# Odfjell Drilling Ltd.

## Report for the 1st quarter of 2017

*This interim report is unaudited and has been prepared in accordance with IAS 34 "Interim Financial Reporting".*

## Key figures for the Group

| *All figures in USD million* | Restated | | |
|---|---|---|---|
| Key figures Odfjell Drilling Ltd. Group | Q1 17 | Q1 16 | FY 16 |
| Operating revenue | 148 | 158 | 657 |
| EBITDA | 55 | 44 | 285 |
| EBIT | 14 | 4 | 34 |
| Net (loss) profit | (7) | (19) | (64) |
| EBITDA margin | 37% | 28% | 43% |
| Total assets | 2,235 | 2,525 | 2,264 |
| Net interest bearing debt | 1,215 | 1,346 | 1,231 |
| Equity | 716 | 777 | 722 |
| Equity ratio | 32% | 31% | 32% |

*Please note that financial figures related to Q1 2016 mentioned in this report have been restated as a result of the impairment write-down as reported in Q2 2016. For further information about the restated figures, please see the Q2 2016 report*.

## Highlights Q1 2017

### Odfjell Drilling Ltd. Group

- Operating revenue of USD 148 million compared to USD 158 million in Q1 2016.
- EBITDA of USD 55 million compared to USD 44 million in Q1 2016.
- EBITDA margin of 37% compared to an EBITDA margin of 28% in Q1 2016.
- The Group's contract backlog is USD 2.8 billion, whereof USD 1.5 billion is firm backlog. The comparable figure at the end of Q1 2016 was USD 3.3 billion, whereof USD 2.0 billion was firm backlog.

### Mobile Offshore Drilling Units segment

- Operating revenue of USD 111 million compared to USD 99 million in Q1 2016.
- EBITDA of USD 54 million compared to USD 38 million in Q1 2016.
- EBITDA margin of 49% compared to 39% in Q1 2016.

### Drilling & Technology segment

- Operating revenue of USD 21 million compared to USD 38 million in Q1 2016.
- EBITDA of USD 0 million compared to an EBITDA of negative USD 1 million in Q1 2016.
- EBITDA margin of 0% compared to a negative EBITDA margin of 2% in Q1 2016.

**Well Services segment**

- Operating revenue of USD 20 million compared to USD 28 million in Q1 2016.
- EBITDA of USD 5 million compared to USD 10 in Q1 2016.
- EBITDA margin of 25% compared to 35% in Q1 2016.

*Deepsea Stavanger received a conditional letter of award*

On 1 March 2017 Odfjell Drilling signed a conditional letter of award with a major oil company for a one well contract to be drilled by the 6th generation semi-submersible, Deepsea Stavanger, offshore South Africa. The contract commencement is scheduled to be back-to-back with completion of the current contract with Wintershall Norge.

*Secured additional work for Deepsea Bergen*

Deepsea Bergen received on 3 April 2017 a letter of intent from an undisclosed party for further employment for one firm exploration well plus optional sidetrack and well testing on the Norwegian Continental Shelf. The contract commencement is scheduled to Q4 2017 and has an expected duration of 40 days (excluding options).

Odfjell Drilling secured, on 21 April 2017, further employment for its 3rd generation semi-submersible, Deepsea Bergen, with OMV Norge. This contract is for a one firm "high pressure high temperature" well ("HPHT-well") in PL 644 plus options for two additional HPHT wells on the Norwegian Continental Shelf. The contract commencement is scheduled for Q1 2018 and has an expected duration of approximately 100 days (excluding options).

*Participation in Deepsea Metro I financial restructuring*

Golden Close Maritime Corp. Ltd. (“Golden”), the owner of the drillship Deepsea Metro I, completed on 29 March 2017, the earlier announced restructuring of Golden. Post restructuring, Odfjell Drilling was allocated approximately 9 per cent of the senior secured bonds and the convertible bonds issued by Golden. Furthermore, Odfjell Drilling and Golden have entered into a renewed management agreement for another 4 years.

## Financial review – operations

*(Comparable figures for last comparable period in brackets)*

*Consolidated group financials*

### Profit & loss Q1 2017

Operating revenue for Q1 2017 was USD 148 million (USD 158 million), a decrease of USD 10 million. Operating revenue decreased due to a reduction in activity in Drilling & Technology and Well Services from Q1 16 to Q1 17, offset by an increase of revenues in Mobile Offshore Drilling Units.

EBITDA in Q1 2017 was USD 55 million (USD 44 million), a net increase of USD 11 million, mainly due to improved EBITDA in Mobile Offshore Drilling Units.

The EBITDA margin in Q1 2017 was 37% (28%). The decrease in revenue from 2016 to 2017 was offset by reduced costs mainly due to the efficiency program carried out during this market downturn.

EBIT in Q1 2017 was USD 14 million (USD 4 million), an increase of USD 10 million.

Net financial expenses in Q1 2017 amounted to USD 19 million compared to 18 million in Q1 2016.

In Q1 2017 the tax expense was USD 2 million (USD 5 million). Tax expense is mainly related to profits in Norway and the UK, in addition to withholding taxes in other countries.

Net loss in Q1 2017 was USD 7 million (loss of USD 19 million).

### Balance sheet

Total assets as at 31 March 2017 amounted to USD 2,235 million compared to USD 2,264 million as at 31 December 2016, a decrease of USD 29 million.

Equity as at 31 March 2017 amounted to USD 716 million compared to USD 722 million as at 31 December 2016, a decrease of USD 6 million.

The equity ratio was 32% as at 31 March 2017 - the same level as year-end 2016.

Net interest bearing debt as at 31 March 2017 amounted to USD 1,215 million compared to USD 1,231 million as at 31 December 2016, a decrease of USD 16 million.

Odfjell Rig III Ltd., a subsidiary of Odfjell Drilling Ltd., and the owner of the mobile drilling unit Deepsea Aberdeen, did not comply with its minimum value requirement as at 31 March 2017. The valuation short-fall will be corrected through regular instalment that takes place within any applicable remedy period, and hence no additional instalments are required.

### Cash flow

Net cash flow from operating activities in Q1 2017 was positive with USD 27 million. The Group paid USD 15 million in interest and USD 9 million in income taxes.

Net cash used in investing activities in Q1 2017 was USD 10 million related to capital expenditures.

USD 27 million was used for instalments on existing credit facilities in Q1 2017.

At 31 March 2017 the cash and cash equivalents amounted to USD 174 million. There has been a total negative net change in cash and cash equivalents of USD 9 million since 31 December 2016.

## *Segments*

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

### Mobile Offshore Drilling Units (MODU)

| *All figures in USD million* | | Restated | |
|---|---|---|---|
| Key figures MODU segment | Q1 17 | Q1 16 | FY 16 |
| Operating revenue | 111 | 99 | 438 |
| EBITDA | 54 | 38 | 226 |
| EBIT | 22 | 7 | 10 |
| EBITDA margin | 49% | 39% | 52% |

Operating revenue for the MODU segment in Q1 2017 was USD 111 million (USD 99 million), an increase of USD 12 million, or 12%. This change in revenue is explained by increased utilisation of the fleet - as Deepsea Stavanger commenced the Maria contract for Wintershall Norway on 20 March 2017. In Q1 2016, Deepsea Atlantic was idle until the rig commenced the Johan Sverdrup contract on 1 March 2016, and in addition Deepsea Stavanger was idle the entire quarter after ending its contract with BP Angola in Q4 2015.

EBITDA for the MODU segment in Q1 2017 was USD 54 million (USD 38 million), an increase of USD 16 million, or 43%. The EBITDA increased due to the same reasons mentioned above, and a positive effect from reduced operating expenses. In addition, Odfjell Drilling, as part of a larger restructuring of Golden, agreed to enter into a renewed management contract for another 4 years, in return of receiving approximately 9 per cent of the senior secured bonds and the convertible bonds issued by Golden. Related to this, the MODU segment booked an income of approximately USD 3 million in Q1 2017.

EBIT for the MODU segment in Q1 2017 was USD 22 million (USD 7 million), an increase of USD 15 million.

*MODU - Financial utilisation*

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

| Financial Utilisation - MODU | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| Deepsea Stavanger | 96.7 % | n/a | 99.7 % |
| Deepsea Atlantic | 96.3 % | 99.4 % | 97.3 % |
| Deepsea Bergen | 98.5 % | 94.9 % | 96.4 % |
| Deepsea Aberdeen | 95.2 % | 96.6 % | 98.3 % |

- Deepsea Stavanger commenced its contract with Wintershall on the NCS on 20 March 2017.
- Deepsea Atlantic has been operating for Statoil on the NCS in Q1 2017.
- Deepsea Bergen has been operating for Statoil on the NCS in Q1 2017.
- Deepsea Aberdeen has been operating for BP West of Shetland in Q1 2017.

## Drilling & Technology segment

*All figures in USD million*

| Key figures Drilling & Technology segment | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| Operating revenue | 21 | 38 | 131 |
| EBITDA | (0) | (1) | (0) |
| EBIT | (0) | (2) | (4) |
| EBITDA margin | (0%) | (2%) | 0% |

Operating revenue for the Drilling & Technology segment in Q1 2017 was USD 21 million (USD 38 million), a decrease of USD 17 million, or 45 %. The decrease in revenue reflects a reduction in the number of operated platforms and a reduction of engineering services.

EBITDA for the Drilling & Technology segment in Q1 2017 was USD 0 million (negative USD 1 million), a decreased loss of USD 1 million. EBIT for the Drilling & Technology segment in Q1 2017 was USD 0 million (negative USD 2 million), a decreased loss of USD 2 million. The improvement in EBITDA and EBIT is mainly explained by an adjustment of cost level according to activity and more profitable contracts in the portfolio.

## Well Services segment

*All figures in USD million*

| Key figures Well Services segment | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| Operating revenue | 20 | 28 | 110 |
| EBITDA | 5 | 10 | 43 |
| EBIT | (2) | 1 | 11 |
| EBITDA margin | 25% | 35% | 39% |

Operating revenue for the Well Services segment in Q1 2017 was USD 20 million (USD 28 million), a decrease of USD 8 million, or 28%. The revenue for the Well Services segment declined in Q1 2017 due to lower activity level in all markets, but primarily in Norway. In addition, lower activity within the Well

Services segment has led to lower utilisation of equipment globally and a general price pressure on all services.

EBITDA for the Well Services segment in Q1 2017 was USD 5 million (USD 10 million), a decrease of USD 5 million, or 50%. EBITDA margin for the Well Services segment in Q1 2017 was 25% compared to 35% for Q1 2016.

EBIT for the Well Services segment in Q1 2017 was negative USD 2 million (USD 1 million), a decrease of USD 3 million. The decrease in both EBITDA and EBIT was mainly attributable to the same reasons as the decrease in operating revenues but is partly offset by reduced costs as Well Services continued to reduce its cost base during Q1 2017.

## Outlook

The drilling and oil service market remains weak, but there are, however, signs of market stabilization and an increasing number of enquiries. Due to the substantial supply of new build rigs in recent years, especially in the UDW market, the gap between supply and demand is significant. The effect of the efficiency programs carried out by the oil companies have led to a substantial cost reduction in field development and production. This combined with an increased oil price is expected to lead to an increased activity level in the medium to long term.

Within the next few years we believe the continued scrapping of older midwater and harsh environment units in combination with required exploration and development drilling will bring the harsh environment market back to balance and subsequently improved day rates. Odfjell Drilling has a fleet mainly consisting of 6th generation semi submersibles capable of working in harsh environments and ultra-deep markets providing operational and geographical flexibility to meet future requirements.

Deepsea Stavanger started operations for Wintershall at the Maria field on 20 March 2017. The duration of the contract is estimated at 574 days and the rig will thereafter mobilize for a one well operation in South Africa for an undisclosed oil major. Deepsea Aberdeen is contracted until 2022 for BP West of Shetland, Deepsea Atlantic is contracted to Statoil until 2019 on the Johan Sverdrup field and Deepsea Bergen currently operates for Faroe before recommencing the Statoil contract which is expected to end August 2017. The unit will subsequently work for OMV Norge - keeping the rig in operations into first half of 2018.

Well Services has faced increased competition and price pressure for its services globally but has been able to partly compensate for the price pressure and lower volumes through cost reductions and increased efficiency. Demand for well services has however increased and there is currently increasing tender activity both in Middle East and Europe. Well Services has also maintained its low capital expenditures to enhance utilisation of the equipment base.

The slowdown in the North Sea market has led to an ongoing low activity level for development and upgrade projects. The Group has, however, reduced the cost level substantially throughout the organisation and is now in an improved position to compete in the current market environment.

## Risks and uncertainties

Factors that, in the Group's view, could cause actual results to differ materially from the outlook contained in this report are the following: volatile oil and gas prices, competition within the oil and gas services industry, changes in client's spending budgets and developments in the financial markets and within the Group. Furthermore, as the Group's fully owned fleet consists of only four units, any operational downtime or any failure to secure employment at satisfactory rates will affect the Group's results more significantly than for a group with a larger fleet.

The substantial reduction in market capitalisation for the oil and gas service providers has led the financial institutions to focus on contract backlog as the major criteria for debt financing. The market for rig financing is still challenging and additional funding sources may not be available to the Group in the future for refinancing existing facilities as they mature. The Deepsea Bergen facility matures in August 2018, subject to a contract renewal satisfactory to the lenders after the current Statoil contract.

The uncertainties and volatility in today's financial markets represent a risk for the Group with respect to funding, and hence the going concern principle, should these market conditions continue over time.

The market outlook and contract situation for the Group's mobile offshore drilling units may also affect covenant risk since reduced revenues from drilling operations directly affect the operating results and cash flow from operations. The company monitors the total liquidity position and will take measures if necessary. The Group has, through the latest years, implemented cost reduction and efficiency improvement programs and continued its focus on capital discipline in order to improve its competitiveness in a challenging market.

With a volatile rig market and illiquid second-hand market, there is a risk that future broker valuations may not meet the minimum value clauses agreed with lenders.

## Quality, health, safety & environment (QHSE)

| Key figures QHSE | YTD 2017 | FY 2016 |
|---|---|---|
| Lost time incident frequency (as per 1 million working hours)………………………………. | 0.6 | 0.6 |
| Total recordable incident frequency (as per 1 million working hours)……………………. | 1.6 | 1.8 |
| Sick leave (percentage)………………………………………………………………………………………. | 3.1 | 3.1 |
| Dropped objects frequency (as per 1 million working hours)………………………………… | 4.8 | 4.5 |
| Number of employees……………………………………………………………………………………… | 1 930 | 1 708 |

Hamilton, Bermuda
30 May 2017

Board of Directors of Odfjell Drilling Ltd.

Carl-Erik Haavaldsen, Chairman

Helene Odfjell, Director

Kirk L. Davis, Director

Bengt Lie Hansen, Director

Henry H. Hamilton III, Director

## Appendix 1: Definitions of alternative performance measures

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

*EBITDA margin*
*EBITDA/Operating revenue*

*EBIT margin*
*EBIT/Operating revenue*

*Net (loss) profit*
*Equal to Profit (loss) for the period after taxes*

*Equity ratio*
*Total equity/total equity and liabilities*

*Net interest-bearing debt*
*Non-current interest-bearing borrowings plus current interest-bearing borrowings less cash and cash equivalents*

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

# Odfjell Drilling Ltd.

# Condensed Consolidated Financial Statements

## 1st quarter of 2017

Unaudited

## Condensed Consolidated Income Statement

| USD thousands | Note | Q1 17 | Restated Q1 16 | FY 16 |
|---|---|---|---|---|
| Operating revenue | 3 | 148,351 | 158,421 | 657,392 |
| Other gains and losses | | 135 | 111 | 629 |
| Share of profit (loss) from Deep Sea Metro Ltd. Group | 3,8 | - | 20 | 20 |
| Personnel expenses | | (61,348) | (72,668) | (232,561) |
| Other operating expenses | | (32,630) | (41,526) | (140,663) |
| **EBITDA** | | **54,508** | **44,358** | **284,817** |
| Depreciation, amortisation and impairment | 4 | (40,725) | (39,962) | (250,722) |
| **Operating profit (EBIT)** | | **13,784** | **4,396** | **34,094** |
| Share of profit (loss) from other joint ventures | 8 | (522) | (95) | 1,399 |
| Net financial items | 13 | (18,732) | (18,299) | (74,046) |
| **Profit/(loss) before tax** | | **(5,470)** | **(13,998)** | **(38,553)** |
| Income taxes | 10 | (2,017) | (4,961) | (25,141) |
| **Profit/(loss) for the period** | | **(7,487)** | **(18,960)** | **(63,694)** |

## Condensed Consolidated Statement of Comprehensive Income:

| USD thousands | Note | Q1 17 | Restated Q1 16 | FY 16 |
|---|---|---|---|---|
| **Profit/(loss) for the period** | | **(7,487)** | **(18,960)** | **(63,694)** |
| **Items that will not be reclassified to profit or loss:** | | | | |
| Actuarial gain / (loss) on post employment benefit obligations | | - | - | (4,526) |
| Total | | - | - | (4,526) |
| **Items that are or may be reclassified to profit or loss:** | | | | |
| Cash flow hedges | | 463 | 75 | 470 |
| Currency translation differences | | 1,041 | 4,600 | (1,689) |
| Total | | 1,504 | 4,675 | (1,218) |
| Total other comprehensive income, net of tax | | 1,504 | 4,675 | (5,744) |
| **Comprehensive income for the period** | | **(5,983)** | **(14,285)** | **(69,438)** |
| **Earnings per share (USD)** | | | | |
| Basic earnings per share | 7 | (0.04) | (0.10) | (0.32) |
| Diluted earnings per share | 7 | (0.04) | (0.10) | (0.32) |

## Condensed Consolidated Statement of Financial Position

| USD thousands | Note | 31.03.2017 | Restated 31.03.2016 | 31.12.2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| Deferred tax asset | | 2,453 | 6,015 | 2,498 |
| Intangible assets | 4 | 32,480 | 35,651 | 33,009 |
| Property, plant and equipment | 4 | 1,882,297 | 2,104,867 | 1,912,754 |
| Financial fixed assets | 8 | 8,360 | 7,444 | 8,739 |
| **Total non-current assets** | | **1,925,590** | **2,153,977** | **1,957,000** |
| Spare parts | | 1,706 | 3,133 | 1,782 |
| Trade receivables | 14 | 114,756 | 130,747 | 111,090 |
| Other current assets | 2 | 19,249 | 20,277 | 12,097 |
| Cash and cash equivalents | | 173,806 | 216,738 | 181,623 |
| **Total current assets** | | **309,517** | **370,894** | **306,591** |
| **Total assets** | | **2,235,107** | **2,524,871** | **2,263,592** |
| **Equity and liabilities** | | | | |
| Total paid-in capital | | 328,841 | 328,841 | 328,841 |
| Other equity | | 387,262 | 448,398 | 393,245 |
| **Total equity** | | **716,103** | **777,239** | **722,086** |
| Non-current interest-bearing borrowings | 9 | 1,183,151 | 865,717 | 1,208,180 |
| Post-employment benefits | | 16,627 | 35,868 | 17,554 |
| Other non-current liabilities | 2 | 5,710 | 5,647 | 1,623 |
| **Total non-current liabilites** | | **1,205,488** | **907,231** | **1,227,358** |
| Current interest-bearing borrowings | 9 | 205,496 | 697,226 | 204,058 |
| Trade payables | | 21,384 | 22,840 | 17,233 |
| Other current liabilities | 14 | 86,636 | 120,334 | 92,857 |
| **Total current liabilities** | | **313,516** | **840,401** | **314,148** |
| **Total liabilities** | | **1,519,004** | **1,747,632** | **1,541,506** |
| **Total equity and liabilities** | | **2,235,107** | **2,524,871** | **2,263,592** |

## Condensed Consolidated Statement of Changes in Equity

| USD thousands | Share capital | Other contributed capital | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Restated balance at 1 January 2016** | **1,987** | **326,853** | **(113,684)** | **576,368** | **791,524** |
| Profit/(loss) for the period | - | - | - | (63,694) | (63,694) |
| Other comprehensive income for the period | - | - | (1,218) | (4,526) | (5,744) |
| Total comprehensive income for the period | - | - | (1,218) | (68,220) | (69,438) |
| Transactions with owners | - | - | - | - | - |
| **Balance at 31 December 2016** | **1,987** | **326,853** | **(114,903)** | **508,148** | **722,086** |
| Profit/(loss) for the period | - | - | - | (7,487) | (7,487) |
| Other comprehensive income for the period | - | - | 1,504 | - | 1,504 |
| Total comprehensive income for the period | - | - | 1,504 | (7,487) | (5,983) |
| **Balance at 31 March 2017** | **1,987** | **326,853** | **(113,398)** | **500,661** | **716,103** |

## Condensed Consolidated Statement of Cash Flows

| USD thousands | Q1 17 | Restated Q1 16 | FY 16 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Profit/(loss) before tax | (5,470) | (13,998) | (38,553) |
| *Adjustments for:* | | | |
| Depreciation, amortisation and impairment | 40,725 | 39,962 | 250,722 |
| Unrealised (gain)/loss on interest rate swaps | (129) | 957 | (660) |
| Interest expense - net | 16,190 | 14,857 | 60,359 |
| Amortized borrowing cost | 1,471 | 1,999 | 7,432 |
| Share of (profit)/loss from joint ventures | 522 | 75 | (1,419) |
| Net (gain)/loss on sale of tangible fixed assets | (38) | (111) | (486) |
| Post-employment benefit expenses less payments | (1,023) | (8,857) | (32,873) |
| Net currency (gain)/loss not related to operating activities | 376 | 7,190 | (4,115) |
| *Changes in working capital:* | | | |
| Spare parts | 81 | (315) | 1,079 |
| Trade receivables | (2,953) | 47,733 | 58,446 |
| Trade payables | 4,119 | (2,310) | (11,177) |
| Other accruals | (2,287) | (39,559) | (47,724) |
| **Cash generated from operations** | **51,584** | **47,624** | **241,032** |
| Interest paid | (14,752) | (12,898) | (58,802) |
| Net income tax refunded (paid) | (9,378) | 25,967 | 16,443 |
| **Net cash generated from operating activities** | **27,454** | **60,693** | **198,673** |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | (9,694) | (13,449) | (31,229) |
| Proceeds from sale of property, plant and equipment | 173 | 154 | 1,464 |
| Loans granted to employees | - | 2 | - |
| Other long term receivables | 0 | (29) | 67 |
| Proceeds from shares incl. joint ventures | - | 7,920 | 7,920 |
| **Net cash used in investing activities** | **(9,521)** | **(5,401)** | **(21,778)** |
| Cash flows from financing activities: | | | |
| Net proceeds from borrowings financial institutions | - | - | 519,226 |
| Repayments of borrowings to financial institutions | (26,500) | (38,000) | (713,000) |
| **Net cash from financing activities** | **(26,500)** | **(38,000)** | **(193,774)** |
| | | - | |
| **Net change in cash and cash equivalents** | **(8,567)** | **17,292** | **(16,879)** |
| Cash and cash equivalents at beginning of period | 181,623 | 201,626 | 201,626 |
| Effects of exchange rate changes on cash and cash equivalents | 751 | (2,180) | (3,125) |
| **Cash and cash equivalents at period end** | **173,806** | **216,738** | **181,623** |

## Note 1 | Accounting Principles

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

Odfjell Drilling Ltd., is incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

These condensed interim financial statements were approved by the Board of Directors for issue on 30 May 2017 and have not been audited.

**Basis for preparation**
These condensed interim financial statements for the three months period ended 31 March 2017 have been prepared in accordance with IAS 34, 'Interim financial reporting'. These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016.

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

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

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

**Accounting principles**
The accounting principles adopted are consistent with those of the previous financial year .

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

In preparing these interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

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

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

**Correction to previous financial statements**
Financial statements for Q1 2016 have been restated to reflect impairment as at 30 September 2015. Please refer to Q2 2016 report for further information about the restatement.

(All amounts are in USD thousands unless otherwise stated)

## Note 2 | Financial risk management and Financial instruments

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

The Group's refinancing risk is diversified with each loan facility maturing at different times until November 2021. Successful refinancing of each facility may be dependent on contract backlog, asset values and overall financial market conditions. The Deepsea Bergen facility matures in August 2018, subject to a contract renewal satisfactory to the lenders before expiry of the current Statoil contract.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; consequently they should be read in conjunction with the Group's annual audited financial statements as at 31 December 2016. There are no material changes compared to the description in the year-end financial statements.

Calculation of the Group's sensitivity to interest rate fluctuations showed that the effect of an increase in interest rates by one percentage point (e.g. from 4.0% to 5.0%) was approximately USD 11.4 million for FY 2016 including interest rate swaps. There is no material change in the Group's interest rate sensitivity compared to year-end.

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

**Fair value estimation**
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3). For short term assets and liabilities at level 3, the value is approximately equal to the carrying amount.

| **Assets at** | Level | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| - Other current assets | 2 | 7,727 | - | - |
| Derivatives held at fair value through profit and loss | | | | |
| - Other non current assets | 2 | 28 | - | - |
| Derivatives held as hedge instrument | | | | |
| - Other non current assets | 2 | 230 | 47 | 235 |
| **Total assets** | | **7,986** | **47** | **235** |

| **Liabilities at** | Level | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|---|
| Derivatives held at fair value through profit or loss | | | | |
| - Other non current liabilities | 2 | - | 1,507 | 101 |
| - Other current liabilities | 2 | - | 211 | - |
| Derivatives held as hedge instrument | | | | |
| - Other non current liabilities | 2 | - | 982 | - |
| - Other current liabilities | 2 | 307 | - | 774 |
| **Total liabilities** | | **307** | **2,700** | **875** |

(All amounts are in USD thousands unless otherwise stated)

## Note 2 | Financial risk management and Financial instruments - cont.

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

**Fair value of financial liabilities measured at amortised cost**
The fair value of borrowings are as follows:

| | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Non-current | 1,183,151 | 865,717 | 1,208,180 |
| Current | 205,496 | 697,226 | 204,058 |
| **Total** | **1,388,647** | **1,562,944** | **1,412,239** |

The fair value of the following financial assets and liabilities approximate their carrying amount:
- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents (excluding bank overdrafts)
- Trade and other payables

(All amounts are in USD thousands unless otherwise stated)

## Note 3 | Segment summary

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

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

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

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

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

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

| | Mobile Offshore Drilling Units | | Drilling & Technology | | Well Services | | Corporate / Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 17 | Restated Q1 16 | Q1 17 | Q1 16 | Q1 17 | Q1 16 | Q1 17 | Q1 16 | Q1 17 | Restated Q1 16 |
| External segment revenue | 110,830 | 97,658 | 18,917 | 34,023 | 16,898 | 23,258 | 1,706 | 3,482 | 148,351 | 158,421 |
| Inter segment revenue | 390 | 845 | 1,860 | 4,011 | 3,557 | 5,188 | (5,808) | (10,043) | - | - |
| **Total revenue** | **111,220** | **98,503** | **20,777** | **38,033** | **20,456** | **28,446** | **(4,102)** | **(6,561)** | **148,351** | **158,421** |
| **EBITDA** | **54,439** | **38,171** | **(39)** | **(721)** | **5,075** | **9,860** | **(4,966)** | **(2,952)** | **54,508** | **44,358** |
| Depreciation and impairment | (32,823) | (31,309) | (221) | (1,238) | (7,532) | (8,418) | (149) | 1,003 | (40,725) | (39,962) |
| **EBIT** | **21,615** | **6,862** | **(259)** | **(1,959)** | **(2,457)** | **1,442** | **(5,115)** | **(1,950)** | **13,784** | **4,396** |

| | Mobile Offshore Drilling Units | Drilling & Technology | Well Services | Corporate / Eliminations | Consolidated |
|---|---|---|---|---|---|
| | FY 16 | FY 16 | FY 16 | FY 16 | FY 16 |
| External segment revenue | 433,756 | 124,273 | 87,530 | 11,833 | 657,392 |
| Inter segment revenue | 4,149 | 7,056 | 22,574 | (33,779) | - |
| **Total revenue** | **437,905** | **131,329** | **110,103** | **(21,946)** | **657,392** |
| **EBITDA** | **226,399** | **(24)** | **43,145** | **15,296** | **284,817** |
| Depreciation and impairment | (216,285) | (4,061) | (32,303) | 1,927 | (250,722) |
| **EBIT** | **10,113** | **(4,085)** | **10,842** | **17,223** | **34,094** |

| **Reconciliations:** | Q1 17 | Restated Q1 16 | FY 16 |
|---|---|---|---|
| **Total EBIT for reportable segments** | **18,899** | **6,345** | **16,871** |
| Corporate / Eliminations | (5,426) | (3,263) | (14,787) |
| Share of profit from DSM Ltd. Group | - | 20 | 20 |
| Accounting differences | 311 | 1,294 | 31,990 |
| **EBIT Total Group** | **13,784** | **4,396** | **34,094** |
| Share of profit from other joint ventures | (522) | (95) | 1,399 |
| Net financial items | (18,732) | (18,299) | (74,046) |
| **Profit before tax Group** | **(5,470)** | **(13,998)** | **(38,553)** |

## Note 4 | Tangible and intangible fixed assets

| USD thousands | Mobile drilling units | Periodic maintenance | Well Services equipment | Machinery & equipment | Total fixed assets |
|---|---|---|---|---|---|
| **Three months ended 31 March 2017** | | | | | |
| Opening net book amount as at 1 January 2017 | 1,680,965 | 124,892 | 105,027 | 1,870 | 1,912,754 |
| Additions | 5,379 | 3,345 | 957 | 14 | 9,694 |
| Disposals | - | - | (81) | (54) | (135) |
| Depreciation | (21,897) | (10,504) | (7,275) | (359) | (40,036) |
| Impairment | - | - | - | - | - |
| Currency translation differences | - | - | 11 | 9 | 20 |
| **Closing net book amount as at 31 March 2017** | **1,664,447** | **117,732** | **98,639** | **1,480** | **1,882,297** |
| **Three months ended 31 March 2016** | | | | | |
| Restated net book amount as at 1 January 2016 | 1,841,007 | 158,235 | 128,578 | 3,544 | 2,131,364 |
| Additions | 4,713 | 6,391 | 2,023 | 73 | 13,200 |
| Disposals | - | - | (53) | - | (53) |
| Depreciation | (23,475) | (7,319) | (8,131) | (485) | (39,409) |
| Impairment | - | - | - | - | - |
| Currency translation differences | 565 | (1,020) | 131 | 90 | (234) |
| **Restated net book amount as at 31 March 2016** | **1,822,811** | **156,287** | **122,547** | **3,222** | **2,104,867** |
| Useful lifetime | 5 - 35 years | 5 years | 3 - 10 years | 3 - 5 years | |
| Depreciation schedule | Straight line | Straight line | Straight line | Straight line | |

**Restatement**

Net book amount as at 31 March 2016 has been restated. Please refer to Q2 report 2016 for further information.

**Impairment tests mobile drilling units**

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

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

Based on impairment tests performed as at 31 March 2017, no impairment has been identified related to any of the rigs.

(All amounts are in USD thousands unless otherwise stated)

## Note 4 | Tangible and intangible fixed assets - cont

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

| **Key assumptions** | **Deepsea Atlantic** | **Deepsea Stavanger** | **Deepsea Aberdeen** | **Deepsea Bergen** |
|---|---|---|---|---|
| | 6G Semi | 6G Semi | 6G Semi | 3G semi |
| Weighted Average Cost of Capital (WACC) | 10.5% | 10.5% | 10.5% | 8.9% |
| Firm contract days | 699 | 569 | 1,826 | 289 |
| Firm contract day rates (weighted average) | 295 | 305 | 450 | 176 |
| Future normalised base case day rates - at full market recovery | 435 | 435 | 435 | 225 |
| Financial utilisation in normalised period | 95% | 95% | 95% | 95% |

| **Sensitivity analysis mobile drilling units** | | **Deepsea Atlantic** | **Deepsea Stavanger** | **Deepsea Aberdeen** | **Deepsea Bergen** |
|---|---|---|---|---|---|
| Estimated impairment write-down if: | | | | | |
| - WACC increased by | 1 pp | 41,000 | 42,000 | - | 500 |
| - WACC increased by | 2 pp | 77,000 | 80,000 | 34,000 | 2,000 |
| - Day rate level decreased by | 5% | 38,000 | 46,000 | - | 5,500 |
| - Day rate level decreased by | 10% | 84,000 | 92,000 | - | 12,500 |
| - Normalised opex level increased by | 5% | 20,000 | 21,000 | - | 3,000 |
| - Normalised opex level increased by | 10% | 41,000 | 42,000 | - | 6,500 |
| - Financial utilisation in normalised period decreased by | 1 pp | 8,000 | 10,000 | - | 500 |
| - Financial utilisation in normalised period decreased by | 2 pp | 15,000 | 20,000 | - | 2,000 |
| - Financial utilisation in normalised period decreased by | 3 pp | 23,000 | 31,000 | - | 3,500 |

## Note 4 | Tangible and intangible fixed assets - cont

| USD thousands | Goodwill | Software | Total intangible assets |
|---|---|---|---|
| **Three months ended 31 March 2017** | | | |
| Opening net book amount as at 1 January 2017 | 18,786 | 14,223 | 33,009 |
| Amortisation | - | (689) | (689) |
| Currency translation differences | 84 | 75 | 160 |
| **Closing net book amount as at 31 March 2017** | **18,870** | **13,610** | **32,480** |
| **Three months ended 31 March 2016** | | | |
| Opening net book amount as at 1 January 2016 | 18,383 | 15,417 | 33,800 |
| Additions | - | 409 | 409 |
| Amortisation | - | (553) | (553) |
| Currency translation differences | 1,088 | 906 | 1,995 |
| **Closing net book amount as at 31 March 2016** | **19,471** | **16,180** | **35,651** |

*Additions of software in 2016 relates to ERP software system.

**Impairment tests for goodwill**

Goodwill is monitored by management at the operating segment level. The Drilling & Technology segment, as well as the Well Services segment, only consist of one Cash Generation Unit (CGU) each.

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

The key assumptions used for value-in-use calculations as per Q1 2017 are as follows:

| | Drilling & Technology | Well Services |
|---|---|---|
| EBITDA margin in prognosis period | 1% - 8% | 40% - 43% |
| Growth rate year 6 and forward | 0.0% | 0.0% |
| Weighted Average Cost of Capital (WACC) | 8.1% | 7.5% |

These assumptions have been used for the analysis of each CGU within the operating segment. Impairment tests performed for goodwill within respective CGU's do not indicate any impairment requirement as at 31.03.2017.

The prognosis for the EBITDA margin in 2017 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 and reflect specific risks relating to the relevant operating segments.

**Sensitivity analysis for goodwill impairment test**

The Group has performed sensitivity analysis for the goodwill impairment test by reducing operating income by one, five and ten percent and EBITDA margin by one, five and ten percentage points respectively for each of the segments. Reducing EBITDA margin by ten percentage points indicated an impairment write-down of USD 14.6 million. None of the other scenarios indicated any impairment write-down of goodwill as at 31.03.2017.

## Note 5 | Commitments

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

| USD thousands | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Global Standard - New ERP solution | - | 240 | - |
| Rig investments* | 6,000 | 21,300 | 16,310 |
| Rental and casing equipment, due in 1 year | 395 | 2,257 | 1,953 |
| **Total** | **6,395** | **23,797** | **18,263** |

*Rig investments as per 31 March 2017 is mainly for Deepsea Stavanger investments related to the Wintershall contract in 2017.

## Note 6 | Paid dividends and acquisition of own shares

The Group has not paid dividends in the interim period ending 31 March 2017.

## Note 7 | Earnings per share

Earnings per share is based on the issued number of shares in Odfjell Drilling Ltd., which were 198,736,900 shares as at 31 March 2017. Comparative figures (EPS) are presented retrospectively based on the number of issued shares as at 31 March 2017.

## Note 8 | Financial fixed assets

| USD thousands | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Investment in joint ventures | 7,812 | 7,011 | 8,217 |
| Investment in financial instruments | 259 | 47 | 235 |
| Other long term receivables | 289 | 386 | 287 |
| **Total financial fixed assets** | **8,360** | **7,444** | **8,739** |

**The Group's change in investment in Deep Sea Metro Group Ltd. is specified as follows:**

| USD thousands | 31.03.2017 | 31.03.2016 | 31.03.2016 |
|---|---|---|---|
| Opening net book amount as at beginning of the period | - | 7,900 | 7,900 |
| Repayment of capital | - | (7,920) | (7,920) |
| Share of profits classified as operating | - | 20 | 20 |
| **Closing net book amount as at end of period** | **-** | **-** | **-** |

As part of a larger restructuring of Golden Close Maritime Corp. Ltd., the owner of Deepsea Metro I, Deep Sea Metro Ltd.'s ownership in Golden was diluted to approximately 0.0022%, effective from 29 March 2017.

**The Group's change in investment in Robotic Drilling Systems AS is specified as follows:**

| USD thousands | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Opening net book amount as at beginning of the period | 8,217 | 6,519 | 6,519 |
| Share of profits classified as financial | (522) | (95) | 1,399 |
| Currency translation differences | 117 | 587 | 299 |
| **Closing net book amount as at end of period** | **7,812** | **7,011** | **8,217** |

Share of profit or loss from Robotic Drilling Systems AS and other joint ventures are presented below EBIT due to not being a part of the Group's core operational activities, but recognised as financial investments.

There have been no changes to the Group's investments in Guarapari Drilling BV, Siri Drilling BV and Itaoca Drilling BV, which are all valued at 0 as at 31.03.2016, 31.12.2016 and 31.03.2017.

## Note 9 | Interest-bearing borrowings

| USD thousands | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Non-current | 1,183,151 | 865,717 | 1,208,180 |
| Current | 205,496 | 697,226 | 204,058 |
| **Total** | **1,388,647** | **1,562,943** | **1,412,239** |

| Movements in non-current borrowings are analysed as follows: | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Carrying amount as at 1 January | 1,208,180 | 878,664 | 878,664 |
| New bank loan raised | - | - | 525,000 |
| Reclassified to current portion of non current borrowings | (26,500) | (14,000) | (194,000) |
| Paid transaction costs related to new bank loan | - | - | (5,774) |
| Change in transaction cost, unamortised | 1,471 | 1,053 | 4,290 |
| **Carrying amount as at end of period** | **1,183,151** | **865,717** | **1,208,180** |

| Movements in current borrowings are analysed as follows: | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Carrying amount as at 1 January | 204,058 | 718,360 | 718,360 |
| Repayment bank loan | (26,500) | (38,000) | (713,000) |
| Reclassified to current portion of non current borrowings | 26,500 | 14,000 | 194,000 |
| Change in transaction cost, unamortised | - | 915 | 3,142 |
| Change in accrued interest cost | 1,438 | 1,951 | 1,556 |
| **Carrying amount as at end of period** | **205,496** | **697,226** | **204,058** |

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 cash flows.

| Repayment schedule for interest-bearing borrowings | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| Maturity within 3 months | 69,500 | 81,000 | 26,500 |
| Maturity between 3 and 6 months | 26,500 | 38,000 | 69,500 |
| Maturity between 6 and 9 months | 71,500 | 556,000 | 26,500 |
| Maturity between 9 months and 1 year | 26,500 | 14,000 | 71,500 |
| Maturity between 1 and 2 years | 179,000 | 130,000 | 193,000 |
| Maturity between 2 and 3 years | 734,500 | 143,000 | 747,000 |
| Maturity between 3 and 4 years | 52,000 | 322,000 | 52,000 |
| Maturity between 4 and 5 years | 237,000 | 52,000 | 237,000 |
| Maturity beyond 5 years | - | 237,000 | - |
| **Total contractual amounts** | **1,396,500** | **1,573,000** | **1,423,000** |

The Deepsea Bergen facility is included in the maturity table above according to contractual maturity dates, with the last instalment due in August 2018. However, this is subject to contract renewals satisfactory to the lenders after the current Statoil contract ends in August 2017. In the event of no satisfactory contracts for the rig, an additional USD 66 million will mature in Q3 2017 on the Deepsea Bergen facility. Reference is made to Note 15 - Subsequent events.

The group has no available undrawn facilities as per 31 March 2017.

**Covenants**

The Odfjell Drilling Group is compliant with all financial covenants as at 31 March 2017.

Odfjell Rig III Ltd., a subsidiary of Odfjell Drilling Ltd., and the owner of the mobile drilling unit Deepsea Aberdeen, did not comply with its minimum value requirement as at 31 March 2017. The valuation short-fall will be corrected through regular instalment that takes place within any applicable remedy period, and hence no additional instalments are required.

With a volatile rig market and illiquid second-hand market, there is a risk that future broker valuations may not meet the minimum value clauses agreed with lenders.

## Note 10 | Income taxes

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

| USD thousands | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| Withholding tax, ordinary taxation | (391) | (886) | (2,386) |
| Tax payable, ordinary taxation | (1,578) | (1,270) | (14,904) |
| Change in deferred tax, ordinary taxation | (49) | (2,805) | (7,852) |
| **Total tax expense** | **(2,017)** | **(4,961)** | **(25,141)** |
| Average tax rate | (37%) | (35%) | (65%) |

Tax payable, ordinary taxation is the best estimate of tax payable based on ordinary profit and loss in the respective jurisdictions with applicable tax rates.

## Note 11 | Contingencies

There are no material contingencies to be disclosed as per 31 March 2017.

(All amounts are in USD thousands unless otherwise stated)

## Note 12 | Equity & shareholder information

| Largest shareholders at 31 March 2017 | Holding | % of total |
|---|---|---|
| Odfjell Partners Ltd. | 142,000,000 | 71.45% |
| Fidelity Select Portfolios: Energy | 6,663,192 | 3.35% |
| Deutsche Bank AG | 6,450,000 | 3.25% |
| J.P.Morgan Chase Bank N.A. London | 5,863,322 | 2.95% |
| State Street Bank and Trust Co. | 3,261,171 | 1.64% |
| RBC Investor Services Trust | 2,000,000 | 1.01% |
| State Street Bank and Trust Co. | 1,484,462 | 0.75% |
| Fidelity Select Portfolios: Energy | 1,434,080 | 0.72% |
| Skeie Technology AS | 1,350,000 | 0.68% |
| Eika Norge | 1,321,398 | 0.66% |
| Skeie Capital Investment AS | 1,050,000 | 0.53% |
| VPF Nordea Kapital | 1,020,321 | 0.51% |
| Lieungh, Simen | 952,381 | 0.48% |
| Danske Bank AS | 780,529 | 0.39% |
| VPF Nordea Avkastning | 731,449 | 0.37% |
| Helmer AS | 700,000 | 0.35% |
| FSP - Natural Resources | 696,800 | 0.35% |
| J.P.Morgan Bank Luxembourg S.A. | 590,000 | 0.30% |
| MSIP Equity | 572,531 | 0.29% |
| Fidelity Advisor Natural Resources | 564,256 | 0.28% |
| **Total 20 largest shareholders** | **179,485,892** | **90.31%** |
| Other shareholders | 19,251,008 | 9.69% |
| **Total shareholders** | **198,736,900** | **100.00%** |

Helene Odfjell controls, through Odfjell Partners Ltd., 71.45% of the shares and the CEO controls 0.48% of the shares in Odfjell Drilling Ltd.

The Chairman of the board of directors, Carl-Erik Haavaldsen, has a significant ownership in Cenor Ltd., which owns 19,047 shares in Odfjell Drilling Ltd.

## Note 13 | Net financial items

| USD thousands | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| Interest income | 236 | 220 | 819 |
| Interest expense | (16,426) | (15,076) | (61,177) |
| Other borrowing expenses | (1,589) | (1,999) | (7,877) |
| Gain/(loss) on interest rate swaps | 129 | (957) | 660 |
| Net currency gain/(loss) | (696) | (154) | (4,926) |
| Other financial items | (386) | (332) | (1,544) |
| **Net financial items** | **(18,732)** | **(18,299)** | **(74,046)** |

## Note 14 | Related-party transactions

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 71.45% of the shares. Helene Odfjell controls Odfjell Partners Ltd. Simen Lieungh (CEO & President) controls 0.48% of the shares in the company as per 31 March 2017.

**The Group had the following material transactions with related parties:**

| USD thousands | Q1 17 | Q1 16 | FY 16 |
|---|---|---|---|
| **Sales of services:** | | | |
| - Robotic Drilling System AS | 11 | - | 33 |
| - Deep Sea Metro Ltd. Group | 3,770 | 13,362 | 30,487 |
| **Total** | **3,781** | **13,362** | **30,520** |
| **Operating expenses:** | | | |
| - Kokstad Holding AS group (related to main share holder) | 1,614 | 1,070 | 6,293 |
| - Robotic Drilling System AS | - | - | 91 |
| **Total** | **1,614** | **6,384** | **6,384** |

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

| USD thousands | 31.03.2017 | 31.03.2016 | 31.12.2016 |
|---|---|---|---|
| **Current receivables:** | | | |
| - Robotic Drilling System AS | 5 | - | 4 |
| - Deep Sea Metro Ltd. Group | - | 2,601 | 1,840 |
| **Total** | **5** | **2,601** | **1,844** |
| **Current liabilities:** | | | |
| - Robotic Drilling System AS | - | - | 65 |
| - Deep Sea Metro Ltd. Group | - | - | 11,875 |
| **Total** | **-** | **-** | **11,940** |

## Note 15 - Important events occurring after the reporting period

Deepsea Bergen received on 3 April 2017 a letter of intent from an undisclosed party for further employment for one firm exploration well plus optional sidetrack and well testing on the Norwegian Continental Shelf. The contract commencement is scheduled to Q4 2017 and has an expected duration of 40 days (excluding options).

Odfjell Drilling secured, on 21 April 2017, further employment for its 3rd generation semi-submersible, Deepsea Bergen, with OMV Norge. This contract is for a one firm "high pressure high temperature" well ("HPHT-well") in PL 644 plus options for two additional HPHT wells on the Norwegian Continental Shelf. The contract commencement is scheduled for Q1 2018 and has an expected duration of approximately 100 days (excluding options).

There have been no other events after the balance date with material effect for the quarterly financial statements ended 31 March 2017.