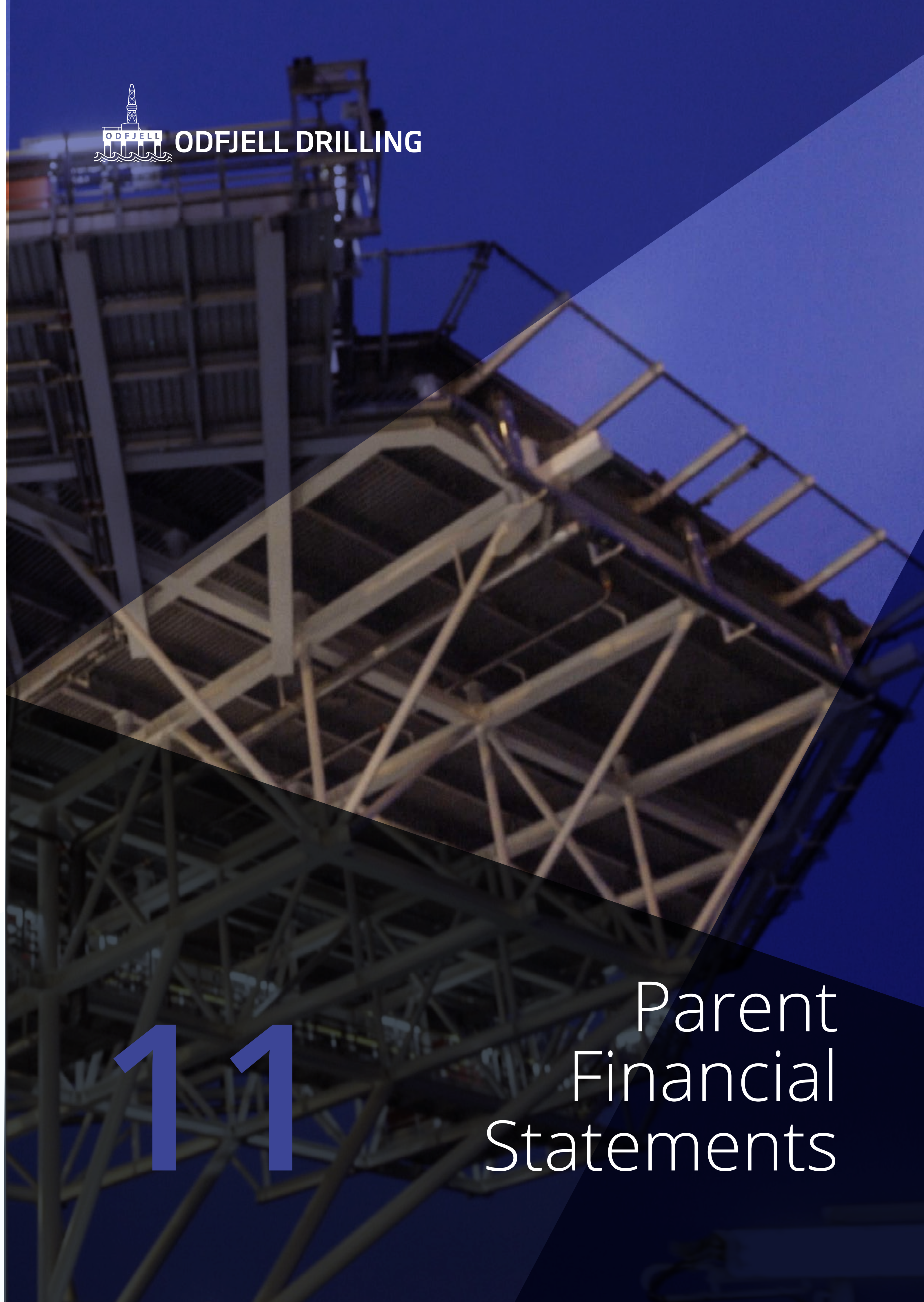
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity .

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.



11 Parent Financial Statements

Income Statement for the year ended 31 December

USD thousands	Note	2019	2018
Operating revenues		**71**	**–**
Personnel expenses	2	(1,183)	(462)
Other operating expenses	3	(1,802)	(1,537)
Total operating expenses		**(2,985)**	**(2,000)**
Operating profit / (loss) - EBIT		**(2,914)**	**(2,000)**
Interest income		107	222
Interest income from subsidiaries	8,11	20,569	35,385
Dividends from subsidiaries	11	–	125,148
Other financial income	10,11	4,194	4,083
Interest expenses subsidiaries	8,11	(21,080)	(26,001)
Impairment / reversal of impairment of investments in subsidiaries	7	6,100	37,929
Other financial expenses	6,10	(9,323)	(4,631)
Net financial items		**567**	**172,134**
Profit / (loss) before tax		**(2,347)**	**170,135**
Income tax (expense) / income	13	–	–
Profit / (loss) for the period		**(2,347)**	**170,135**
Allocation of year result:			
Transferred to / (from) other equity	4	(2,347)	170,135
Total allocated		**(2,347)**	**170,135**

Section 11 Parent Financial Statements

Statement of Financial Position

USD thousands	Note	31.12.2019	31.12.2018
Assets			
Investments in subsidiaries	7	1,106,171	1,076,071
Non-current receivables subsidiaries	8	270,604	297,443
Total non-current assets		**1,376,775**	**1,373,514**
Other current receivables		25	31
Other current receivables subsidiaries	8	–	16,881
Cash and cash equivalents	9	10,348	17,426
Total current assets		**10,374**	**34,338**
Total assets		**1,387,149**	**1,407,852**
Equity and liabilities			
Share capital	4,5	2,529	2,529
Other contributed capital	4	562,430	562,430
Other equity	4	471,075	476,803
Total equity		**1,036,034**	**1,041,762**
Non-current liabilites subsidiaries	8,11	341,071	359,935
Warrant liabilities	6	9,111	–
Total non-current liabilities		**350,182**	**359,935**
Other current liabilities		147	5,995
Current liabilities subsidiaries	8	688	–
Trade payables		97	159
Total current liabilities		**932**	**6,154**
Total liabilities		**351,114**	**366,089**
Total equity and liabilities		**1,387,149**	**1,407,852**

The accompanying notes are an integral part of these financial statements

The Board of Odfjell Drilling Ltd., Aberdeen, United Kingdom, 21 April 2020

Helene Odfjell Chairman	Susanne Munch Thore Director	Alasdair Shiach Director	Thomas Marsoner Director	Bjarte Mossefinn General Manager

Statement of Cash Flow for the year ended 31 December

USD thousands	Note	2019	2018
Cashflow from operating activities:			
Profit/(loss) before tax		(2,347)	170,135
Adjustments for:			
Cost of Share-option plan		528	288
Change in fair value warrant liabilities	6	9,111	–
Impairment / reversal of impairment of investments in subsidiaries	7	(6,100)	(37,929)
Net currency loss / (gain) not related to operating activities		(155)	3,814
Income from subsidiaries	11	–	(124,000)
Other provisions and adjustments for non-cash items		(1,610)	(12,058)
Changes in working capital:			
Trade payables		(62)	17
Other accruals and current receivables /payables		(5,155)	5,912
Net cash flow from operating activities		**(5,790)**	**6,179**
Cash flows from investing activities:			
Net cash flow (outflow) current intercompany receivables	8	16,881	(221,276)
Proceeds from non-current receivables subsidiaries		48,504	–
Net cash flow from investing activities		**65,385**	**(221,276)**
Cash flows from financing activities:			
Net proceeds (payments) borrowing facilities from subsidiaries		(62,919)	1,829
Net proceeds from capital increases		–	236,118
Dividends paid to preference share holders		(3,909)	(2,209)
Net cash from financing activities		**(66,828)**	**235,739**
Exchange gains/(losses) on cash and cash equivalents		155	(3,814)
Net change in cash and cash equivalents		**(7,078)**	**16,827**
Cash and cash equivalents at 01.01		17,426	599
Cash and cash equivalents at 31.12		**10,348**	**17,426**

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 > Personnel expenses

USD thousands	2019	2018
Wage cost		
Salaries	378	–
Payroll tax	55	–
Pension costs	0	–
Employee benefits	19	–
Management compensation:		
Board of directors fee	203	175
Cost of Share-option plan	528	288
Total personell expenses	**1,183**	**462**

The company had two employees at 31 December 2019.

DETAILS OF SALARY, VARIABLE PAY AND OTHER BENEFITS PROVIDED TO THE GENERAL MANAGER IN 2019:

USD thousands	Salary	Bonus	Pension premium	Other remuneration	Total
Bjarte Mossefinn	304	40	0	17	361

No loans or guarantees have been given to the members of the board of directors.

NOK 1,340,000 has been paid as remuneration to the board of directors during 2019.

Section 11 Parent Financial Statements

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 he 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. 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	2019	2018
Outstanding options 1.1	960,000	–
Options granted	–	960,000
Options forfeited	–	–
Options exercised	–	–
Options expired	–	–
Outstanding options 31.12	**960,000**	**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 > Operating expenses

USD thousands	2019	2018
Fee to the auditor (excl. VAT):		
Auditors fee	166	225
Other services from auditor	–	–
Other operating expenses:		
Service fee	120	479
Fees legal and financial assistance	1,361	717
Travel expenses	66	116
Other expenses	89	0
Total operating expenses	**1,802**	**1,537**

A service agreement was 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 2019 is USD 120,288 (USD 479,459 in 2018).

Note 4 > Shareholders' equity

	Share capital	Other contributed capital	Other equity	Total
Shareholders' equity as at 31.12.2018	2,529	562,430	476,803	1,041,762
Cost of share-based option plan	–	–	528	528
Dividend paid to preference share holders	–	–	(3,909)	(3,909)
Loss for the year	–	–	(2,347)	(2,347)
Shareholders' equity as at 31.12.2019	**2,529**	**562,430**	**471,075**	**1,036,034**

The Company paid cash dividends of USD 1.9 million at 1 July 2019 and USD 2.0 million at 31 December 2019 to the holders of the preference shares.

Note 5 > Share capital and shareholders

THE SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS:

	Number	Nominal value	Book value
Listed shares			
Common shares issued as at 31.12.2019	**236,783,202**	**USD 0.01**	**USD 2,367,832**
Preference shares			
Preference shares issued as at 31.12.2019	**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.

At 30 June 2019 and at 31 December 2019 preferred payment in kind dividend in a total of USD 3.9 million was capitalised, increasing the accrued preference capital balance to USD 81.1 million.

LARGEST COMMON SHAREHOLDERS AT 31 DECEMBER 2019

	Holding	% of shares
Odfjell Partners Ltd.	142,476,191	60.17%
Morgan Stanley & Co. Int. Plc.	7,642,337	3.23%
J.P.Morgan Securities PLC	5,634,131	2.38%
J.P.Morgan Chase Bank N.A. London	4,675,361	1.97%
J.P.Morgan Chase Bank N.A. London	4,608,776	1.95%
J.P.Morgan Bank Luxembourg S.A.	3,308,253	1.40%
Goldman Sachs & Co. LLC	3,042,616	1.28%
The Bank of New York Mellon SA/NV	2,550,229	1.08%
State Street Bank and Trust Co.	2,425,163	1.02%
Schroder International Selection	2,401,249	1.01%
The Bank of New York Mellon SA/NV	2,214,327	0.94%
State Street Bank and Trust Co.	2,198,092	0.93%
Citybank, N.A.	2,048,292	0.87%
J.P.Morgan Securities LLC	1,953,132	0.82%
Fidelity Select Portfolios: Energy	1,842,482	0.78%
Verdipapirfondet DNB Norge Selektiv	1,654,123	0.70%
BNP Paribas Securities Services	1,223,605	0.52%
Cape Invest AS	1,217,459	0.51%
Verdipapirfondet Nordea Kapital	1,196,806	0.51%
Goldman Sachs International	1,195,891	0.51%
Total 20 largest common shareholders	**195,508,515**	**82.57%**
Other common shareholders	41,274,687	17.43%
Total common shareholders	**236,783,202**	**100.00%**

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 60.17% 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 2019.

Simen Lieungh (CEO, Odfjell Drilling AS) controls 476,190 (0.20%) of the common shares in the company as per 31 December 2019.

Note 6 > Warrant liabilities

On 30 May 2018 the company issued warrants for 5,925,000 common shares to an affiliate of Akastor ASA for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024. A tranche which has become exercisable may also be exercised on the exercise dates for the subsequent tranches if the conditions for such subsequent exercise(s) are satisfied. Each tranche may be exercised if the price of the Shares has increased by a defined percentage over NOK 36 on the relevant exercise date (i.e. 31 May in 2019, 2020, 2021, 2022, 2023 and 2024 respectively), being NOK 43.20 for tranche 1, NOK 51.84 for tranche 2, NOK 62.21 for tranche 3, NOK 74.65 for tranche 4, NOK 89.58 for tranche 5 and NOK 107.50 for tranche 6. 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.

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. The derivative liabilities will ultimately be converted into the Company's equity (common shares) if and when the warrants are exercised, or will be extinguished on the expiry of the outstanding warrants, and will not result in the outlay of any cash by the Company. Immediately prior to exercise, the warrants are remeasured at their estimated fair value. Upon exercise, the intrinsic value is transferred to share capital (the intrinsic value is the share price at the date the warrant is exercised less the exercise price of the warrant) . Any remaining fair value is recorded through the statement of operations and comprehensive loss as part of the change in estimated fair value of derivative warrant liabilities.

The Company has calculated fair value of the warrant liability using a modelling technique with Monte Carlo simulation together with judgement regarding modelling assumptions.The path-dependent nature of the instrument is modelled using a Monte Carlo simulation approach which uses computer generated random numbers to simulate share price paths.The price paths are generated using a process known as Geometric Brownian Motion (GBM). The price distributions generated by GBM are consistent with the assumptions underlying the widely used Black-Scholes model to price equity options.

The key modelling parameter is the expected ODL share price volatility. While data is available to estimate this volatility, specialists can reasonably arrive at different assumptions depending on their judgement.

The calculations are based on the following assumptions:

- Valuation date : 31 December 2019
- Share price: NOK 32,72
- Volatility of share price: 40,42%
- Risk-free interest rate: 1.38%
- USDNOK exchange rate: 8.7803
- Dividend yield: zero
- Series A warrants have not been exercised in May 2019

Based on the valuation, fair value of the warrant liability is estimated to be NOK 80 million / USD 9.1 million as at 31 December 2019.

The change in fair value from 31 December 2018 of USD 9.1 million was recognised as finance cost in 2019.

Section 11 Parent Financial Statements

Note 7 > 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) 2019	Equity as at 31.12.2019	Book value as at 31.12.2019
Odfjell Drilling Services Ltd.	USD	10,000	(2,580)	129,970	186,814
Odfjell Offshore Ltd.	USD	1,000,000	6,091	97,089	97,057
Odfjell Rig Owning Ltd.	USD	10,000	(14,440)	690,520	821,194
Odfjell Global Business Services AS	NOK	30,371	423	15,475	1,105
Total					**1,106,171**

The shares are recognised in the accounts according to cost method.

Investments in subsidiaries have been subject to impairment assessment as per 31. December 2019.

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 31.12.2019.

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 31.12.2019.

Based on the impairment assessment, USD 6.1 million of previously booked impairment of investment in Odfjell Offshore Ltd., was reversed in 2019 (USD 38 million reversed in 2018).

No impairment was identified as at 31.12.2019 for any of the investments.

Note 8 > Intercompany balances

NON-CURRENT RECEIVABLES:

	Interest conditions	Maturity date	Receivables 2019	Receivables 2018	Interests 2019
Odfjell Rig Owning Ltd.	3 mnt LIBOR + 3.5% margin	09.05.2024	270,604	297,443	20,569
Total non-current			**270,604**	**297,443**	**20,569**

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. 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 as contribution to the surplus capital of the Odfjell Rig Owning Ltd.

At 23 December 2019, the loan agreement was amended, extending the maturity date from 9 May 2020 to 9 May 2024, and changing the interest from a fixed interest rate of 6.95% to a interest rate of 3 months USD LIBOR with a margin of 3.5% per annum.

See note 6 for impairment assessment as at 31.12.2019.

LOANS FROM SUBSIDIARIES:

	Interest conditions	Maturity date	Liabillites 2019	Liabillites 2018	Interests 2019
Odfjell Offshore Ltd.	3 mnt LIBOR + 5.16% margin	28.08.2022	10,101	9,358	743
Odfjell Drilling Services Ltd.	3 mnt LIBOR + 3.5% margin	09.11.2023	330,970	350,577	20,337
Total loans from subsidiaries			**341,071**	**359,935**	**21,080**

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:

	Type	Receivables 2019	Liabilities 2019	Receivables 2018	Liabilities 2018
Odfjell Drillling (UK) Ltd	VAT	–	573	–	–
Odfjell Well Service (UK) Ltd	VAT	–	12	–	–
Odfjell Drilling Shetland Ltd	VAT	–	103	–	–
Odfjell Rig Owning Ltd.	Loan	–	–	16,881	–
Total current		**–**	**688**	**16,881**	**–**

The current receivables and liabilities have less than one year maturity.

Note 9 > Cash and bank deposits

USD thousands	2019	2018
Current account NOK	1,452	15,788
Current account USD	358	138
Current account GBP	844	-
Time deposit NOK	5,695	-
Time deposit USD	2,000	1,500
Total cash and bank deposits	**10,348**	**17,426**

All bank deposits are not restricted.

Note 10 > Financial income and expenses

OTHER FINANCIAL INCOME:

USD thousands	2019	2018
Guarantee commissions	4,194	4,083
Total other financial income	**4,194**	**4,083**

OTHER FINANCIAL EXPENSES:

USD thousands	Note	2019	2018
Net currency loss		184	3,647
Change in fair value of the warrant liability	6	9,111	-
Other financial expenses		27	984
Total other financial expenses		**9,323**	**4,631**

Note 11 > Related parties transactions

REVENUE FROM RELATED PARTIES

Type of transaction	Related party	Relation	2019	2018
Management fee	Odfjell Drilling Services Ltd.	Subsidiary	19	–
Management fee	Odfjell Rig Owning Ltd.	Subsidiary	13	–
Management fee	Odfjell Invest Ltd.	Subsidiary	19	–
Management fee	Odfjell Rig III Ltd.	Subsidiary	19	–
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	20,569	35,385
Guarantee provision	Odfjell Drilling Services Ltd.	Subsidiary	1,025	1,115
Guarantee provision	Odfjell Invest Ltd.	Subsidiary	1,291	1,559
Guarantee provision	Odfjell Rig II Ltd.	Subsidiary	145	220
Guarantee provision	Odfjell Rig III Ltd.	Subsidiary	782	1,189
Guarantee provision	Odfjell Rig V Ltd.	Subsidiary	951	–
Total			**24,834**	**164,615**

EXPENSES TO RELATED PARTIES

Type of transaction	Related party	Relation	2019	2018
Interest on long term loan	Odfjell Drilling Services Ltd.	Subsidiary	20,337	25,335
Interest on long term loan	Odfjell Offshore Ltd.	Subsidiary	743	666
Service fee	Odfjell Global Business Services AS	Subsidiary	11	12
Service fee	Odfjell Drilling AS	Subsidiary	109	468
Other services	Odfjell Drilling (UK) Ltd	Subsidiary	33	–
Total			**21,234**	**26,481**

See note 8 for information regaring interest condition on loan to related parties.

Note 12 > 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 250 million senior secured credit facility agreement originally entered into in an amount of up to USD 450 million on 6 May 2014 with Odfjell Drilling Services Ltd., as borrower and DNB Bank ASA acting as agent on behalf of the lenders. The facility was amended and extended on 26 June 2019. The liability of Odfjell Drilling Ltd as guarantor 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 425 million term loan facility agreement entered into on 26 June 2019 with Odfjell Invest 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 552.5 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.
- USD 100 million junior facility agreement entered into on 26 June 2019 with Odfjell Invest 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 130 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. Per year-end 2019 USD 75 million of the junior facility is utilized and the remaining USD 25 million shall be utilized in one drawing latest by 31 March 2020.
- 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 loan facility was fully drawn on 3 January 2019 in relation to the delivery of Deepsea Nordkapp that took place on 7 January 2019.

OTHER SECURITIES

ODFJELL DRILLING SERVICES LTD. – USD 250 MILLION FACILITY AGREEMENT

As security for the loan, the Company, as well subsidiaries Odfjell Well Services II Ltd., Odfjell Partners Invest Ltd., Odfjell Drilling AS, Odfjell Platform 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 AS 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., and 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.,. 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 425 MILLION FACILITY 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 Atlantic and Deepsea Stavanger 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 INVEST LTD. – USD 100 MILLION JUNIOR FACILITY

The facility is covered by the same security package as the USD 425 million facility on a second priority basis.

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 in 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. In addition, Odfjell Drilling AS has pledged its shares in Odfjell Invest II AS as security.

GUARANTEE LIABILITIES

	2019	2018
Parent company guarantee in relation to the subsidiaries' loan agreements:		
Loan agreement in Odfjell Drilling Services Ltd.	282,120	322,381
Loan agreement in Odfjell Invest Ltd., senior facility	540,074	587,308
Loan agreement in Odfjell Invest Ltd., junior facility	130,000	–
Loan agreement in Odfjell Rig II Ltd.	51,805	78,033
Loan agreement in Odfjell Rig III Ltd.	397,185	449,776
Loan agreement in Odfjell Rig V Ltd.	417,668	–
Total guarantee liabilities	**1,401,184**	**1,437,498**

BOOK VALUE OF ASSETS PLEDGED AS SECURITY

USD thousands	2019	2018
Shares in Odfjell Offshore Ltd.	97,057	72,576
Shares in Odfjell Rig Owning Ltd.	821,194	831,277
Shares in Odfjell Drilling Services Ltd.	186,814	171,580
Shares in Odfjell Global Business Services AS	1,105	637
Intra-group receivables (Odfjell Drilling group)	270,604	314,324
Bank deposits	10,348	17,426
Total book value of assets pledged as security	**1,387,123**	**1,407,821**

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 13 > 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 did not pay any taxes to the United Kingdom for the fiscal year 2018, and does not expect to pay any taxes to the United Kingdom for the fiscal year 2019.

Note 14 > Events after the reporting period

Subsequent events have been reviewed from the end of the period to the issue of the accounts. The recent outbreak of the Coronavirus disease (COVID-19) and the ongoing oil price war have had significant implications for the global economy.

The consequences have also reached the oil service industry, as most segments have transformed to reduced activity. Although it is still too early to measure the full economic impact of Coronavirus, we will be fighting this new pandemic for some time to come, and in the short term, we will probably see a reduction in demand and day rates. The subsidiaries current order backlog and no signals from customers about the use of force majeure clauses, reduces the company's exposure to a limited degree as long as operations are maintained.

In response to the outbreak, numerous governments and central banks are launching programmes to provide assistance to certain industries and populations. These programmes and additional assistance that are likely to come will help to stabilise the financial situation. The Group has prepared action plans to maintain operations, and through this achieve access to sufficient liquidity as a basis for the going concern assumption.

Apart from the above related to Coronavirus and oil prices, 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 2019 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., Aberdeen, United Kingdom, 21 April 2020

Helene Odfjell Chairman	Susanne Munch Thore Director	Alasdair Shiach Director	Thomas Marsoner Director	Bjarte Mossefinn General Manager

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To the General Meeting of Odfjell Drilling Ltd

Independent Auditor's Report

Report on the Audit of the Financial Statements

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 2019, 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 2019, 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 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 2019, 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 2019, 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.

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Independent Auditor's Report - Odfjell Drilling Ltd

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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. However, our report in 2018 included a key audit matter related to the rig Deepsea Stavanger's contract with Total in South Africa due to the complexity of the revenue recognition. This contract was completed in early 2019 and we therefore focused less on this contract in this year's audit. In 2019 we have observed a general increased complexity in revenue recognition for the Group's drilling service contracts and revenue recognition for these contracts have therefore been a focus for this year's audit. Valuation of drilling rigs involves nearly the same complexity and risk as in 2018. Consequently, valuation of drilling rigs has also been a focus for this year's audit.

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 2,157 million. We focused on this area because: • the book value constitutes a substantial amount (around 80%) 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 • A new drilling rig was purchased in 2018 and delivered in 2019. • impairment assessment involves significant judgement made by management about future results of the business. The Group owns five drilling rigs, Deepsea Nordkapp (DSN), Deepsea Atlantic (DSA), Deepsea Stavanger (DSS), Deepsea Aberdeen (DAB) and Deepsea Bergen (DSB) as of 31 December 2019. 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 and DSN since this is a new drilling rig for the Group and also has the largest book value of the five 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 3, 18 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, DSS and DSN, 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 and opex levels in the contract- and intermediate period to board approved budgets. • 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. • Reviewing the Group's new-build parity calculation that was used to back up the applied day rate and opex level. • 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 2019 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 and agreed the results to information presented in the disclosures. As expected, we found that the calculated value-in-use was most sensitive to changes in the discount rate and normalised day rates. We evaluated the appropriateness of the related note disclosures in the financial statements and found that they satisfied IFRS requirements.
Revenue recognition drilling service contracts Revenue from drilling service contracts constitutes most of the Group's revenue (around 73%). Compared to previous periods, the contracts contain more	For each drilling rig, we obtained the contracts, management's assessment of the contracts and the corresponding revenue recognition schedule for each contract. We studied both the contracts and management's assessment and held several discussions

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elements that entails complex, judgmental assessments, such as options to drill additional wells, larger incentive bonus elements and lump sum fees for contract preparations, mobilisation, and demobilisation that must be recognised during the drilling period.

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 customer options represents a material right that gives rise to a performance obligation, and if so, the estimate of the stand-alone selling price of the options,
- the decision of whether to include incentive bonus element in the transaction price, and the estimate of the variable consideration, if included, and
- the estimates of the progress towards complete satisfaction of the performance obligation at the end of the reporting period.

See note 5 for the Group's accounting principles for revenue and note 4, 5 and 6 for an explanation of how revenue is recognised throughout the year.

with management. The discussions focused on management's use of judgment in identifying performance obligations in the contracts, on whether to include customer options and incentive bonus elements as part of the revenue to be recognised during the drilling periods, and the estimated duration of the drilling periods.

Management's explanations and their assessments were compared to the facts and clauses in the contracts, 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.

Our audit procedures of the revenue recognition schedules included: testing the mechanics of the underlying calculations; agreeing input, including total transaction price, duration of the drilling periods, time elapsed and payments received, to underlying documentation; and agreeing the total revenue recognised for the periods and any contract liabilities 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 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 comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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, 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.

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Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (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 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

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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, 21 April 2020
PricewaterhouseCoopers AS

Hallvard Aarø
State Authorised Public Accountant

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Appendix 1:
Definitions of alternative performance measures

CONTRACT BACKLOG

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

EBIT

Equal to Operating profit

EBIT MARGIN

EBIT / Operating revenue

EBITDA

EBITDA is earnings before depreciation and amortisation, impairment, joint ventures and associates, interests and taxes.

EBITDA MARGIN

EBITDA / Operating revenue

ESG

Environmental, social and governance

EQUITY RATIO

Total equity/total equity and liabilities

FINANCIAL UTILISATION

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

NET INTEREST-BEARING DEBT

Non-current interest-bearing borrowings plus current interest-bearing borrowings less cash and cash equivalents. Interest-bearing borrowings do not include lease liabilities.

NET (LOSS) PROFIT

Equal to Profit (loss) for the period

EARINGS PER SHARE

Net profit / number of outstanding shares designed & produced by XIC.com

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