# Odfjell Drilling Ltd.

## Report for the 1st quarter of 2018

*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*

| Key figures Odfjell Drilling Ltd. Group | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Operating revenue | 175 | 148 | 662 |
| EBITDA | 56 | 55 | 274 |
| EBIT | 16 | 14 | 112 |
| Net profit (loss) | (7) | (7) | 35 |
| EBITDA margin | 32% | 37% | 41% |
| Total assets | 2,129 | 2,235 | 2,138 |
| Net interest bearing debt | 1,030 | 1,215 | 1,068 |
| Equity | 769 | 716 | 767 |
| Equity ratio | 36% | 32% | 36% |

## Highlights Q1 2018

### Odfjell Drilling Ltd. Group

- Operating revenue of USD 175 million compared to USD 148 million in Q1 2017.
- EBITDA of USD 56 million compared to USD 55 million in Q1 2017.
- EBITDA margin of 32% compared to an EBITDA margin of 37% in Q1 2017.
- The Group's contract backlog is USD 2.7 billion, whereof USD 1.7 billion is firm backlog. The comparable figure at the end of Q1 2017 was USD 2.8 billion, whereof USD 1.5 billion was firm backlog.

### Mobile Offshore Drilling Units segment

- Operating revenue of USD 119 million compared to USD 111 million in Q1 2017.
- EBITDA of USD 53 million compared to USD 54 million in Q1 2017.
- EBITDA margin of 44% compared to 49% in Q1 2017.

### Drilling & Technology segment

- Operating revenue of USD 34 million compared to USD 21 million in Q1 2017.
- EBITDA of USD 1 million compared to USD 0 in Q1 2017.
- EBITDA margin of 2% compared to an EBITDA margin of 0% in Q1 2017.

### Well Services segment

- Operating revenue of USD 28 million compared to USD 20 million in Q1 2017.
- EBITDA of USD 6 million compared to USD 5 in Q1 2017.
- EBITDA margin of 23% compared to 25% in Q1 2017.

*Equinor awarded contract for Platform Drilling services*

*On 3 April 2018,* Equinor awarded Odfjell Drilling a Fixed Platform Drilling Services contract for Heidrun, located on the Norwegian Continental Shelf. Odfjell Drilling will operate both Grane and Heidrun until October this year and will thereafter continue only on Heidrun. The firm contract is for 4 years with 3 x 2 years optional periods.

*Equinor awarded a letter of intent to Deepsea Atlantic*

On 16 April 2018, Equinor awarded a conditional Letter of Intent (“LOI”) to Deepsea Atlantic for 6 firm wells with an estimated total duration of 18 months, scheduled to commence in early first quarter 2019. The LOI contains the option to continue operations for Equinor after the firm period and such options shall be based on market pricing.

*USD 175 million Private Placement successfully completed*

On 19 April 2018, Odfjell Drilling Ltd., successfully completed a private placement of NOK 1.368 billion, equivalent to approximately USD 175 million, through issuance of 38,000,000 new common shares at a subscription price of NOK 36.00 per share. The proceeds will be used to finance growth and for general corporate purposes. A subsequent offering directed towards shareholders not participating, and who were not wall crossed, will follow at a later stage.

*Purchase of “Deepsea Nordkapp” and award of drilling contract by Aker BP*

On 27 April 2018, the Company announced the purchase of “Deepsea Nordkapp”, an enhanced Moss Maritime CS-60 unit winterized and purposely built for harsh environment areas. The Company further entered into a new 2 year drilling contract plus 1+1 year options with Aker BP. Odfjell Drilling estimates delivery of Deepsea Nordkapp to be in Q1 2019 and commencement of operations for Aker BP in Q2/Q3 2019.

In addition, Odfjell Drilling signed a preference share investment agreement and a warrant investment agreement with an affiliate of Akastor ASA (“Akastor”) to carry out a USD 75 million preference share issue and an issuance of warrants for 5,925,000 common shares in Odfjell Drilling to such affiliate. The proceeds from Akastor shall be used to partly finance Deepsea Nordkapp.

## Financial review – operations

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

*Consolidated group financials*

### Profit & loss Q1 2018

Operating revenue for Q1 2018 was USD 175 million (USD 148 million), an increase of USD 27 million, due to increased activity in all segments from Q1 2017 to Q1 2018.

EBITDA in Q1 2018 was USD 56 million (USD 55 million), an increase of USD 1 million.

The EBITDA margin in Q1 2018 was 32% (37%). The decrease in margin is mainly due to Deepsea Bergen entering into new contracts on a lower day rate as from mid-2017.

EBIT in Q1 2018 was USD 16 million (USD 14 million), an increase of USD 2 million.

Net financial expenses in Q1 2018 amounted to USD 23 million (USD 19 million). The increase of USD 4 million was mainly related to change in net currency losses.

In Q1 2018 the tax expense was USD 0.3 million (USD 2 million).

Net loss in Q1 2018 was USD 7 million - the same as in Q1 2017.

### Balance sheet

Total assets as at 31 March 2018 amounted to USD 2,129 million compared to USD 2,138 million as at 31 December 2017, a decrease of USD 9 million.

Equity as at 31 March 2018 amounted to USD 769 million, compared to USD 767 million as at 31 December 2017, an increase of USD 2 million.

The equity ratio was 36% as at 31 March 2018 – the same level as at year-end 2017.

Net interest bearing debt as at 31 March 2018 amounted to USD 1,030 million, compared to USD 1,068 million as at 31 December 2017, a decrease of USD 38 million.

### Cash flow

Net cash flow from operating activities in Q1 2018 was positive with USD 43 million. The Group paid USD 14 million in interest and USD 0 million in income taxes.

Net cash outflow from investing activities in Q1 2018 was USD 5 million related to net capital expenditures.

USD 13 million was used for instalments on existing credit facilities in Q1 2018.

At 31 March 2018 cash and cash equivalents amounted to USD 194 million. There has been a total positive net change in cash and cash equivalents of USD 28 million since 31 December 2017.

Segments

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

## Mobile Offshore Drilling Units (MODU)

*All figures in USD million*

| Key figures MODU segment | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Operating revenue…………………………………………. | 119 | 111 | 481 |
| EBITDA……………………………………………………………. | 53 | 54 | 244 |
| EBIT………………………………………………………………. | 20 | 22 | 111 |
| EBITDA margin……………………………………………. | 44% | 49% | 51% |

Operating revenue for the MODU segment in Q1 2018 was USD 119 million (USD 111 million), an increase of USD 8 million, or 7%. There was an increase in utilization and revenue for Deepsea Stavanger during the period compared to last year as the rig was idle in Q1 2017 until the rig commenced the Maria contract for Wintershall Norway on 20 March 2017. However, this increase in activity was partly offset by lower revenue for Deepsea Bergen due to lower day rates compared to Q1 2017.

EBITDA for the MODU segment in Q1 2018 was USD 53 million (USD 54 million), a decrease of USD 1 million, or 2%. The increase in EBITDA for Deepsea Stavanger was partly offset by a decrease in EBITDA for Deepsea Bergen. In addition, in Q1 2017 the MODU segment booked an income of approximately USD 3 million as a result of participating in the restructuring of Golden Close Maritime Corporation Ltd.

EBIT for the MODU segment in Q1 2018 was USD 20 million (USD 22 million), a decrease of USD 2 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 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Deepsea Stavanger………………………………………. | 98.6 % | 96.7 % | 98.4 % |
| Deepsea Atlantic…………………………………………. | 98.9 % | 96.3 % | 97.6 % |
| Deepsea Bergen…………………………………………… | 99.7 % | 98.5 % | 97.6 % |
| Deepsea Aberdeen………………………………………. | 97.0 % | 95.2 % | 95.5 % |

- Deepsea Stavanger has been operating for Wintershall and Aker BP on the NCS in Q1 2018.
- Deepsea Atlantic has been operating for Equinor on the NCS in Q1 2018.
- Deepsea Bergen has been operating for OMV on the NCS in Q1 2018.
- Deepsea Aberdeen has been operating for BP West of Shetland in Q1 2018.

### Drilling & Technology (D&T)

*All figures in USD million*

| Key figures Drilling & Technology segment | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Operating revenue..................................................... | 34 | 21 | 105 |
| EBITDA......................................................................... | 1 | (0) | 15 |
| EBIT............................................................................... | 1 | (0) | 14 |
| EBITDA margin........................................................... | 2% | (0%) | 14% |

Operating revenue for the D&T segment in Q1 2018 was USD 34 million (USD 21 million), an increase of USD 13 million, or 64 %. The increase in revenue was primarily attributable to the award of additional UK contracts and an increased number of strings in operation compared to Q1 2017.

EBITDA and EBIT for the D&T segment in Q1 2018 was USD 1 million (USD 0 million), an increase of USD 1 million. The increase in both EBITDA and EBIT was mainly due to improved margins in the portfolio.

### Well Services (OWS)

*All figures in USD million*

| Key figures Well Services segment | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Operating revenue..................................................... | 28 | 20 | 97 |
| EBITDA......................................................................... | 6 | 5 | 32 |
| EBIT............................................................................... | 0 | (2) | 4 |
| EBITDA margin........................................................... | 23% | 25% | 33% |

Operating revenue for the OWS segment in Q1 2018 was USD 28 million (USD 20 million), an increase of USD 8 million, or 40%. The increase of revenue for the OWS segment in Q1 2018 is explained by higher activity level in the Norwegian and continental Europe markets.

EBITDA for the OWS segment in Q1 2018 was USD 6 million (USD 5 million), an increase of USD 1 million. EBITDA margin for the OWS segment in Q1 2018 was 23% compared to 25% for Q1 2017.

EBIT for the OWS segment in Q1 2018 was USD 0 million (negative USD 2 million), an increase of USD 2 million. The increase in both EBITDA and EBIT was mainly attributable to higher activity levels partly offset by higher costs related to the mobilisation of new contracts and increased 3rd party equipment rentals.

## Outlook

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

We are currently observing a recovery in the oil price with levels more sound and sustainable for the drilling and oil service market. This, in combination with a more favourable cost structure, has resulted in an increased appetite for exploration and production activities by the oil companies.

Although the global drilling and oil service market is still at a low level, some regions have seemed to recover at a higher pace than others. In harsh environments, a substantial number of mature units have been permanently withdrawn from the market over the last couple of years. In addition, newbuilds have proven to be significantly more efficient than mature units. The ultra-deep water market remains challenging due to an oversupply of new build rigs in recent years.

Based on the preference of new and more efficient units combined with a high reactivation cost, we believe that scrapping of older midwater and harsh environment drilling units will continue over the next few years. In combination with a more healthy market environment, we believe this will bring the harsh environment market back into balance with subsequently improved day rates.

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

Deepsea Stavanger started operations for Wintershall at the Maria field on 20 March 2017 and finalized the well based contract on 22 February 2018. The unit thereafter commenced, on the same date, its contract with Aker BP and will be in operation until the mobilization, at the beginning of Q4 2018, to South Africa for the drilling contract with Total. As earlier announced, Odfjell Drilling has also entered into a 5+5 years alliance with Aker BP with the intent to drill wells for them, suitable for semi-submersibles. The first call-off under the alliance was received in December 2017 covering 12 months for Deepsea Stavanger after its return from South Africa, estimated to be mid-2019. Deepsea Atlantic received a new drilling contract from Equinor taking operations into mid-2020. Her next contract will commence early Q1 2019 after completion of the 5 year special periodic survey scheduled for December 2018. Until then Deepsea Atlantic will continue working for Equinor on the Johan Sverdrup contract. Deepsea Aberdeen is contracted until April 2022 for BP West of Shetland. Deepsea Bergen finished its one well contract with OMV on 17 April and immediately started operations for Equinor on the well based contract. The unit has firm work until late 2018 on the NCS and additional options potentially keep the rig in operations into the second half of 2019. Finally, the newbuild Deepsea Nordkapp is scheduled for delivery in Q1 2019 and will thereafter mobilize for operations with Aker BP on the NCS. Commencement of operations is expected around mid-2019.

OWS is still facing fierce competition for its services globally. We currently observe an increased tender activity in the European and Middle East markets; however the over-supply of equipment continues to keep pressure on prices. OWS has maintained its low capital expenditures to enhance utilisation of the existing 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 reduced the cost level substantially throughout the organisation and is well positioned to take part in the market recovery.

## Risks and uncertainties

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

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

| Key figures QHSE | YTD 18 | FY 17 |
|---|---|---|
| Lost time incident frequency (as per 1 million working hours)………………… | 0.3 | 0.3 |
| Total recordable incident frequency (as per 1 million working hours)……. | 1.7 | 1.8 |
| Sick leave (percentage)……………………………………………………………………… | 3.3 | 2.7 |
| Dropped objects frequency (as per 1 million working hours)…………………. | 2.9 | 3.5 |
| Number of employees………………………………………………………………………… | 2,313 | 2,211 |

Hamilton, Bermuda
24 May 2018

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

## $1^{st}$ quarter of 2018

Unaudited

## Condensed Consolidated Income Statement

| USD thousands | Note | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|---|
| **Operating revenue** | 3,4 | **174,805** | **148,351** | **662,158** |
| Other gains and losses | | 415 | 135 | 11,215 |
| Personnel expenses | | (83,642) | (61,348) | (260,815) |
| Other operating expenses | 16 | (35,189) | (32,630) | (138,838) |
| **EBITDA** | | **56,390** | **54,508** | **273,720** |
| Depreciation, amortisation and impairment | 6 | (40,415) | (40,725) | (161,436) |
| **Operating profit (EBIT)** | | **15,975** | **13,784** | **112,285** |
| Share of profit (loss) from other joint ventures | 10 | - | (522) | (1,485) |
| Net financial items | 15 | (22,568) | (18,732) | (74,111) |
| **Profit/(loss) before tax** | | **(6,593)** | **(5,470)** | **36,688** |
| Income taxes | 12 | (204) | (2,017) | (1,335) |
| **Profit/(loss) for the period** | | **(6,797)** | **(7,487)** | **35,353** |
| **Earnings per share (USD)** | | | | |
| Basic earnings per share | 9 | (0.03) | (0.04) | 0.18 |
| Diluted earnings per share | 9 | (0.03) | (0.04) | 0.18 |

## Condensed Consolidated Statement of Comprehensive Income

| USD thousands | Note | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|---|
| **Profit/(loss) for the period** | | **(6,797)** | **(7,487)** | **35,353** |
| **Other comprehensive income:** | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Actuarial gain / (loss) on post employment benefit obligations | | - | - | (266) |
| Items that are or may be reclassified to profit or loss: | | | | |
| Cash flow hedges | | 245 | 463 | 353 |
| Currency translation differences | | 8,531 | 1,041 | 9,531 |
| **Other comprehensive income for the period, net of tax** | | **8,775** | **1,504** | **9,618** |
| **Total comprehensive income for the period** | | **1,978** | **(5,983)** | **44,971** |

## Condensed Consolidated Statement of Financial Position

| USD thousands | Note | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Deferred tax asset | | 3,739 | 2,453 | 3,566 |
| Intangible assets | 6 | 34,790 | 32,480 | 32,855 |
| Property, plant and equipment | 6 | 1,747,758 | 1,882,297 | 1,782,393 |
| Financial non-current assets | 5,10 | 1,008 | 8,360 | 551 |
| **Total non-current assets** | | **1,787,295** | **1,925,590** | **1,819,365** |
| Trade receivables | | 129,357 | 114,756 | 137,438 |
| Contract assets | | 792 | - | - |
| Other current assets | 5 | 17,490 | 20,955 | 15,455 |
| Cash and cash equivalents | | 193,984 | 173,806 | 165,970 |
| **Total current assets** | | **341,623** | **309,517** | **318,863** |
| **Total assets** | | **2,128,918** | **2,235,107** | **2,138,228** |
| **Equity and liabilities** | | | | |
| Total paid-in capital | | 328,841 | 328,841 | 328,841 |
| Other equity | | 440,194 | 387,262 | 438,216 |
| **Total equity** | | **769,035** | **716,103** | **767,057** |
| Non-current interest-bearing borrowings | 11 | 1,058,103 | 1,183,151 | 1,076,103 |
| Post-employment benefits | | 18,615 | 16,627 | 18,084 |
| Non-current contract liabilities | | 5,262 | - | - |
| Other non-current liabilities | 5 | - | 5,710 | 5,331 |
| **Total non-current liabilites** | | **1,081,979** | **1,205,488** | **1,099,519** |
| Current interest-bearing borrowings | 11 | 166,013 | 205,496 | 157,472 |
| Contract liabilities | | 22,805 | - | - |
| Trade payables | | 29,580 | 21,384 | 35,214 |
| Other current liabilities | 5,16 | 59,506 | 86,636 | 78,966 |
| **Total current liabilities** | | **277,904** | **313,516** | **271,652** |
| **Total liabilities** | | **1,359,882** | **1,519,004** | **1,371,171** |
| **Total equity and liabilities** | | **2,128,918** | **2,235,107** | **2,138,228** |

## Condensed Consolidated Statement of Changes in Equity

| | Equity attributable to owners of the parent | | | | |
|---|---|---|---|---|---|
| USD thousands | Share capital | Other contributed capital | Other reserves | Retained earnings | Total equity |
| Balance at 1 January 2017 | 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** |
| Total comprehensive income for the period Q2-Q4 | - | - | 8,379 | 42,575 | 50,954 |
| **Balance at 31 December 2017** | **1,987** | **326,853** | **(105,019)** | **543,235** | **767,057** |
| Profit/(loss) for the period | - | - | - | (6,797) | (6,797) |
| Other comprehensive income for the period | - | - | 8,775 | - | 8,775 |
| Total comprehensive income for the period | - | - | 8,775 | (6,797) | 1,978 |
| **Balance at 31 March 2018** | **1,987** | **326,853** | **(96,244)** | **536,438** | **769,035** |

## Condensed Consolidated Statement of Cash Flows

| USD thousands | Note | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Profit/(loss) before tax | | (6,593) | (5,470) | 36,688 |
| *Adjustments for:* | | | | |
| Depreciation, amortisation and impairment | | 40,415 | 40,725 | 161,436 |
| Unrealised (gain)/loss on interest rate swaps | | (435) | (129) | (520) |
| Interest expense - net | | 15,775 | 16,190 | 64,101 |
| Amortised borrowing cost | | 1,499 | 1,471 | 6,160 |
| Share of (profit)/loss from joint ventures | | - | 522 | 1,485 |
| Net (gain)/loss on sale of shares and other financial investments | | - | - | (9,769) |
| Net (gain)/loss on sale of tangible fixed assets | | (306) | (38) | (1,496) |
| Post-employment benefit expenses less payments | | (529) | (1,023) | (656) |
| Net currency (gain)/loss not related to operating activities | | 4,767 | 376 | 2,136 |
| *Changes in working capital:* | | | | |
| Spare parts | | (125) | 81 | 157 |
| Trade receivables and contract assets | | 12,563 | (2,953) | (21,392) |
| Trade payables and contract liabililities | | (7,163) | 4,119 | 16,897 |
| Other accruals | | (2,264) | (2,287) | (9,801) |
| ***Cash generated from operations*** | | ***57,604*** | ***51,584*** | ***245,426*** |
| Interest paid | | (14,234) | (14,752) | (64,688) |
| Net income tax (paid) / refunded | | (305) | (9,378) | (14,900) |
| **Net cash flow from operating activities** | | **43,065** | **27,454** | **165,839** |
| **Cash flows from investing activities:** | | | | |
| Purchase of property, plant and equipment | 6 | (5,861) | (9,694) | (29,468) |
| Proceeds from sale of property, plant and equipment | | 473 | 173 | 2,036 |
| Other long term receivables | | - | - | 64 |
| Proceeds from financial investments incl. joint ventures | | - | - | 26,580 |
| **Net cash flow from investing activities** | | **(5,389)** | **(9,521)** | **(787)** |
| **Cash flows from financing activities:** | | | | |
| Net (payments)/proceeds from borrowings financial institutions | | - | - | (737) |
| Repayments of borrowings to financial institutions | 11 | (12,500) | (26,500) | (183,500) |
| **Net cash flow from financing activities** | | **(12,500)** | **(26,500)** | **(184,237)** |
| Effects of exchange rate changes on cash and cash equivalents | | 2,838 | 751 | 3,533 |
| **Net increase (decrease) in cash and cash equivalents** | | **28,014** | **(7,816)** | **(15,653)** |
| Cash and cash equivalents at beginning of period | | 165,970 | 181,623 | 181,623 |
| **Cash and cash equivalents at period end** | | **193,984** | **173,806** | **165,970** |

# 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 on 24 May 2018 and have not been audited.

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

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

The 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, except for the following:

As of 1.1.2018 the group implemented IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* as of 1.1.2018. The implementation did not impact net retained earnings as at 1 January 2018. See further information in note 2.

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

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

There will always be uncertainty related to judgement and assumptions related to accounting estimates. Reference is made to *Note 6 Tangible and intangible fixed assets*, where assumptions and sensitivity analysis for goodwill and mobile drilling units are presented.

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

## Note 2 | New accounting standards

### Revenue from contracts with customers

As of 1.1.2018 the group implemented ***IFRS 15 Revenue from contracts with customers***. This replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The group has revenues from rendering of services related to day-rate based drilling contracts, day-rates from management drilling contracts and other service contracts. Up until 1.1.2018 these services were recognised when the services were performed. According to the new standard these revenues streams will continue to be recognised over time.

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

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

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

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

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

### Effects on Q1 18 Financial Statements

None of the contracts the group were operating under in Q1 18 had any material mobilisation or demobilisation periods or fee.
Hence, there were no changes to the amounts the group has recognised as revenue and expenses in Q1 18 applying IFRS 15 versus revenue recognition using IAS 18.

| USD thousands | Balance at 31.12.2017 | Reclassifications due to implementation of IFRS 15 | Balance at 01.01.2018 |
|---|---|---|---|
| **Assets** | | | |
| Contract assets | - | - | - |
| Trade receivables | 137,438 | - | 137,438 |
| Assets from contract costs | - | 3,372 | 3,372 |
| Other current assets | 15,455 | (3,372) | 12,083 |
| **Liabilities** | | | |
| Non-current contract liabilities | - | 5,331 | 5,331 |
| Other non-current liabilities | 5,331 | (5,331) | - |
| Contract liabilities | - | 22,724 | 22,724 |
| Other current liabilities | 78,966 | (22,724) | 56,242 |
| **Equity** | | | |
| Total equity | 767,057 | - | 767,057 |

# Note 2 | New accounting standards - cont.

**Financial instruments**

The group also implemented ***IFRS 9 Financial instruments*** applying the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.
IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified as amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contracts assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.
The impairment provisions as at 31 December 2017 and 31 March 2018 were not affected by the implementation of the new model.

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

## Note 3 | Segment summary

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

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

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

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

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

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

| | Mobile Offshore Drilling Units | | Drilling & Technology | | Well Services | | Corporate / Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| USD thousands | Q1 18 | Q1 17 | Q1 18 | Q1 17 | Q1 18 | Q1 17 | Q1 18 | Q1 17 | Q1 18 | Q1 17 |
| External segment revenue | 119,186 | 110,830 | 32,208 | 18,917 | 19,317 | 16,898 | 4,093 | 1,706 | 174,805 | 148,351 |
| Inter segment revenue | - | 390 | 1,827 | 1,860 | 8,663 | 3,557 | (10,491) | (5,808) | - | - |
| **Total revenue** | **119,186** | **111,220** | **34,036** | **20,777** | **27,981** | **20,456** | **(6,398)** | **(4,102)** | **174,805** | **148,351** |
| **EBITDA** | **52,736** | **54,439** | **785** | **(39)** | **6,312** | **5,075** | **(3,444)** | **(4,966)** | **56,390** | **54,508** |
| Depreciation and impairment | (33,224) | (32,823) | (16) | (221) | (6,233) | (7,532) | (941) | (149) | (40,415) | (40,725) |
| **EBIT** | **19,513** | **21,615** | **769** | **(259)** | **79** | **(2,457)** | **(4,386)** | **(5,115)** | **15,975** | **13,784** |

## Note 3 | Segment summary - cont.

| USD thousands | Mobile Offshore Drilling Units FY 17 | Drilling & Technology FY 17 | Well Services FY 17 | Corporate / Eliminations FY 17 | Consolidated FY 17 |
|---|---|---|---|---|---|
| External segment revenue | 478,443 | 97,798 | 74,764 | 11,152 | 662,158 |
| Inter segment revenue | 2,605 | 7,651 | 22,101 | (32,356) | - |
| **Total revenue** | **481,047** | **105,449** | **96,865** | **(21,204)** | **662,158** |
| **EBITDA** | **243,736** | **15,019** | **31,606** | **(16,642)** | **273,720** |
| Depreciation and impairment | (132,243) | (912) | (27,972) | (309) | (161,436) |
| **EBIT** | **111,493** | **14,107** | **3,634** | **(16,951)** | **112,285** |

| Reconciliation: | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| **EBIT for reportable segments** | **20,360** | **18,899** | **129,235** |
| Corporate | (4,614) | (5,426) | (19,172) |
| Accounting differences | 228 | 311 | 2,222 |
| **EBIT - Consolidated Group** | **15,975** | **13,784** | **112,285** |
| Share of profit (loss) from joint ventures | - | (522) | (1,485) |
| Net financial items | (22,568) | (18,732) | (74,111) |
| **Profit / (loss) before tax - Consolidated Group** | **(6,593)** | **(5,470)** | **36,688** |

# Note 4 | Revenues

| USD thousands | Q1 18 |
|---|---|
| Revenue from contract with customers | 174,805 |
| Other operating revenue | - |
| **Operating revenue** | **174,805** |

### Revenue recognition

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

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

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

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

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

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

### Disaggregation of revenue from contract with customers

| | Mobile Offshore Drilling Units | Drilling & Technology | Well Services | Corporate / Elimination | Consolidated |
|---|---|---|---|---|---|
| USD thousands | Q1 18 | Q1 18 | Q1 18 | Q1 18 | Q1 18 |
| **Primary geographical markets** | | | | | |
| Norway | 78,015 | 20,457 | 15,984 | (5,341) | 109,115 |
| UK | 38,620 | 13,579 | 1,718 | (1,136) | 52,781 |
| Europe - other countries | - | - | 5,070 | - | 5,070 |
| Asia | 2,551 | - | 5,208 | 79 | 7,839 |
| **Total operating revenue** | **119,186** | **34,036** | **27,981** | **(6,398)** | **174,805** |

## Note 5 | 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 amended and extended Deepsea Bergen facility matures 30 September 2020, subject to termination options for the lenders, if the borrower is unable to document necessary backlog for Deepsea Bergen. Should the Deepsea Bergen facility be repaid or prepaid with cash other than excess cash from the operation of the unit, then any Odfjell Invest lender may require the same amount prepaid under the Odfjell Invest facility.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; consequently they should be read in conjunction with the Group's annual audited financial statements as at 31 December 2017. There are no material changes compared to the 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%) is approximately USD 10.8 million for FY 2017 including interest rate swaps. There is no material change in the Group's interest rate sensitivity compared to year-end.

### Liquidity risk

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

### Fair value estimation

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

### Change in accounting principle

The group also implemented IFRS 9 Financial instruments  applying the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. See further information in note 2.

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

| USD thousands | Level | IFRS 9<br>31.03.2018 | IAS 39<br>31.03.2017 | IAS 39<br>31.12.2017 |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| - Other current assets | 3 | n/a | 7,727 | - |
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives not designated as hedging instruments | | | | |
| - Interest rate swaps -  Other non-current assets | 2 | 779 | 28 | 318 |
| - Interest rate swaps - Other current assets | 2 | 75 | - | 102 |
| Derivatives designated as hedging instruments | | | | |
| - Foreign exchange forward contracts - Other current assets | 2 | 58 | - | - |
| **Debt instruments at amortised cost** | | | | |
| - Other non-current receivables | | 230 | 289 | 233 |
| - Trade and other current receivables | | 146,714 | 135,711 | 140,538 |
| **Total financial assets** | | **147,855** | **143,755** | **141,190** |

## Note 5 | Financial risk management and Financial instruments - cont.

| USD thousands | Level | IFRS 9 31.03.2018 | IAS 39 31.03.2017 | IAS 39 31.12.2017 |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives designated as hedging instruments | | | | |
| - Foreign exchange forward contracts - Other current liabilities | 2 | - | 307 | 186 |
| **Financial liabilities at amortised cost** | | | | |
| - Trade and other payables | | 88,371 | 72,871 | 89,188 |
| - Non-current interest-bearing borrowings | | 1,058,103 | 1,183,151 | 1,076,103 |
| - Current interest-bearing borrowings | | 166,013 | 205,496 | 157,472 |
| **Total financial liabilities** | | **1,312,487** | **1,461,825** | **1,322,950** |

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

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

| | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Non-current | 1,058,103 | 1,183,151 | 1,076,103 |
| Current | 166,013 | 205,496 | 157,472 |
| **Total** | **1,224,116** | **1,388,647** | **1,233,575** |

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

## Note 6 | Tangible and intangible fixed assets

| USD thousands | Mobile drilling units | Periodic maintenance | Well Services equipment | Machinery & equipment | Total fixed assets |
|---|---|---|---|---|---|
| Opening net book amount as at 1 January 2018 | 1,610,118 | 88,869 | 82,392 | 1,015 | 1,782,393 |
| Additions | 2,128 | 669 | 2,046 | 249 | 5,091 |
| Disposals | - | - | (168) | 1 | (167) |
| Depreciation | (22,155) | (11,065) | (6,233) | (199) | (39,653) |
| Currency translation differences | - | - | 58 | 35 | 93 |
| **Closing net book amount as at 31 March 2018** | **1,590,091** | **78,473** | **78,095** | **1,099** | **1,747,758** |
| | | | | | |
| 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) |
| 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** |
| | | | | | |
| Useful lifetime | 5 - 37.5 years | 5 years | 3 - 10 years | 3 - 5 years | |
| Depreciation schedule | Straight line | Straight line | Straight line | Straight line | |

**Impairment tests on mobile drilling units**

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

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

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

## Note 6 | 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) | 10.4% | 10.4% | 10.4% | 10.2% |
| Firm contract days | 791 | 763 | 1,551 | 227 |
| Firm contract day rates (weighted average) | 303 | 279 | 433 | 156 |
| 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 | 40,000 | 42,000 | - | 1,000 |
| - WACC increased by | 2 pp | 76,000 | 78,000 | 12,000 | 2,000 |
| - Day rate level decreased by | 5% | 35,000 | 36,000 | - | 4,000 |
| - Day rate level decreased by | 10% | 70,000 | 71,000 | - | 8,000 |
| - Normalised opex level increased by | 5% | 16,000 | 16,000 | - | 4,000 |
| - Normalised opex level increased by | 10% | 32,000 | 33,000 | - | 7,000 |
| - Financial utilisation in normalised period decreased by | 1 pp | 9,000 | 10,000 | - | 1,000 |
| - Financial utilisation in normalised period decreased by | 2 pp | 17,000 | 19,000 | - | 2,000 |
| - Financial utilisation in normalised period decreased by | 3 pp | 26,000 | 29,000 | - | 3,000 |

## Note 6 | Tangible and intangible fixed assets - cont

| USD thousands | Goodwill | Software and other intangible assets | Total intangible assets |
|---|---|---|---|
| Opening net book amount as at 1 January 2018 | 19,736 | 13,119 | 32,855 |
| Additions | - | 770 | 770 |
| Amortisation | - | (762) | (762) |
| Currency translation differences | 1,162 | 764 | 1,926 |
| **Closing net book amount as at 31 March 2018** | **20,898** | **13,891** | **34,790** |
| Opening net book amount as at 1 January 2017 | 18,786 | 14,223 | 33,009 |
| Additions | - | - | - |
| Amortisation | - | (689) | (689) |
| Currency translation differences | 84 | 75 | 160 |
| **Closing net book amount as at 31 March 2017** | **18,870** | **13,610** | **32,480** |

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

The recoverable amount of the CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on prognoses made by management covering a five-year period. The prognosis for the EBITDA margin in 2018 and the following years is based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax weighted average cost of capital and reflect specific risks relating to the relevant operating segments.

These assumptions have been used for the analysis of each CGU within the operating segment. Impairment tests performed for goodwill within respective CGU's do not indicate any impairment requirement as at 31.03.2018.

The key assumptions used for value-in-use calculations as per Q1 2018 are as follows:

| | Mobile Offshore Drilling Units | Drilling & Technology | Well Services |
|---|---|---|---|
| EBITDA margin in prognosis period | 10% - 15% | 5% - 6% | 32% - 43% |
| Growth rate year 6 and forward | 0.0% | 0.0% | 0.0% |
| Weighted Average Cost of Capital (WACC) | 9.1 % | 7.9% | 8.9% |

**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 five percentage points indicated an impairment write-down of USD 10 million, while reducing EBITDA margin by ten percentage points indicated an impairment write-down of USD 13 million. None of the other scenarios indicated any impairment write-down of goodwill as at 31.03.2018.

## Note 7 | Commitments

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

| USD thousands | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Rig investments | 5,041 | 6,000 | 4,674 |
| Rental and casing equipment, due in 1 year | 3,926 | 395 | 2,814 |
| **Total** | **8,968** | **6,395** | **7,489** |

## Note 8 | Paid dividends and acquisition of own shares

The Group has not paid dividends or acquired any of its own shares in the interim period ending 31 March 2018.

## Note 9 | 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 2018. Comparative figures (EPS) are presented retrospectively based on the number of issued shares as at 31 March 2018.

## Note 10 | Financial non-current assets

| USD thousands | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Investment in joint ventures | - | 7,812 | - |
| Investment in financial instruments | 779 | 259 | 318 |
| Other non-current receivables | 230 | 289 | 233 |
| **Total financial non-current assets** | **1,008** | **8,360** | **551** |

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

| USD thousands | 31.03.2017 | 31.12.2017 |
|---|---|---|
| Opening net book amount as at beginning of the period | 8,217 | 8,217 |
| Divestments during the year | | (8,755) |
| Share of profits classified as financial | (522) | (1,485) |
| Currency translation differences | 117 | 2,024 |
| **Closing net book amount as at end of period** | **7,812** | **-** |

The shares in Robotic Drilling Systems AS were sold on 31 August 2017.

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 31.03.2017, 31.12.2017 and 31.03.2018.

## Note 11 | Interest-bearing borrowings

| USD thousands | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Non-current | 1,058,103 | 1,183,151 | 1,076,103 |
| Current | 166,013 | 205,496 | 157,472 |
| **Total** | **1,224,116** | **1,388,647** | **1,233,575** |

| **Movements in non-current borrowings are analysed as follows:** | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Carrying amount as at 1 January | 1,076,103 | 1,208,180 | 1,208,180 |
| **Cash flows:** | | | |
| Paid transaction costs related to amendments and new bank loan | - | - | (737) |
| **Non-cash flows:** | | | |
| Reclassified to current portion of non current borrowings | (19,500) | (26,500) | (137,500) |
| Change in transaction cost, unamortised | 1,499 | 1,471 | 6,160 |
| **Carrying amount as at end of period** | **1,058,103** | **1,183,151** | **1,076,103** |

| **Movements in current borrowings are analysed as follows:** | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Carrying amount as at 1 January | 157,472 | 204,058 | 204,058 |
| **Cash flows:** | | | |
| Repayment bank loan | (12,500) | (26,500) | (183,500) |
| **Non-cash flows:** | | | |
| Reclassified to current portion of non current borrowings | 19,500 | 26,500 | 137,500 |
| Change in accrued interest cost | 1,541 | 1,438 | (586) |
| **Carrying amount as at end of period** | **166,013** | **205,496** | **157,472** |

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

| **Repayment schedule for interest-bearing borrowings** | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| Maturity within 3 months | 57,500 | 69,500 | 12,500 |
| Maturity between 3 and 6 months | 16,000 | 26,500 | 57,500 |
| Maturity between 6 and 9 months | 62,000 | 71,500 | 16,000 |
| Maturity between 9 months and 1 year | 19,500 | 26,500 | 62,000 |
| Maturity between 1 and 2 years | 762,500 | 179,000 | 775,000 |
| Maturity between 2 and 3 years | 72,500 | 734,500 | 79,500 |
| Maturity between 3 and 4 years | 237,000 | 52,000 | 237,000 |
| Maturity between 4 and 5 years | - | 237,000 | - |
| Maturity beyond 5 years | - | - | - |
| **Total contractual amounts** | **1,227,000** | **1,396,500** | **1,239,500** |

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

### Covenants

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

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

## Note 12 | 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 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Withholding tax, ordinary taxation | (323) | (391) | (1,334) |
| Tax payable, ordinary taxation | 121 | (1,578) | (900) |
| Change in deferred tax, ordinary taxation | (2) | (49) | 899 |
| **Total tax expense** | **(204)** | **(2,017)** | **(1,335)** |
| Average tax rate | (3%) | (37%) | 4% |

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. 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.

## Note 13 | Contingencies

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

## Note 14 | Equity & shareholder information

| **Largest shareholders at 31 March 2018** | **Holding** | **% of total** |
|---|---|---|
| Odfjell Partners Ltd. | 142,000,000 | 71.45% |
| Deutsche Bank AG | 6,476,132 | 3.26% |
| J.P.Morgan Chase Bank N.A. London | 5,435,446 | 2.73% |
| State Street Bank and Trust Co. | 2,953,623 | 1.49% |
| Fidelity Select Portfolios: Energy | 2,531,294 | 1.27% |
| RBC Investor Services Trust | 2,000,000 | 1.01% |
| State Street Bank and Trust Co. | 1,639,098 | 0.82% |
| J.P.Morgan Chase Bank N.A. London | 1,352,925 | 0.68% |
| Fidelity Select Portfolios: Energy | 1,309,780 | 0.66% |
| VPF Nordea Kapital | 1,039,522 | 0.52% |
| Citybank, N.A. | 974,750 | 0.49% |
| Lieungh, Simen | 952,381 | 0.48% |
| The Bank of New York Mellon SA/NV | 859,862 | 0.43% |
| VPF Nordea Avkastning | 801,526 | 0.40% |
| J.P.Morgan Bank Luxembourg S.A. | 781,166 | 0.39% |
| Verdipapirfondet DNB SMB | 770,402 | 0.39% |
| Verdipapirfondet Delphi Norge | 681,660 | 0.34% |
| Morgan Stanley and Co Intl Plc | 626,731 | 0.32% |
| Goldman Sachs International | 601,188 | 0.30% |
| FSP - Natural Resources | 590,700 | 0.30% |
| **Total 20 largest shareholders** | **174,378,186** | **87.74%** |
| Other shareholders | 24,358,714 | 12.26% |
| **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 15 | Net financial items

| USD thousands | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| Interest income | 439 | 236 | 1,535 |
| Interest expense | (16,214) | (16,426) | (65,636) |
| Other borrowing expenses | (1,499) | (1,589) | (6,392) |
| Gain/(loss) on interest rate swaps | 435 | 129 | 520 |
| Net currency gain/(loss) | (5,127) | (696) | (3,087) |
| Other financial items | (602) | (386) | (1,051) |
| **Net financial items** | **(22,568)** | **(18,732)** | **(74,111)** |

## Note 16 | 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 2018. 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.

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

| USD thousands | Q1 18 | Q1 17 | FY 17 |
|---|---|---|---|
| **Sales of services:** | | | |
| - Robotic Drilling System AS | - | 11 | 20 |
| - Deep Sea Metro Ltd. Group | - | 3,770 | 3,770 |
| **Total** | **-** | **3,781** | **3,791** |
| **Operating expenses:** | | | |
| - Kokstad Holding AS group (related to main share holder) | 1,718 | 1,614 | 6,392 |
| **Total** | **1,718** | **1,614** | **6,392** |

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

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

| USD thousands | 31.03.2018 | 31.03.2017 | 31.12.2017 |
|---|---|---|---|
| **Current receivables:** | | | |
| - Robotic Drilling System AS (divested 31 August 2017) | - | 5 | - |
| **Total** | **-** | **5** | **-** |
| **Current liabilities:** | | | |
| - Kokstad Holding AS group (related to main share holder) | - | - | 647 |
| **Total** | **-** | **-** | **647** |

## Note 17 - Important events occurring after the reporting period

**Statoil awarded contract for Platform Drilling services**

On 3 April 2018, Statoil awarded Odfjell Drilling a Fixed Platform Drilling Services contract for Heidrun, located on the Norwegian Continental Shelf. Odfjell Drilling will operate both Grane and Heidrun until October this year and will thereafter continue only on Heidrun. The firm contract is for 4 years with 3 x 2 years optional periods.

**Statoil awarded a letter of intent to Deepsea Atlantic**

On 16 April 2018, Statoil awarded a conditional Letter of Intent ("LOI") to Deepsea Atlantic for 6 firm wells with an estimated total duration of 18 months, scheduled to commence in early first quarter 2019. The LOI contains the option to continue operations for Statoil after the firm period and such options shall be based on market pricing.

**USD 175 million Private Placement successfully completed**

On 19 April 2018, Odfjell Drilling Ltd., successfully completed a private placement of NOK 1.368 billion, equivalent to approximately USD 175 million, through issuance of 38,000,000 new common shares at a subscription price of NOK 36.00 per share. The proceeds will be used to finance growth and for general corporate purposes. A subsequent offering directed towards shareholders not participating, and who were not wall crossed, will follow at a later stage.

**Purchase of "Deepsea Nordkapp" and award of drilling contract by Aker BP**

On 27 April 2018, the Company announced the purchase of "Deepsea Nordkapp", an enhanced Moss Maritime CS-60 unit winterized and purposely built for harsh environment areas. The Company further entered into a new 2 year drilling contract plus 1+1 year options with Aker BP. Odfjell Drilling estimates delivery of Deepsea Nordkapp to be in Q1 2019 and commencement of operations for Aker BP in Q2/Q3 2019.

In addition, Odfjell Drilling signed a preference share investment agreement and a warrant investment agreement with an affiliate of Akastor ASA ("Akastor") to carry out a USD 75 million preference share issue and an issuance of warrants for 5,925,000 common shares in Odfjell Drilling to such affiliate. The proceeds from Akastor shall be used to partly finance Deepsea Nordkapp.

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