Odfjell Drilling Ltd.

Report for the 1st quarter of 2019

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 19	Q1 18	FY 18
Operating revenue..	201	175	698
EBITDA..	73	56	259
EBIT..	31	16	99
Net profit (loss)...	10	(7)	27
EBITDA margin..	36%	32%	37%
Total assets..	2,674	2,129	2,276
Net interest bearing debt..	1,297	1,030	920
Equity..	1,035	769	1,024
Equity ratio..	39%	36%	45%

Highlights Q1 2019

Odfjell Drilling Ltd. Group

- Operating revenue of USD 201 million compared to USD 175 million in Q1 2018.
- EBITDA of USD 73 million compared to USD 56 million in Q1 2018.
- EBITDA margin of 36% compared to an EBITDA margin of 32% in Q1 2018.
- The Group's contract backlog is USD 2.3 billion, whereof USD 1.3 billion is firm backlog. The comparable figure at the end of Q1 2018 was USD 2.7 billion, whereof USD 1.7 billion was firm backlog.

Mobile Offshore Drilling Units segment

- Operating revenue of USD 152 million compared to USD 119 million in Q1 2018.
- EBITDA of USD 67 million compared to USD 53 million in Q1 2018.
- EBITDA margin of 44% same as in Q1 2018.

Drilling & Technology segment

- Operating revenue of USD 34 million same as in Q1 2018.
- EBITDA of USD 2 million compared to USD 1 million to Q1 2018.
- EBITDA margin of 6% compared to an EBITDA margin of 2% in Q1 2018.

Well Services segment

- Operating revenue of USD 25 million compared to USD 28 million in Q1 2018.
- EBITDA of USD 5 million compared to USD 6 million in Q1 2018.
- EBITDA margin of 19% compared to 23% in Q1 2018.

Delivery of Deepsea Nordkapp from shipyard and commencement of contract

Odfjell Drilling has, on 7 January 2019, taken delivery of Deepsea Nordkapp from Samsung Heavy Industries in Korea. After a successful transit, Deepsea Nordkapp arrived CCB shipyard outside Bergen, Norway in early April.

The rig commenced its 2+1+1 year contract with Aker BP on 10 May 2019.

BP extended contract for platform drilling services on the UK continental shelf

Odfjell Drilling has, on 29 January 2019, been awarded a contract for platform drilling and maintenance services on three of BP's platforms in the UK North Sea. The contract period is for two years, with an additional two x one year options. The new contract commenced 1 February 2019 and the firm contract period has an estimated value of up to USD 50 million.

Management agreement for Deepsea Yantai

Odfjell Drilling has, on 19 March 2019, secured a 4 year management agreement for Deepsea Yantai (formerly known as Beacon Atlantic), currently owned by CIMC Raffles. The agreement also secures Odfjell Drilling the exclusive right to purchase the unit and a right of first refusal on any offer to purchase the unit following the exclusivity period. The unit has received a 6 + 10 wells drilling contract with Neptune on the Norwegian Continental Shelf expected to commence end of 2019. The firm contract period is expected to take 400 days.

USD 775 million refinancing

Odfjell Drilling, has on 28 May 2019, received firm bank commitments for a refinancing related to its 2019 debt maturities.

The existing facility covering Deepsea Atlantic and Deepsea Stavanger, currently with USD 400 million outstanding, will be replaced by a new senior facility of USD 425 million. In addition, a junior facility of USD 100 million will be entered into. The senior facility will be repaid by quarterly instalments of USD 12.5 million, first time six months after drawdown. The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from 3Q 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million. Interest is payable at LIBOR plus an overall margin depending on the level of net debt to EBITDA for the Odfjell Drilling group, resulting in an estimated combined average margin of around 400 bps over LIBOR during the tenor of the facilities. The senior facility is available in one drawing after signing of the facility documentation and the junior facility is available in three drawings until 31 March 2020. The tenor of both facilities is 5 years.

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

The commitments above are mutually dependent, and otherwise subject to final documentation and customary conditions precedent for drawdown.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q1 2019

Operating revenue for Q1 2019 was USD 201 million (USD 175 million), an increase of USD 26 million, mainly due to increased revenue in the MODU segment from Q1 2018 to Q1 2019, offset by decreased revenue in the Well Services segment.

EBITDA in Q1 2019 was USD 73 million (USD 56 million), an increase of USD 17 million, mainly due to increased EBITDA from the MODU segment. Implementation of *IFRS 16 Leases* has affected the Q1 2019 EBITDA positively with USD 2 million.

The EBITDA margin in Q1 2019 was 36% (32%).

EBIT in Q1 2019 was USD 31 million (USD 16 million), an increase of USD 15 million.

Net financial expenses in Q1 2019 amounted to USD 20 million (USD 23 million). The decrease of USD 3 million was mainly related to change in net currency losses.

In Q1 2019 the tax expense was USD 0.6 million (USD 0.2 million).

Net profit in Q1 2019 was USD 10 million (USD 7 million).

Balance sheet

Total assets as at 31 March 2019 amounted to USD 2,674 million (USD 2,276 million as at 31 December 2018), an increase of USD 398 million, mainly due to the newbuild in progress (Deepsea Nordkapp) in addition to right-of-use assets amounting to USD 45 million from implementing *IFRS 16 Leases.*

Equity as at 31 March 2019 amounted to USD 1,035 million (USD 1,024 million as at 31 December 2018) an increase of USD 11 million.

The equity ratio was 39% as at 31 March 2019 (45% as at 31 December 2018).

Net interest bearing debt as at 31 March 2019 amounted to USD 1,297 million (USD 920 million as at 31 December 2017), an increase of USD 377 million. The increase is mainly due to the drawn credit facility of USD 325 million and the seller's credit of USD 43 million, in connection with the delivery of Deepsea Nordkapp.

Cash flow

Net cash flow from operating activities in Q1 2019 was positive with USD 36 million. The Group paid USD 15 million in interest.

Net cash outflow from investing activities in Q1 2019 was USD 311 million, due to capital expenditures mainly related to the newbuild in progress.

Net cash flow from financing activities in Q1 2019 was positive with USD 294 million. Cashflow from the drawn credit facility, less transaction costs, amounted to USD 314 million. USD 18 million was used for instalments on existing credit facilities in Q1 2019 and USD 2 million was repayments of lease liabilities.

At 31 March 2019 cash and cash equivalents amounted to USD 191 million. There has been a total positive net change in cash and cash equivalents of USD 16 million since 31 December 2018.

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 19	Q1 18	FY 18
Operating revenue.......	152	119	476
EBITDA.......	67	53	226
EBIT.......	33	20	94
EBITDA margin.......	44%	44%	47%

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

Operating revenue for the MODU segment in Q1 2019 was USD 152 million (USD 119 million), an increase of USD 33 million. There was an increase in revenue for Deepsea Stavanger as a major share of revenue from the Total Brulpadda project was recognised in Q1 2019. This was partly offset by a decrease in revenue for Deepsea Atlantic as the special periodic survey was completed in late January 2019.

EBITDA for the MODU segment in Q1 2019 was USD 67 million (USD 53 million), an increase of USD 14 million. The change in EBITDA is mainly due to a bonus which was achieved for the Total Brulpadda project and the same reasons as mentioned above.

EBIT for the MODU segment in Q1 2019 was USD 33 million (USD 20 million), an increase of USD 13 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 19	Q1 18	FY 18
Deepsea Stavanger.......	99.9 %	98.6 %	98.7 %
Deepsea Atlantic.......	96.8 %	98.9 %	98.4 %
Deepsea Bergen.......	98.6 %	99.7 %	98.2 %
Deepsea Aberdeen.......	97.8 %	97.0 %	98.4 %

- Deepsea Stavanger was in Q1 2019 operating for Total in South Africa until 12 February. Thereafter the unit demobilized to Norway and commenced its next contract with Aker BP on 7 April.
- Deepsea Atlantic completed its 5 year special periodic survey at CCB outside Bergen, Norway in January and commenced its new contract with Equinor on 24 January.
- Deepsea Bergen has been operating for Equinor on the NCS until 19 March and commenced its next contract with Ithaca on the UKCS on 25 March.
- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q1 2019.

Drilling & Technology (D&T)

All figures in USD million Key figures Drilling & Technology segment	Q1 19	Q1 18	FY 18
Operating revenue...	34	34	145
EBITDA..	2	1	14
EBIT..	2	1	13
EBITDA margin...	6%	2%	9%

Operating revenue for the D&T segment in Q1 2019 was USD 34 million, at the same level as Q1 2018.

EBITDA for the D&T segment in Q1 2019 was USD 2 million (USD 1 million), an increase of USD 1 million. The increase in the Q1 2019 EBITDA is mainly due to more profitable projects.

EBIT for the D&T segment Q1 2019 was USD 2 million (USD 1 million), an increase of USD 1 million. The increase in EBIT relates to the changes as explained above.

Well Services (OWS)

All figures in USD million Key figures Well Services segment	Q1 19	Q1 18	FY 18
Operating revenue...	25	28	107
EBITDA..	5	6	26
EBIT..	(1)	0	2
EBITDA margin...	19%	23%	24%

Operating revenue for the OWS segment in Q1 2019 was USD 25 million (USD 28 million), a decrease of USD 3 million. The decrease in revenue for the OWS segment in Q1 2019 is explained by lower activity levels in the Norwegian markets, partly offset by higher activity in the Middle East/Africa/Asia (MEAA) markets.

EBITDA for the OWS segment in Q1 2019 was USD 5 million (USD 6 million), a decrease of USD 1 million. The EBITDA margin for the OWS segment in Q1 2019 was 19% (23%). The decrease in EBITDA is attributable to the same reasons as mentioned above.

EBIT for the OWS segment in Q1 2019 was negative USD 1 million (USD 0 million).

Outlook

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

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

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

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

Deepsea Stavanger successfully concluded its contract with Total on 12 February 2019 and after a safe demobilization back to Norway the unit commenced its 12 months contract with Aker BP on 7 April 2019.

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

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

Deepsea Bergen operated for Equinor until 19 March 2019 and mobilized to the UK continental shelf for a one well drilling contract for Ithaca which started 25 March 2019. Thereafter the unit will return to Norway and commence a one well contract for OMV in May/June 2019 followed by a one well contract with MOL. This will keep Deepsea Bergen in operations throughout 2019.

Finally, the newbuild Deepsea Nordkapp was delivered from Samsung Heavy Industries 7 January 2019. The unit arrived Norway in primo April and successfully commenced its first 2+1+1 year contract with Aker BP on 10 May 2019.

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

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

Risks and uncertainties

Factors that, in the Group's view, could cause actual results to differ materially from the outlook contained in this report are the following: volatile oil and gas prices, competition within the oil and gas services industry, changes in client's spending budgets and developments in the financial markets and within the Group. Furthermore, as the Group's fully owned fleet consists of only four units plus one newbuild delivered from shipyard 7 January 2019, any operational downtime or any failure to secure employment at satisfactory rates will affect the Group's results more significantly than for a group with a larger fleet.

The substantial reduction in market capitalisation for the oil and gas service providers has led the financial institutions to focus on contract backlog as the major criteria for debt financing. The market for rig financing is still challenging and additional funding sources may not be available to the Group in the future for refinancing existing facilities as they mature.

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

Quality, health, safety & environment (QHSE)

Key figures QHSE	YTD 19	FY 18
Lost time incident frequency (as per 1 million working hours)......................	1.1	1.0
Total recordable incident frequency (as per 1 million working hours)......	1.8	1.6
Sick leave (percentage)...	3.3	3.1
Dropped objects frequency (as per 1 million working hours)......................	2.3	3.0
Number of employees..	2,377	2,385

Aberdeen, United Kingdom
28 May 2019

Board of Directors of Odfjell Drilling Ltd.

Helene Odfjell, Chairman   Susanne Munch Thore, Director

Alasdair Shiach, Director   Thomas Marsoner, Director

Appendix 1: Definitions of alternative performance measures

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

EBITDA margin
EBITDA/Operating revenue

EBIT margin
EBIT/Operating revenue

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

Equity ratio
Total equity/total equity and liabilities

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

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

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements

1st quarter of 2019

Unaudited

Condensed Consolidated Income Statement

USD thousands	Note	Q1 19	Q1 18	FY 18
Operating revenue	3,4	**201,383**	**174,805**	**698,476**
Other gains and losses		47	415	2,211
Personnel expenses		(74,058)	(83,642)	(303,669)
Other operating expenses	16	(54,590)	(35,189)	(137,871)
EBITDA		**72,782**	**56,390**	**259,147**
Depreciation, amortisation and impairment	6,7,8	(42,228)	(40,415)	(160,630)
Operating profit (EBIT)		**30,553**	**15,975**	**98,517**
Net financial items	15	(19,991)	(22,568)	(67,377)
Profit/(loss) before tax		**10,562**	**(6,593)**	**31,139**
Income taxes		(608)	(204)	(3,789)
Profit/(loss) for the period		**9,954**	**(6,797)**	**27,350**
Earnings per share (USD)				
Basic earnings per share	11	0.03	(0.03)	0.10
Diluted earnings per share	11	0.03	(0.03)	0.10

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q1 19	Q1 18	FY 18
Profit/(loss) for the period		**9,954**	**(6,797)**	**27,350**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Actuarial gain / (loss) on post employment benefit obligations		-	-	479
Items that are or may be reclassified to profit or loss:				
Cash flow hedges		(485)	245	186
Currency translation differences		1,517	8,531	(5,597)
Other comprehensive income for the period, net of tax		**1,032**	**8,775**	**(4,932)**
Total comprehensive income for the period		**10,986**	**1,978**	**22,419**

Condensed Consolidated Statement of Financial Position

USD thousands	Note	31.03.2019	31.03.2018	31.12.2018
Assets				
Deferred tax asset		1,312	3,739	1,271
Intangible assets	6	29,933	34,790	29,811
Property, plant and equipment	7,8	2,292,243	1,747,758	1,928,132
Financial non-current assets	5	475	1,008	769
Total non-current assets		**2,323,962**	**1,787,295**	**1,959,983**
Trade receivables		140,853	129,357	103,056
Contract assets		-	792	-
Other current assets	5	18,098	17,490	38,545
Cash and cash equivalents		190,833	193,984	174,761
Total current assets		**349,784**	**341,623**	**316,363**
Total assets		**2,673,746**	**2,128,918**	**2,276,345**
Equity and liabilities				
Total paid-in capital	14	564,959	328,841	564,959
Other equity		469,831	440,194	458,714
Total equity		**1,034,790**	**769,035**	**1,023,673**
Non-current interest-bearing borrowings	12	647,706	1,058,103	311,819
Non-current lease liabilities	8	37,312	-	-
Post-employment benefits		9,526	18,615	9,934
Non-current contract liabilities		690	5,262	369
Total non-current liabilites		**695,234**	**1,081,979**	**322,122**
Current interest-bearing borrowings	12	794,238	166,013	782,980
Current lease liabilities	8	8,132	-	-
Contract liabilities		22,266	22,805	27,584
Trade payables		51,704	29,580	42,047
Other current liabilities	5	67,383	59,506	77,940
Total current liabilities		**943,723**	**277,904**	**930,550**
Total liabilities		**1,638,957**	**1,359,882**	**1,252,672**
Total equity and liabilities		**2,673,746**	**2,128,918**	**2,276,345**

Condensed Consolidated Statement of Changes in Equity

				Equity attributable to:		
USD thousands	Total paid-in capital	Other equity	Total equity	Common shares	Preference shares	Total equity
Balance at 1 January 2018	328,841	438,216	767,057	767,057	-	767,057
	-	-				
Profit/(loss) for the period	-	(6,797)	(6,797)	(6,797)	-	(6,797)
Other comprehensive income for the period	-	8,775	8,775	8,775	-	8,775
Total comprehensive income for the period	-	1,978	1,978	1,978	-	1,978
Balance at 31 March 2018	**328,841**	**440,194**	**769,035**	**769,035**	**-**	**769,035**
Total comprehensive income for the period Q2-Q4	-	20,441	20,441	16,023	4,418	20,441
Transactions with owners for the period Q2-Q4	236,118	(1,921)	234,197	161,406	72,791	234,197
Balance at 31 December 2018	**564,959**	**458,714**	**1,023,673**	**946,464**	**77,209**	**1,023,673**
Profit/(loss) for the period	-	9,954	9,954	8,050	1,904	9,954
Other comprehensive income for the period	-	1,032	1,032	1,032		1,032
Total comprehensive income for the period	-	10,986	10,986	9,082	1,904	10,986
Cost of Share-option plan	-	130	130	130		130
Transactions with owners	-	130	130	130	-	130
Balance at 31 March 2019	**564,959**	**469,831**	**1,034,790**	**955,677**	**79,113**	**1,034,790**

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q1 19	Q1 18	FY 18
Cash flows from operating activities:				
Profit/(loss) before tax		10,562	(6,593)	31,139
Adjustment for provisions and other non-cash elements		64,015	61,187	212,003
Changes in working capital		(22,790)	3,011	44,384
Cash generated from operations		***51,786***	***57,604***	***287,526***
Interest paid		(15,321)	(14,234)	(65,805)
Net income tax (paid) / refunded		(534)	(305)	(1,191)
Net cash flow from operating activities		**35,931**	**43,065**	**220,530**
Cash flows from investing activities:				
Purchase of property, plant and equipment	6,7	(310,654)	(5,861)	(305,876)
Proceeds from sale of property, plant and equipment		77	473	2,590
Other long term receivables		47	-	56
Proceeds from financial investments incl. joint ventures		-	-	9,739
Net cash flow from investing activities		**(310,530)**	**(5,389)**	**(293,491)**
Cash flows from financing activities:				
Net (payments)/proceeds from borrowings financial institutions	12	313,734	-	-
Repayment of borrowings to financial institutions	12	(17,700)	(12,500)	(145,300)
Repayment of lease liabilities	8	(1,917)		
Net proceeds from capital increases		-	-	236,118
Dividends paid to preference share holders		-	-	(2,209)
Net cash flow from financing activities		**294,117**	**(12,500)**	**88,609**
Effects of exchange rate changes on cash and cash equivalents		(3,447)	2,838	(6,858)
Net increase (decrease) in cash and cash equivalents		**16,072**	**28,014**	**8,791**
Cash and cash equivalents at beginning of period		174,761	165,970	165,970
Cash and cash equivalents at period end		**190,833**	**193,984**	**174,761**

Note 1 | Accounting Principles

General information

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

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

These condensed interim financial statements were approved by the Board of Directors on 28 May 2019 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 2018.

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

The Group has two facilities maturing in 2019. The Odfjell Drilling Services facility matures in November 2019 and the Odfjell Invest facility matures in September 2019. At maturity, the outstanding amounts under Drilling Services facility will be USD 250 million and the Odfjell Invest facility USD 387.5 million.

The Group has on 28 May 2019 received firm bank commitments for a refinancing related to its 2019 debt maturities, as further described in *Note 17 Important events occurring after the reporting period.*

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

Accounting principles

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

As of 1.1.2019 the group implemented IFRS 16 *Leases* using a modified retrospective approach for adoption.
See further information in note 2 and note 8.

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 2018.

There will always be uncertainty related to judgement and assumptions related to accounting estimates. Reference is made to *Note 6 Intangible assets*, and *Note 7 Property, plant and equipment* 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

IFRS 16 *Leases*

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

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

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

The group expects that net profit after tax will decrease by approximately USD 1 million for fiscal year 2019 as a result of adopting the new rules. EBITDA is expected to increase by approximately USD 8 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately USD 8 million in fiscal year 2019 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

In applying IFRS 16 for the first time, the group will use the following practical expedients permitted by the standard:
- the use of a single discount rate to a portfolio of leases with similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs from the measurement of right–of-use assets as at 1.1.2019
- the use hindsight, such as in determining the lease term if the contract contains options to extend or terminate.

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

USD thousands

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

Note 2 | New accounting standards - cont.

The following tables show the impacts arising from IFRS16 on the opening balance and for the first three months of 2019.

	31.03.2019			Opening balance		
Consolidated statement of financial position	**IFRS 16**	**Impact**	**IAS 17**	**IFRS 16**	**Impact**	**IAS 17**
USD thousands	31.03.2019	IFRS 16	31.03.2019	01.01.2019	IFRS 16	31.12.2018
Assets						
Deferred tax asset	1,312	62	1,249	1,271	-	1,271
Property, plant and equipment	2,292,243	45,340	2,246,903	1,974,092	45,960	1,928,132
Other non-current assets	30,408	-	30,408	30,580	-	30,580
Total non-current assets	**2,323,962**	**45,402**	**2,278,560**	**2,005,943**	**45,960**	**1,959,983**
Trade receivables and contract assets	140,853	-	140,853	103,056	-	103,056
Other current assets	18,098	(192)	18,290	38,310	(235)	38,545
Cash and cash equivalents	190,833	-	190,833	174,761	-	174,761
Total current assets	**349,784**	**(192)**	**349,976**	**316,128**	**(235)**	**316,363**
Total assets	**2,673,746**	**45,210**	**2,628,536**	**2,322,070**	**45,725**	**2,276,345**
Equity and liabilities						
Total paid-in capital	564,959	-	564,959	564,959	-	564,959
Other equity	469,831	(234)	470,064	458,714	-	458,714
Total equity	**1,034,790**	**(234)**	**1,035,024**	**1,023,673**	**-**	**1,023,673**
Non-current interest-bearing borrowings	647,706	-	647,706	311,819	-	311,819
Non-current lease liabilities	37,312	37,312	-	37,814	37,814	-
Other non-current liabilities	10,216	-	10,216	10,303	-	10,303
Total non-current liabilites	**695,234**	**37,312**	**657,922**	**359,936**	**37,814**	**322,122**
Current interest-bearing borrowings	794,238	-	794,238	782,980	-	782,980
Current lease liabilities	8,132	8,132	-	7,911	7,911	-
Other current liabilities	141,352	-	141,352	147,571	-	147,571
Total current liabilities	**943,723**	**8,132**	**935,591**	**938,461**	**7,911**	**930,550**
Total liabilities	**1,638,957**	**45,444**	**1,593,513**	**1,298,397**	**45,725**	**1,252,672**
Total equity and liabilities	**2,673,746**	**45,210**	**2,628,536**	**2,322,070**	**45,725**	**2,276,345**
Equity ratio	39%		39%	44%		45%

Note 2 | New accounting standards - cont.

Consolidated Income Statement	**IFRS 16**	**Impact IFRS 16**	**IAS 17**	**IAS 17**
USD thousands	Q1 19	Q1 19	Q1 19	Q1 18
Operating revenue	**201,383**	**-**	**201,383**	**174,805**
Other gains and losses	47	-	47	415
Personnel expenses	(74,058)	-	(74,058)	(83,642)
Other operating expenses	(54,590)	2,003	(56,592)	(35,189)
EBITDA	**72,782**	**2,003**	**70,779**	**56,390**
Depreciation, amortisation and impairment	(42,228)	(1,648)	(40,580)	(40,415)
Operating profit (EBIT)	**30,553**	**354**	**30,199**	**15,975**
Net financial items	(19,991)	(652)	(19,339)	(22,568)
Profit/(loss) before tax	**10,562**	**(298)**	**10,860**	**(6,593)**
Income taxes	(608)	63	(671)	(204)
Profit/(loss) for the period	**9,954**	**(235)**	**10,189**	**(6,797)**

Consolidated Statement of Cash Flows	**IFRS 16**	**Impact IFRS 16**	**IAS 17**	**IAS 17**
USD thousands	Q1 19	Q1 19	Q1 19	Q1 18
Cash flows from operating activities:				
Profit/(loss) before tax	10,562	(298)	10,860	(6,593)
Adjustment for provisions and other non-cash elements	64,015	2,300	61,714	61,187
Changes in working capital	(22,790)	(44)	(22,746)	3,011
Cash generated from operations	***51,786***	***1,958***	***49,828***	***57,604***
Interest paid	(15,321)	(42)	(15,279)	(14,234)
Net income tax (paid) / refunded	(534)	-	(534)	(305)
Net cash flow from operating activities	**35,931**	**1,917**	**34,015**	**43,065**
Net cash flow from investing activities	**(310,530)**	**-**	**(310,530)**	**(5,389)**
Net (payments)/proceeds from borrowings financial institutions	313,734	-	313,734	-
Repayment of borrowings to financial institutions	(17,700)	-	(17,700)	(12,500)
Repayment of lease liabilities	(1,917)	(1,917)	-	-
Net cash flow from financing activities	**294,117**	**(1,917)**	**296,034**	**(12,500)**

Note 3 | Segment summary

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

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

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

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

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

	Mobile Offshore Drilling Units		**Drilling & Technology**		**Well Services**		**Corporate / Eliminations [(*)]**		**Consolidated**	
USD thousands	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18
External segment revenue	151,930	119,186	30,350	32,208	18,944	19,317	158	4,093	201,383	174,805
Inter segment revenue	-	-	4,127	1,827	5,768	8,663	(9,894)	(10,491)	-	-
Total revenue	**151,930**	**119,186**	**34,477**	**34,036**	**24,712**	**27,981**	**(9,736)**	**(6,398)**	**201,383**	**174,805**
EBITDA - segments (NGAAP)	**67,252**	**52,736**	**2,075**	**785**	**4,614**	**6,312**	**(3,289)**	**(3,672)**	**70,652**	**56,161**
Depreciation and impairment	(33,835)	(33,224)	(19)	(16)	(5,875)	(6,233)	(851)	(941)	(40,580)	(40,415)
EBIT - segments (NGAAP)	**33,417**	**19,513**	**2,055**	**769**	**(1,261)**	**79**	**(4,139)**	**(4,614)**	**30,072**	**15,747**
Reconciliation:	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18
Accounting differences affecting EBITDA	141	98	30	25	345	7	1,615	99	2,130	228
EBITDA - IFRS	**67,393**	**52,834**	**2,105**	**810**	**4,958**	**6,319**	**(1,674)**	**(3,574)**	**72,782**	**56,390**
Accounting differences affecting Depreciation and impairment	(78)	-		-	(293)	-	(1,278)		(1,648)	-
EBIT - Consolidated	**33,480**	**19,611**	**2,085**	**794**	**(1,210)**	**86**	**(3,802)**	**(4,515)**	**30,553**	**15,975**
Net financial items									(19,991)	(22,568)
Profit / (loss) before tax - Consolidated Group									**10,562**	**(6,593)**

[(*)] EBIT and EBITDA in column Corporate / Eliminations represent the Group's corporate overhead cost.

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

Note 3 | Segment summary - cont.

USD thousands	Mobile Offshore Drilling Units FY 18	Drilling & Technology FY 18	Well Services FY 18	Corporate / Eliminations [*] FY 18	Consolidated FY 18
External segment revenue	476,450	130,457	77,449	14,121	698,476
Inter segment revenue	-	14,082	29,327	(43,410)	-
Total revenue	**476,450**	**144,539**	**106,776**	**(29,289)**	**698,476**
EBITDA - segments (NGAAP)	**226,188**	**13,544**	**25,995**	**(7,383)**	**258,344**
Depreciation and impairment	(132,675)	(71)	(24,151)	(3,734)	(160,630)
EBIT - segments (NGAAP)	**93,513**	**13,473**	**1,845**	**(11,116)**	**97,714**
Reconciliation:	FY 18	FY 18	FY 18	FY 18	FY 18
IFRS adjustments affecting EBITDA	394	98	23	287	802
EBITDA - Consolidated Group	**226,581**	**13,642**	**26,019**	**(7,095)**	**259,147**
IFRS adjustments affecting Depreciation and impairment	-	-	-	-	-
EBIT - Consolidated Group	**93,906**	**13,571**	**1,868**	**(10,829)**	**98,517**
Net financial items					(67,377)
Profit / (loss) before tax - Consolidated Group					**31,139**

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

The accounting differences in 2018 are related to *IAS 19 Employee Benefits.*

Note 4 | Revenue

USD thousands	Q1 19	Q1 18	FY 18
Revenue from contracts with customers	195,725	167,879	672,246
Other operating revenue	5,657	6,926	26,230
Operating revenue	**201,383**	**174,805**	**698,476**

Disaggregation of revenue

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Elimination		Consolidated	
USD thousands	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18	Q1 19	Q1 18
Primary geographical markets										
Norway	45,004	78,015	22,051	20,457	9,512	15,984	(8,914)	(5,341)	67,653	109,115
UK	38,788	38,620	12,427	13,579	2,242	1,718	(829)	(1,136)	52,628	52,781
Europe - other countries	-	-	-	-	5,275	5,070	-	-	5,275	5,070
Asia	309	2,551	-	-	7,355	5,208	6	79	7,671	7,839
Africa	67,829	-	-	-	277	-	-	-	68,106	-
Other geographical markets	-	-	-	-	51	-	-	-	51	-
Total operating revenue	**151,930**	**119,186**	**34,477**	**34,036**	**24,712**	**27,981**	**(9,736)**	**(6,398)**	**201,383**	**174,805**

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

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 January 2024 - see repayment schedule and additional information in note 10. The Group has two facilities maturing in 2019: the Odfjell Drilling Services facility matures in November 2019 and the Odfjell Invest facility matures in September 2019. At maturity, the outstanding amounts under the Drilling Services facility will be USD 250 million and the Odfjell Invest facility USD 387.5 million. The Group has on 28 May 2019 received firm bank commitments for a refinancing related to its 2019 debt maturities, as further described in note 17.
The Deepsea Bergen facility matures 30 September 2020, subject to termination options for the lenders if the borrower is unable to document the necessary backlog for Deepsea Bergen. Should the Deepsea Bergen facility be repaid or prepaid with cash other than excess cash from the operation of the unit, then any Odfjell Invest lender may require the same amount prepaid under the Odfjell Invest facility.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; consequently they should be read in conjunction with the Group's annual audited financial statements as at 31 December 2018. There are no material changes compared to the descriptions in the year-end financial statements.

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

Liquidity risk

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

Credit risk

Compared to year end, there was no material change in credit risk for the Group.

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.

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

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

USD thousands	Level	31.03.2019	31.03.2018	31.12.2018
Financial assets at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps - Other non-current assets	2	352	779	599
- Interest rate swaps - Other current assets	2	-	75	-
Derivatives designated as hedging instruments				
- Foreign exchange forward contracts - Other current assets	2	242	58	-
Debt instruments at amortised cost				
- Other non-current receivables	3	123	230	170
- Trade and other current receivables	3	149,854	146,714	106,717
Total financial assets		**150,571**	**147,855**	**107,486**

USD thousands	Level	31.03.2019	31.03.2018	31.12.2018
Financial liabilities at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps - Other current liabilities	2	260	-	-
Derivatives designated as hedging instruments				
- Foreign exchange forward contracts - Other current liabilities	2	485	-	-
Financial liabilities at amortised cost				
- Non-current lease liabilities	3	37,312	-	-
- Current lease liabilities	3	8,132	-	-
- Trade and other payables	3	95,792	88,371	119,809
- Non-current interest-bearing borrowings	3	647,706	1,058,103	311,819
- Current interest-bearing borrowings	3	794,238	166,013	782,980
Total financial liabilities		**1,583,926**	**1,312,487**	**1,214,607**

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:

	31.03.2019	31.03.2018	31.12.2018
Non-current	647,706	1,058,103	311,819
Current	794,238	166,013	782,980
Total	**1,441,945**	**1,224,116**	**1,094,798**

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
- Non-current lease liabilities
- Current lease liabilities

Note 6 | Intangible assets

USD thousands	Goodwill	Software and other intangible assets	Total intangible assets
Opening net book amount as at 1 January 2019	18,638	11,173	29,811
Additions	-	672	672
Amortisation	-	(760)	(760)
Currency translation differences	134	76	210
Closing net book amount as at 31 March 2019	**18,772**	**11,161**	**29,933**
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**

Impairment tests for goodwill

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

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

These assumptions have been used for the analysis of each CGU within the operating segment. Impairment tests performed for goodwill within respective CGU's do not indicate any impairment requirement as at 31 March 2019.

The key assumptions used for value-in-use calculations as per Q1 2019 are as follows:

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services
EBITDA margin in prognosis period	15 %	5% - 6%	27% - 35%
Growth rate year 6 and forward	0.0%	0.0%	0.0%
Weighted Average Cost of Capital, pre-tax	8.4 %	8.5%	9.1%

Sensitivity analysis for goodwill impairment test

The Group has performed sensitivity analysis for the goodwill impairment test by reducing operating income by one, five and ten percent and EBITDA margin by one, five and ten percentage points respectively for each of the segments. Reducing EBITDA margin by five percentage points indicated an impairment write-down of USD 9 million in the Drilling & Technology segment, while reducing EBITDA margin by ten percentage points indicated an impairment write-down of USD 11 million in the Drilling & Technology segment and USD 1 million in the Mobile Offshore Drilling Units segment. None of the other scenarios indicated any impairment write-down of goodwill as at 31 March 2019.

Note 7 | Property, plant and equipment

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Other fixed assets	Right-of-use assets	Total fixed assets
Opening net book amount as at 1 January 2019	1,539,951	68,271	246,788	71,238	1,883	-	1,928,132
Effect change in accounting policies	-	-	-	-	-	45,960	45,960
Additions	8,743	22,876	324,705	2,167	175	694	359,361
Disposals	-	-	-	(77)	(12)	-	(89)
Depreciation	(22,634)	(11,196)	-	(5,780)	(211)	(1,648)	(41,469)
Currency translation differences	-	-	-	3	11	334	348
Net book amount as at 31 March 2019	**1,526,059**	**79,952**	**571,494**	**67,552**	**1,846**	**45,340**	**2,292,243**
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
Net book amount as at 31 March 2018	**1,590,091**	**78,473**	**-**	**78,095**	**1,099**	**-**	**1,747,758**
Useful lifetime	5 - 37.5 yrs	5 years	-	3 - 10 years	3 - 5 years		
Depreciation schedule	Straight line	Straight line	-	Straight line	Straight line		

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

Refer to note 8 *Leases* for more information about Right-of-use assets.

Note 7 | Property, plant and equipment - cont.

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 2019, no impairment has been identified for any of the rigs.

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	471	366	1,116	242
Firm contract day rates (weighted average)	294	295	430	173
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	36,000	40,000	-	-
- WACC increased by	2 pp	68,000	75,000	58,000	1,000
- Day rate level(*) decreased by	5%	50,000	54,000	-	-
- Day rate level(*) decreased by	10%	100,000	108,000	23,000	2,000
- Normalised opex level increased by	5%	25,000	26,000	-	-
- Normalised opex level increased by	10%	49,000	51,000	-	2,000
- Financial utilisation in normalised period decreased by	1 pp	10,000	11,000	-	-
- Financial utilisation in normalised period decreased by	2 pp	20,000	22,000	-	-
- Financial utilisation in normalised period decreased by	3 pp	31,000	33,000	-	-

(*) excluding firm contractual day rates

Note 8 | Leases

The Group leases various properties in addition to some equipment. Rental contracts are typically made for fixed periods of 2 to 12 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and contiditons. The lease agreements do not impose any covenants, but the leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period so a to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

The balance sheet shows the following amounts related to leases:

USD thousands	Properties	Other fixed assets	Total Right-of-use assets
Net book amount as at 1 January 2019	45,158	802	45,960
Additions	693	1	694
Depreciation	(1,546)	(102)	(1,648)
Currency translation differences	338	(4)	334
Net book amount as at 31 March 2019	**44,643**	**697**	**45,340**

The Right-of-use assets are included in the line item "Property, plant and equipment" in the balance sheet, refer to note 7.

Lease liabilities

USD thousands	31.03.2019	01.01.2019
Non-current	37,312	37,814
Current	8,132	7,911
Total	**45,444**	**45,725**

Movements in non-current lease liabilities are analysed as follows:	31.03.2019
Carrying amount as at 1 January	37,814
Cash flows:	
Payments for the interest portion of the lease liability	(42)
Non-cash flows:	
New lease liabilities recognised in the year	694
Interest expense on lease liabilities	652
Reclassified to current portion of lease liabilities	(2,089)
Currency exchange differences	282
Carrying amount as at end of period	**37,312**

Movements in current lease liabilities are analysed as follows:	31.03.2019
Carrying amount as at 1 January	7,911
Cash flows:	
Payments for the principal portion of the lease liability	(1,917)
Non-cash flows:	
Reclassified from non-current portion of lease liabilities	2,089
Currency exchange differences	49
Carrying amount as at end of period	**8,132**

Note 9 | Commitments

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

USD thousands	31.03.2019	31.03.2018	31.12.2018
Newbuild in progress	26,600	-	317,936
Rig investments	13,659	5,041	22,727
Rental and casing equipment, due in 1 year	7,966	3,926	1,927
Total	**48,225**	**8,968**	**342,590**

Newbuild in progress is related to Deepsea Nordkapp.
Rig investments as per 31 March 2019 are mainly for Deepsea Atlantic.

Note 10 | 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 2019.

Note 11 | Earnings per share

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

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

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

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

Neither the warrants nor the options affect the basic or dilluted number of shares in 2018 or 2019, as the terms of execution have not occured during the years and the share price is below level set in the warrant agreement.

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

USD thousands	Q1 19	Q1 18	FY 18
Profit/(loss) for the period	9,954	(6,797)	27,350
Adjustment for dividends on preference shares	(1,904)	-	(4,418)
Profit/(loss) for the period due to holders of common shares	**8,050**	**(6,797)**	**22,932**
Adjustment related to warrants and share option plan	-	-	-
Diluted profit/(loss) for the periode due to the holders of common shares	**8,050**	**(6,797)**	**22,932**

	Q1 19	Q1 18	FY 18
Weighted average number of common shares in issue	236,783,202	198,736,900	222,599,942
Effects of dilutive potential common shares:			
Warrants	-	-	-
Share option plan	-	-	-
Diluted average number of shares outstanding	236,783,202	198,736,900	222,599,942

	Q1 19	Q1 18	FY 17
Basic earnings per share	0.03	(0.03)	0.10
Diluted earnings per share	0.03	(0.03)	0.10

Note 12 | Interest-bearing borrowings

USD thousands	31.03.2019	31.03.2018	31.12.2018
Non-current	647,706	1,058,103	311,819
Current	794,238	166,013	782,980
Total	**1,441,945**	**1,224,116**	**1,094,798**

Movements in non-current borrowings are analysed as follows:	31.03.2019	31.03.2018	31.12.2018
Carrying amount as at 1 January	311,819	1,076,103	1,076,103
Cash flows:			
New bank loan	325,000	-	-
Paid transaction costs related to amendments and new loan	(11,266)	-	-
Non-cash flows:			
Reclassified to current portion of non current borrowings	(22,305)	(19,500)	(767,565)
Seller's credit raised	43,250	-	-
Change in transaction cost, unamortised	1,209	1,499	3,280
Carrying amount as at end of period	**647,706**	**1,058,103**	**311,819**

Movements in current borrowings are analysed as follows:	31.03.2019	31.03.2018	31.12.2018
Carrying amount as at 1 January	782,980	157,472	157,472
Cash flows:			
Repayment bank loan	(17,700)	(12,500)	(145,300)
Non-cash flows:			
Reclassified to current portion of non current borrowings	22,305	19,500	767,565
Change in transaction cost, unamortised	832	-	2,717
Change in accrued interest cost	5,822	1,541	525
Carrying amount as at end of period	**794,238**	**166,013**	**782,980**

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	31.03.2019	31.03.2018	31.12.2018
Maturity within 3 months	65,500	57,500	19,500
Maturity between 3 and 6 months	407,000	16,000	65,500
Maturity between 6 and 9 months	291,553	62,000	407,000
Maturity between 9 months and 1 year	15,553	19,500	283,000
Maturity between 1 and 2 years	111,211	762,500	82,200
Maturity between 2 and 3 years	271,211	72,500	237,000
Maturity between 3 and 4 years	34,211	237,000	-
Maturity between 4 and 5 years	248,513	-	-
Maturity beyond 5 years	-	-	-
Total contractual amounts	**1,444,750**	**1,227,000**	**1,094,200**

Refer to *Note 5 Financial risk management* and *Note 17 Important events occurring after the reporting period* for further information regarding liquidity risk.

Note 12 | Interest-bearing borrowings - cont

Debt financing of Deepsea Nordkapp

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

The group has no available undrawn facilities as per 31 March 2019.

Covenants

The Group is compliant with all financial covenants as at 31 March 2019.

Note 13 | Contingencies

In 2018 the company issued warrants for 5,925,000 common shares. Refer to annual report for the year ended 31 December 2018, note 21, for further description. There have been no changes in 2019.

There are no other material contingencies to be disclosed as per 31 March 2019.

Note 14 | Equity & shareholder information

Listed shares	No.of shares	Nominal value	Share capital USD thousands
Common shares issued as at 31 March 2019	236,783,202	USD 0.01	2,368

Preference shares			
Total issued preference shares as at 31 March 2019	16,123,125	USD 0.01	161

There are no changes in issued shares, preference shares or warrants in Q1 2019.

Largest common shareholders at 31 March 2019	Holding	% of shares
Odfjell Partners Ltd.	142,000,000	59.97%
Deutsche Bank AG	7,680,000	3.24%
J.P.Morgan Chase Bank N.A. London	5,110,046	2.16%
Goldman Sachs & Co. LLC	3,179,529	1.34%
The Bank of New York Mellon SA/NV	2,997,755	1.27%
J.P.Morgan Bank Luxembourg S.A.	2,575,168	1.09%
J.P.Morgan Chase Bank N.A. London	2,376,123	1.00%
Goldman Sachs International	2,189,997	0.92%
Fidelity Select Portfolios: Energy	2,107,082	0.89%
State Street Bank and Trust Co.	1,926,304	0.81%
Verdipapirfondet DNB Norge Selektiv	1,924,249	0.81%
Citybank, N.A.	1,900,000	0.80%
Fondsfinans Norge	1,800,000	0.76%
J.P.Morgan Securities LLC	1,787,634	0.75%
Citybank, N.A.	1,635,825	0.69%
The Bank of New York Mellon SA/NV	1,575,816	0.67%
Schroder International Selection	1,574,958	0.67%
J.P.Morgan Bank Luxembourg S.A.	1,489,069	0.63%
State Street Bank and Trust Co.	1,341,037	0.57%
BNP Paribas Securities Services	1,258,359	0.53%
Total 20 largest common shareholders	**188,428,951**	**79.58%**
Other common shareholders	48,354,251	20.42%
Total common shareholders	**236,783,202**	**100.00%**

Note 15 | Net financial items

USD thousands	Note	Q1 19	Q1 18	FY 18
Interest income		932	439	2,060
Interest expense lease liabilities	8	(652)	-	-
Other interest expenses		(21,749)	(16,214)	(68,368)
Other borrowing expenses		(2,041)	(1,499)	(5,997)
Capitalised borrowing costs		5,293	-	-
Gain/(loss) on interest rate swaps		(265)	435	180
Gain other financial investments		-	-	9,739
Net currency gain/(loss)		(977)	(5,127)	(3,017)
Other financial items		(532)	(602)	(1,973)
Net financial items		**(19,991)**	**(22,568)**	**(67,377)**

Note 16 | Related-party transactions

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

Susanne Munch Thore (Director) controls 3,000 (0.00%) of the common shares in the company as per 31 March 2019.

Simen Lieungh (CEO, Odfjell Drilling AS) controls 952,381 (0.40%) of the common shares in the company as per 31 March 2019.

There are no changes in the long term share option programme with Simen Lieungh (CEO, Odfjell Drilling AS) in Q1 2019.

The Group have lease agreements with the related party Kokstad Holding AS Group (related to main shareholder). Following the implementation of IFRS 16 *Leases,* refer to note 2 and 8, reported lease liability to Kokstad Holding AS Group as at 31 March 2019 is USD 36 million, while payments for the principal portion of the lease liability in Q1 2019 amounts to USD 1.3 million.

There are no material changes in related party transactions in Q1 2019.

Note 17 - Important events occurring after the reporting period

Refinancing

The Group has on 28 May 2019 received firm bank commitments for a refinancing related to its 2019 debt maturities, as further described below.

Deepsea Atlantic and Deepsea Stavanger USD 425 million senior bank facility and USD 100 million junior bank facility

The existing facility covering Deepsea Atlantic and Deepsea Stavanger, currently with USD 400 million outstanding, will be replaced by a new senior facility of USD 425 million. In addition, a junior facility of USD 100 million will be entered into.
The senior facility will be repaid by quarterly instalments of USD 12.5 million, first time six months after drawdown. The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from 3Q 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million, however so that any such repayment shall be limited to 50% of the previous year's net result and adjusted for any identified liquidity requirements. Dividends and other distributions on the common shares of Odfjell Drilling are subject to lender's prior written consent for as long as the junior facility is outstanding.
Interest is payable at LIBOR plus an overall margin depending on the level of net debt to EBITDA for the Odfjell Drilling group, resulting in an estimated combined average margin of around 400 bps over LIBOR during the tenor of the facilities.
The financial covenants applicable for the facilities will be materially the same as those already in place for the Odfjell Drilling group in other loan agreements.
The senior facility is available in one drawing after signing of the facility documentation and the junior facility is available in three drawings until 31 March 2020. The tenor of both facilities is 5 years.

Drilling Services USD 250 million bank facility

The Drilling Services facility, currently with USD 250 million outstanding, will be amended and extended to November 2021. The facility will be divided in two tranches; Tranche A of USD 150 million which is non-amortising, and Tranche B of USD 100 million with semi-annual instalments of USD 20 million, first time in November. Interest is payable at LIBOR plus an average margin of 470 bps.
The financial covenants applicable for the facility will be the same as those already in place at Odfjell Drilling Ltd group level in other loan agreements. The debt service coverage ratio measured on Odfjell Drilling Services group level will be replaced by an interest coverage ratio that will gradually increase from 1.5x to 2.0x measured based on consolidated EBITDA to net finance charges for the Odfjell Drilling Services group.

There have been no other events after the balance sheet date with material effect on the quarterly financial statements ended 31 March 2019.