



ODFJELL DRILLING

Odfjell Drilling Ltd.

Report for the 2nd quarter and 1st half of 2018

Key figures for the Group

All figures in USD million

Key figures Odfjell Drilling Ltd. Group	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Operating revenue.....	175	165	350	313	662
EBITDA.....	66	72	122	126	274
EBIT.....	26	31	42	45	112
Net profit (loss).....	7	11	0	3	35
EBITDA margin.....	38%	44%	35%	40%	41%
Total assets.....			2,310	2,182	2,138
Net interest bearing debt.....			986	1,171	1,068
Equity.....			1,005	731	767
Equity ratio.....			44%	33%	36%

Highlights Q2 2018

Odfjell Drilling Ltd. Group

- Operating revenue of USD 175 million compared to USD 165 million in Q2 2017.
- EBITDA of USD 66 million compared to USD 72 million in Q2 2017.
- EBITDA margin of 38% compared to an EBITDA margin of 44% in Q2 2017.
- The Group's contract backlog is USD 2.7 billion, whereof USD 1.6 billion is firm backlog. The comparable figure at the end of Q2 2017 was USD 2.7 billion, whereof USD 1.4 billion was firm backlog.

Mobile Offshore Drilling Units segment

- Operating revenue of USD 119 million compared to USD 124 million in Q2 2017.
- EBITDA of USD 55 million compared to USD 67 million in Q2 2017.
- EBITDA margin of 46% compared to 54% in Q2 2017.

Drilling & Technology segment

- Operating revenue of USD 34 million compared to USD 23 million in Q2 2017.
- EBITDA of USD 1 million similar to Q2 2017.
- EBITDA margin of 2% compared to an EBITDA margin of 4% in Q2 2017.

Well Services segment

- Operating revenue of USD 27 million compared to USD 23 million in Q2 2017.
- EBITDA of USD 7 million compared to USD 8 million in Q2 2017.
- EBITDA margin of 26% compared to 34% in Q2 2017.

New equity transactions

On 19 April 2018, Odfjell Drilling Ltd. successfully completed a private placement of NOK 1.368 billion, equivalent to approximately USD 175 million, through a share issue of 38,000,000 new common shares at a subscription price of NOK 36.00 per share.

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

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

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

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

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. The firm contract is for 4 years with 3 x 2 years optional periods.

Award of drilling contract for Deepsea Atlantic and Master Frame Agreement with Equinor

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

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

OMV exercised option on Deepsea Bergen

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

Bank financing of Deepsea Nordkapp

Odfjell Drilling accepted on 28 August 2018 a firm offer for a USD 325 million senior secured term loan facility for Deepsea Nordkapp. The facility includes a tranche of USD 162.5 million guaranteed by K-SURE and a 5-year commercial bank tranche of USD 162.5 million.

The loan facility is available at delivery of Deepsea Nordkapp, expected in Q1 2019.

The facility shall be repaid by quarterly instalments of USD 8.55 million, first time in Q4 2019. At the current swap rate the total average interest is approx. 5.4% p.a.

The offer is subject to final documentation, and signing of the finance documents are expected by end of September 2018.

Following this, Deepsea Nordkapp is fully funded, including ready-to-drill project costs and working capital requirements, with bank debt, equity and yard seller's credit.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q2 2018

Operating revenue for Q2 2018 was USD 175 million (USD 165 million), an increase of USD 10 million, due to increased activity Drilling & Technology as well as Well Services segment, offset by decreased revenue in the MODU segment from Q2 2017 to Q2 2018.

EBITDA in Q2 2018 was USD 66 million (USD 72 million), a decrease of USD 6 million. EBITDA was positively impacted by a pension adjustment of USD 6 million.

The EBITDA margin in Q2 2018 was 38% (44%). 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 Q2 2018 was USD 26 million (USD 31 million), a decrease of USD 5 million.

Net financial expenses in Q2 2018 amounted to USD 18 million (USD 19 million). The decrease of USD 1 million was mainly related to the change in net currency gains and losses.

In Q2 2018 the tax expense was USD 1 million (USD 1 million).

Net profit in Q2 2018 was USD 7 million (11 million).

Profit & loss YTD 2018

Operating revenue for YTD 2018 was USD 350 million (USD 313 million), an increase of USD 37 million, due to increased activity in all segments, mainly in Drilling & Technology, from YTD 2017 to YTD 2018.

EBITDA in YTD 2018 was USD 122 million (USD 126 million), a decrease of USD 4 million.

The EBITDA margin in YTD 2018 was 35% (40%). The decrease in margin is mainly due to Deepsea Bergen entering into new contracts at a lower day rate as from mid 2017.

EBIT in YTD 2018 was USD 42 million (USD 45 million), a decrease of USD 3 million.

Net financial expenses in YTD 2018 amounted to USD 40 million (USD 38 million). The decrease of USD 2 million was mainly related to the change in net currency losses.

In YTD 2018 the tax expense was USD 1 million (USD 3 million).

Net profit in YTD 2018 was USD 0.2 million (USD 3 million).

Balance sheet

Total assets as at 30 June 2018 amounted to USD 2,310 million compared to USD 2,138 million as at 31 December 2017, an increase of USD 172 million, mainly due to the newbuild in progress (Deepsea Nordkapp).

Equity as at 30 June 2018 amounted to USD 1,005 million, compared to USD 767 million as at 31 December 2017, an increase of USD 238 million, mainly due to paid in capital.

The equity ratio was 44% as at 30 June 2018, compared to 36% as at 31 December 2017, an increase of USD 7%.

Net interest bearing debt as at 30 June 2018 amounted to USD 986 million, compared to USD 1,068 million as at 31 December 2017, a decrease of USD 82 million.

Cash flow

Net cash flow from operating activities in Q2 2018 was positive with USD 49 million. The Group paid USD 18 million in interest.

Net cash outflow from investing activities in Q2 2018 was USD 235 million related to net capital expenditures, mainly due to the investment in the newbuild in progress.

USD 58 million was used for instalments on existing credit facilities in Q2 2018.

Net proceeds from capital increases were USD 236 million.

Net cash flow from operating activities in YTD 2018 was positive with USD 92 million. The Group paid USD 32 million in interest.

Net cash outflow from investing activities in YTD 2018 was USD 240 million related to net capital expenditures, mainly due to investment in the newbuild in progress.

USD 70 million was used for instalments on existing credit facilities in YTD 2018.

Net proceeds from capital increases were USD 236 million.

At 30 June 2018 cash and cash equivalents amounted to USD 181 million. There has been a total positive net change in cash and cash equivalents of USD 15 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	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Operating revenue.....	119	124	239	235	481
EBITDA.....	55	67	107	121	244
EBIT.....	22	34	41	55	111
EBITDA margin.....	46%	54%	45%	51%	51%

Operating revenue for the MODU segment in Q2 2018 was USD 119 million (USD 124 million), a decrease of USD 5 million, or 4%. The change is mainly explained by lower revenue for Deepsea Bergen and Deepsea Stavanger due to lower day rates compared to Q2 2017. The decrease is partly offset by higher utilization and an increase in revenue for Deepsea Aberdeen.

EBITDA for the MODU segment in Q2 2018 was USD 55 million (USD 67 million), a decrease of USD 12 million, or 18%. The decrease in EBITDA is due to the same reasons as mentioned above.

EBIT for the MODU segment in Q2 2018 was USD 22 million (USD 34 million), a decrease of USD 12 million.

Operating revenue for the MODU segment YTD 2018 was USD 239 million (USD 235 million), an increase of USD 4 million, or 1%. This change is explained by the increase in utilization for the fleet in 2018, as Deepsea Stavanger commenced the Maria contract for Wintershall Norway on 20 March 2017. The increase in revenue and utilization was partly offset by lower revenues for Deepsea Bergen due to a lower day rate than the corresponding period in 2017.

EBITDA for the MODU segment YTD 2018 was USD 107 million (USD 121 million), a decrease of USD 14 million, or 11%. The decrease in EBITDA relates mainly to the change in day rate and utilization as explained above. The decrease in EBITDA for Deepsea Bergen was partly offset by an increase in utilization and EBITDA for Deepsea Stavanger. 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 YTD 2018 was USD 41 million (USD 55 million), a decrease of USD 14 million. The decrease in EBIT relates to the changes as explained above.

MODU - Financial utilisation

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

Financial Utilisation - MODU	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Deepsea Stavanger.....	98.6 %	97.6 %	98.6 %	97.5 %	98.4 %
Deepsea Atlantic.....	99.6 %	99.5 %	99.2 %	97.9 %	97.6 %
Deepsea Bergen.....	99.0 %	99.3 %	99.4 %	98.9 %	97.6 %
Deepsea Aberdeen.....	99.1 %	98.0 %	98.0 %	96.6 %	95.5 %

- Deepsea Stavanger has been operating for Aker BP on the NCS in Q2 2018.
- Deepsea Atlantic has been operating for Equinor on the NCS in Q2 2018.
- Deepsea Bergen has been operating for OMV and Equinor on the NCS in Q2 2018.
- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q2 2018.

Drilling & Technology (D&T)

All figures in USD million

Key figures Drilling & Technology segment	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Operating revenue.....	34	23	68	44	105
EBITDA.....	1	1	1	1	15
EBIT.....	1	1	1	1	14
EBITDA margin.....	2%	4%	2%	2%	14%

Operating revenue for the D&T segment in Q2 2018 was USD 34 million (USD 23 million), an increase of USD 11 million, or 45 %. The increase in revenue was primarily attributable to the commencement of new platform drilling contracts, an increased number of strings in operation and increased activity in the Technology segment compared to Q2 2017.

EBITDA and EBIT for the D&T segment in Q2 2018 was USD 1 million (USD 1 million).

Operating revenue for the D&T segment YTD 2018 was USD 68 million (USD 44 million), an increase of USD 24 million, or 54 %. The increase in revenue was primarily attributable to an increase of the number of strings in operation and increased activity for the engineering services for the year in total.

EBITDA and EBIT for the D&T segment YTD 2018 was USD 1 million (USD 1 million).

Well Services (OWS)

All figures in USD million

Key figures Well Services segment	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Operating revenue.....	27	23	55	43	97
EBITDA.....	7	8	13	13	32
EBIT.....	1	1	1	(2)	4
EBITDA margin.....	26%	34%	24%	30%	33%

Operating revenue for the OWS segment in Q2 2018 was USD 27 million (USD 23 million), an increase of USD 4 million, or 16%. The increase in revenue for the OWS segment in Q2 2018 is explained by higher

activity levels in the Norwegian and continental Europe markets partially offset by lower activity in the Middle East/Africa/Asia (MEAA) markets.

EBITDA for the OWS segment in Q2 2018 was USD 7 million (USD 8 million), a decrease of USD 1 million. EBITDA margin for the OWS segment in Q2 2018 was 26% compared to 34% for Q2 2017. The decrease in EBITDA is mainly attributable to the reduced activity in MEAA markets and higher costs related to the mobilisation of new contracts and increased 3rd party equipment rentals.

EBIT for the OWS segment in Q2 2018 was USD 1 million (USD 1 million).

Operating revenue for the OWS segment YTD 2018 was USD 55 million (USD 43 million), an increase of USD 12 million, or 26 %. The increase YTD 2018 revenue is mainly explained by higher activity in the Norwegian and continental Europe markets with an offset for lower activity in the Middle East/Africa/Asia (MEAA) markets.

EBITDA for the OWS segment YTD 2018 was USD 13 million (USD 13 million). EBITDA margin for the OWS segment YTD 2018 was 24% compared to 30% in 2017. The decrease in EBITDA margin is mainly attributable to the reduced activity in MEAA markets and higher costs related to the mobilisation of new contracts and increased 3rd party equipment rentals.

EBIT for the OWS segment YTD 2018 was USD 1 million (negative USD 2 million), an increase of USD 3 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 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 a further increased appetite for exploration and production activities by the oil companies. The global drilling and oil service market is 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. 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 commenced its contract with Aker BP on 22 February 2018 and will be in operation until the mobilization to South Africa for the drilling contract with Total, expected to be at the beginning of Q4 2018. 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 Q2 2019. Deepsea Atlantic received a new drilling contract from Equinor estimated to last for 18 months. The contract will commence in 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. Furthermore, Equinor has also awarded a Master Frame Agreement applicable for all units in the fleet, which will be the foundation for any future rig requirements which may be agreed between the parties. 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 for Equinor until late 2018 and has also secured a new "HPHT" well for OMV starting in Q2 2019 expected to last for 140 days. 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.

The Norwegian labour conflict in July 2018, which affected some of our drilling units and also indirectly services of these units, will only have a minor impact on the financial results in Q3 2018.

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, 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, in recent 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).....	1.2	1.8
Sick leave (percentage).....	3.5	2.7
Dropped objects frequency (as per 1 million working hours).....	2.7	3.5
Number of employees.....	2,365	2,211

Hamilton, Bermuda
28 August 2018

Board of Directors of Odfjell Drilling Ltd.

Helene Odfjell, Chairman

Susanne Munch Thore, 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

Odfjell Drilling Ltd.

Condensed Consolidated
Financial Statements

2nd quarter and 1st half year of 2018

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Condensed Consolidated Income Statement

USD thousands	Note	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Operating revenue	2,3	174,861	164,687	349,666	313,038	662,158
Other gains and losses		765	30	1,180	165	11,215
Personnel expenses		(76,256)	(62,460)	(159,898)	(123,808)	(260,815)
Other operating expenses	14	(33,630)	(30,509)	(68,819)	(63,138)	(138,838)
EBITDA		65,740	71,748	122,130	126,257	273,720
Depreciation, amortisation and impairment	5	(40,153)	(40,472)	(80,568)	(81,197)	(161,436)
Operating profit (EBIT)		25,587	31,277	41,562	45,060	112,285
Share of profit (loss) from other joint ventures		-	(586)	-	(1,108)	(1,485)
Net financial items	13	(17,665)	(19,038)	(40,233)	(37,770)	(74,111)
Profit/(loss) before tax		7,922	11,652	1,329	6,182	36,688
Income taxes	10	(876)	(695)	(1,080)	(2,712)	(1,335)
Profit/(loss) for the period		7,047	10,958	249	3,470	35,353

Earnings per share (USD)

Basic earnings per share	8	0.03	0.06	(0.00)	0.02	0.18
Diluted earnings per share	8	0.03	0.06	(0.00)	0.02	0.18

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Profit/(loss) for the period		7,047	10,958	249	3,470	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		(130)	247	115	710	353
Currency translation differences		(6,934)	3,451	1,597	4,492	9,531
Other comprehensive income for the period, net of tax		(7,064)	3,698	1,712	5,202	9,618
Total comprehensive income for the period		(17)	14,655	1,961	8,672	44,971

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Condensed Consolidated Statement of Financial Position

USD thousands	Note	30.06.2018	30.06.2017	31.12.2017
Assets				
Deferred tax asset		2,991	2,464	3,566
Intangible assets	5	32,728	32,904	32,855
Property, plant and equipment	5	1,943,279	1,849,173	1,782,393
Financial non-current assets	4	1,129	7,830	551
Total non-current assets		1,980,127	1,892,371	1,819,365
Trade receivables		124,522	120,563	137,438
Contract assets		1,576	-	-
Other current assets	4	22,464	21,000	15,455
Cash and cash equivalents		181,121	148,310	165,970
Total current assets		329,684	289,873	318,863
Total assets		2,309,811	2,182,244	2,138,228
Equity and liabilities				
Total paid-in capital	12	564,774	328,841	328,841
Other equity	12	440,178	401,917	438,216
Total equity		1,004,952	730,758	767,057
Non-current interest-bearing borrowings	9	745,148	1,113,116	1,076,103
Post-employment benefits		10,967	16,408	18,084
Non-current contract liabilities		4,505	-	-
Other non-current liabilities	4	203	5,998	5,331
Total non-current liabilities		760,822	1,135,523	1,099,519
Current interest-bearing borrowings	9	422,121	206,019	157,472
Contract liabilities		21,910	-	-
Trade payables		36,892	28,398	35,214
Other current liabilities	4,14	63,113	81,546	78,966
Total current liabilities		544,037	315,963	271,652
Total liabilities		1,304,859	1,451,486	1,371,171
Total equity and liabilities		2,309,811	2,182,244	2,138,228

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

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	-	-	-	3,470	3,470
Other comprehensive income for the period	-	-	5,202	-	5,202
Total comprehensive income for the period	-	-	5,202	3,470	8,672
Balance at 30 June 2017	1,987	326,853	(109,701)	511,618	730,758
Total comprehensive income for the period Q3-Q4	-	-	4,682	31,617	36,299
Balance at 31 December 2017	1,987	326,853	(105,019)	543,235	767,057
Profit/(loss) for the period	-	-	-	249	249
Other comprehensive income for the period	-	-	1,712	-	1,712
Total comprehensive income for the period	-	-	1,712	249	1,961
Capital increase common shares ^(*)	380	171,207			171,587
Capital increase preference shares	161	74,839			75,000
Transaction costs		(10,653)			(10,653)
Transactions with owners	541	235,392	-	-	235,933
Balance at 30 June 2018	2,529	562,246	(103,307)	543,485	1,004,952

^(*) The common shares capital increase of NOK 1.368 billion was translated to USD using the currency rate at date of receipt of money.

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Cash flows from operating activities:						
Profit/(loss) before tax		7,922	11,652	1,329	6,182	36,688
<i>Adjustments for:</i>						
Depreciation, amortisation and impairment		40,153	40,472	80,568	81,197	161,436
Unrealised (gain)/loss on interest rate swaps		(79)	169	(514)	40	(520)
Interest expense - net		16,777	16,233	32,552	32,423	64,101
Amortised borrowing cost		1,499	1,465	2,999	2,936	6,160
Share of (profit)/loss from joint ventures		-	586	-	1,108	1,485
Net (gain)/loss on sale of shares and other financial investments		-	(139)	-	(139)	(9,769)
Net (gain)/loss on sale of tangible fixed assets		(600)	(8)	(906)	(46)	(1,496)
Post-employment benefit expenses less payments		(6,919)	(607)	(7,448)	(1,630)	(656)
Net currency (gain)/loss not related to operating activities		(3,150)	1,789	1,617	2,166	2,136
<i>Changes in working capital:</i>						
Spare parts		(11)	(77)	(136)	4	157
Trade receivables and contract assets		(1,255)	(3,310)	11,308	(6,263)	(21,392)
Trade payables and contract liabilities		10,139	6,405	2,975	10,525	16,897
Other accruals		1,834	(5,722)	(431)	(8,009)	(9,801)
Cash generated from operations		66,310	68,910	123,914	120,494	245,426
Interest paid		(17,610)	(17,711)	(31,845)	(32,462)	(64,688)
Net income tax (paid) / refunded		(85)	(4,509)	(390)	(13,887)	(14,900)
Net cash flow from operating activities		48,615	46,691	91,680	74,144	165,839
Cash flows from investing activities:						
Purchase of property, plant and equipment	5	(235,708)	(6,988)	(241,570)	(16,682)	(29,468)
Proceeds from sale of property, plant and equipment		918	62	1,390	235	2,036
Other long term receivables		2	38	2	38	64
Proceeds from financial investments incl. joint ventures		-	2,263	-	2,263	26,580
Net cash flow from investing activities		(234,789)	(4,626)	(240,178)	(14,147)	(787)
Cash flows from financing activities:						
Net (payments)/proceeds from borrowings financial institutions		-	-	-	-	(737)
Repayments of borrowings to financial institutions	9	(57,500)	(69,500)	(70,000)	(96,000)	(183,500)
Net proceeds from capital increases	12	235,933	-	235,933	-	-
Net cash flow from financing activities		178,433	(69,500)	165,933	(96,000)	(184,237)
Effects of exchange rate changes on cash and cash equivalents		(5,122)	1,939	(2,284)	2,690	3,533
Net increase (decrease) in cash and cash equivalents		(12,863)	(25,496)	15,151	(33,313)	(15,653)
Cash and cash equivalents at beginning of period		193,984	173,806	165,970	181,623	181,623
Cash and cash equivalents at period end		181,121	148,310	181,121	148,310	165,970

Unaudited

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 28 August 2018 and have not been audited.

Basis for preparation

These condensed interim financial statements for the six months period ended 30 June 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 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 condensed interim financial statements for the 1st quarter of 2018 and in *Note 3 Revenues*.

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 5 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.

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 2 | 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 in addition to drilling tool and tubular rental services both for exploration wells and for production purposes.

USD thousands	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	Q2 18	Q2 17	Q2 18	Q2 17	Q2 18	Q2 17	Q2 18	Q2 17	Q2 18	Q2 17
	External segment revenue	119,347	123,557	31,020	21,315	19,564	17,751	4,929	2,064	174,861
Inter segment revenue	-	598	2,593	1,887	6,993	5,223	(9,586)	(7,708)	-	-
Total revenue	119,347	124,155	33,613	23,202	26,557	22,974	(4,656)	(5,644)	174,861	164,687
EBITDA	54,570	66,745	582	980	6,773	7,863	3,815	(3,839)	65,740	71,748
Depreciation and impairment	(33,012)	(33,023)	(17)	(219)	(6,204)	(7,182)	(920)	(48)	(40,153)	(40,472)
EBIT	21,558	33,721	565	761	568	681	2,895	(3,887)	25,587	31,277

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	YTD 18	YTD 17	YTD 18	YTD 17	YTD 18	YTD 17	YTD 18	YTD 17	YTD 18	YTD 17
	External segment revenue	238,533	234,387	63,229	40,232	38,882	34,649	9,022	3,770	349,666
Inter segment revenue	-	988	4,420	3,748	15,656	8,780	(20,076)	(13,516)	-	-
Total revenue	238,533	235,375	67,649	43,980	54,538	43,429	(11,054)	(9,746)	349,666	313,038
EBITDA	107,307	121,184	1,367	941	13,085	12,938	371	(8,805)	122,130	126,257
Depreciation and impairment	(66,236)	(65,847)	(33)	(439)	(12,438)	(14,713)	(1,861)	(197)	(80,568)	(81,197)
EBIT	41,071	55,337	1,334	502	647	(1,776)	(1,490)	(9,002)	41,562	45,060

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 2 | 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:	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
EBIT for reportable segments	22,692	35,164	43,052	54,063	129,235
Corporate	2,685	(4,195)	(1,928)	(9,621)	(19,172)
Accounting differences	210	307	438	618	2,222
EBIT - Consolidated Group	25,587	31,277	41,562	45,060	112,285
Share of profit (loss) from joint ventures	-	(586)	-	(1,108)	(1,485)
Net financial items	(17,665)	(19,038)	(40,233)	(37,770)	(74,111)
Profit / (loss) before tax - Consolidated Group	7,922	11,652	1,329	6,182	36,688

Note 3 | Revenues

USD thousands	Q2 18	YTD 18
Revenue from contracts with customers	174,861	349,666
Other operating revenue	-	-
Operating revenue	174,861	349,666

Revenue recognition

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 implementation did not impact net retained earnings as at 1 January 2018. See further information in condensed interim financial statements for the 1st quarter of 2018.

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

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

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

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

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.

Effects on 2018 Financial Statements

None of the contracts the group were operating under in YTD 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 YTD 18 applying IFRS 15 versus revenue recognition using IAS 18.

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 3 | Revenues - cont.

Disaggregation of revenue from contract with customers

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	Q2 18	Q2 18	Q2 18	Q2 18	Q2 18
Primary geographical markets					
Norway	77,013	19,786	14,062	(3,736)	107,126
UK	40,226	13,827	2,156	(891)	55,318
Europe - other countries	-	-	4,724	(408)	4,317
Asia	2,108	-	5,438	378	7,925
Other countries	-	-	176	(0)	176
Total operating revenue	119,347	33,613	26,557	(4,656)	174,861

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	YTD 18	YTD 18	YTD 18	YTD 18	YTD 18
Primary geographical markets					
Norway	155,028	40,243	30,047	(9,077)	216,241
UK	78,846	27,405	3,874	(2,027)	108,098
Europe - other countries	-	-	9,795	(408)	9,387
Asia	4,660	-	10,646	457	15,763
Other countries	-	-	176	(0)	176
Total operating revenue	238,533	67,649	54,538	(11,054)	349,666

Note 4 | 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, see repayment schedule and additional information in note 9. 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 condensed interim financial statements for the 1st quarter of 2018.

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

USD thousands	Level	IFRS 9 30.06.2018	IAS 39 30.06.2017	IAS 39 31.12.2017
Available-for-sale financial assets				
- Other current assets	3	n/a	5,602	-
Financial assets at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps - Other non-current assets	2	907	171	318
- Interest rate swaps - Other current assets	2	26	-	102
Debt instruments at amortised cost				
- Other non-current receivables		222	254	233
- Trade and other current receivables		146,960	141,563	140,538
Total financial assets		148,115	147,590	141,190

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 4 | Financial risk management and Financial instruments - cont.

USD thousands	Level	IFRS 9 30.06.2018	IAS 39 30.06.2017	IAS 39 31.12.2017
Financial liabilities at fair value through profit or loss				
Derivatives designated as hedging instruments				
- Interest rate swaps - Other non-current liabilities	2	-	141	
- Foreign exchange forward contracts - Other current liabilities	2	72	-	186
Financial liabilities at amortised cost				
- Trade and other payables		99,292	72,871	89,188
- Non-current interest-bearing borrowings		745,148	1,113,116	1,076,103
- Current interest-bearing borrowings		422,121	206,019	157,472
Total financial liabilities		1,266,633	1,392,147	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:

	30.06.2018	30.06.2017	31.12.2017
Non-current	745,148	1,113,116	1,076,103
Current	422,121	206,019	157,472
Total	1,167,269	1,319,135	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

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Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 5 | Tangible and intangible fixed assets

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	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	4,409	1,217	226,948	7,215	635	240,424
Disposals	-	-	-	(480)	(5)	(484)
Depreciation	(44,348)	(21,879)	-	(12,178)	(619)	(79,025)
Currency translation differences	-	-	-	(2)	(27)	(29)
Closing net book amount as at 30 June 2018	1,570,179	68,207	226,948	76,948	998	1,943,279
Opening net book amount as at 1 January 2017	1,680,965	124,892	-	105,027	1,870	1,912,754
Additions	10,319	4,192	-	1,721	96	16,328
Disposals	0	(0)	-	(121)	(68)	(189)
Depreciation	(43,741)	(21,228)	-	(14,203)	(632)	(79,803)
Currency translation differences	-	-	-	51	33	84
Closing net book amount as at 30 June 2017	1,647,543	107,856	-	92,475	1,299	1,849,173
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 the purchase of Deepsea Nordkapp, a 6G harsh environment semi-submersible. The rig is currently under construction at Samsung Heavy Industries, South Korea, and is expected to be delivered from shipyard in Q1 2019.

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 30 June 2018, no impairment has been identified for any of the rigs.

Odfjell Drilling Ltd.

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Note 5 | 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 6G Semi	Deepsea Stavanger 6G Semi	Deepsea Aberdeen 6G Semi	Deepsea Bergen 3G semi
Weighted Average Cost of Capital (WACC)	10.4%	10.4%	10.4%	10.6%
Firm contract days	705	655	1,370	271
Firm contract day rates (weighted average)	304	284	433	189
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	39,000	40,000	-	-
- WACC increased by	2 pp	73,000	76,000	30,000	-
- Day rate level decreased by	5%	36,000	37,000	-	-
- Day rate level decreased by	10%	72,000	73,000	12,000	4,000
- Normalised opex level increased by	5%	16,000	17,000	-	-
- Normalised opex level increased by	10%	33,000	33,000	-	-
- Financial utilisation in normalised period decreased	1 pp	9,000	10,000	-	-
- Financial utilisation in normalised period decreased	2 pp	19,000	19,000	-	-
- Financial utilisation in normalised period decreased	3 pp	28,000	29,000	-	-

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Note 5 | 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	-	1,146	1,146
Amortisation	-	(1,543)	(1,543)
Currency translation differences	145	125	270
Closing net book amount as at 30 June 2018	19,881	12,847	32,728
Opening net book amount as at 1 January 2017	18,786	14,223	33,009
Additions	-	354	354
Amortisation	-	(1,393)	(1,393)
Currency translation differences	539	396	935
Closing net book amount as at 30 June 2017	19,325	13,579	32,904

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 30.06.2018.

The key assumptions used for value-in-use calculations as per Q2 2018 are as follows:

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services
EBITDA margin in prognosis period	15 %	5% - 6%	35% - 43%
Growth rate year 6 and forward	0.0%	0.0%	0.0%
Weighted Average Cost of Capital (WACC)	9.6 %	8.4%	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 ten percentage points indicated an impairment write-down of USD 12 million. None of the other scenarios indicated any impairment write-down of goodwill as at 30.06.2018.

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Note 6 | Commitments

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

USD thousands	30.06.2018	30.06.2017	31.12.2017
Newbuild in progress	284,697	-	-
Rig investments	15,209	4,424	4,674
Rental and casing equipment, due in 1 year	1,905	276	2,814
Total	301,811	4,700	7,489

Newbuild in progress is related to Deepsea Nordkapp.

Rig investments as per 30.06.18 are mainly for Deepsea Atlantic investments related to periodic maintenance.

Note 7 | 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 30 June 2018.

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Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 8 | 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 not recognised cost portion of the options.

USD thousands	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Profit/(loss) for the period	7,047	10,958	249	3,470	35,353
Adjustment for dividends on preference shares	(623)	-	(623)	-	-
Profit/(loss) for the period due to holders of common shares	6,424	10,958	(374)	3,470	35,353
Adjustment related to warrants and share option plan	-	-	-	-	-
Diluted profit/(loss) for the periode due to the holders of common shares	6,424	10,958	(374)	3,470	35,353
	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Weighted average number of common shares in issue	217,736,900	198,736,900	208,236,900	198,736,900	198,736,900
Effects of dilutive potential common shares:					
Warrants	-	-	-	-	-
Share option plan	-	-	-	-	-
Diluted average number of shares outstanding	217,736,900	198,736,900	208,236,900	198,736,900	198,736,900
	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Basic earnings per share	0.03	0.06	(0.00)	0.02	0.18
Diluted earnings per share	0.03	0.06	(0.00)	0.02	0.18

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Note 9 | Interest-bearing borrowings

USD thousands	30.06.2018	30.06.2017	31.12.2017
Non-current	745,148	1,113,116	1,076,103
Current	422,121	206,019	157,472
Total	1,167,269	1,319,135	1,233,575

Movements in non-current borrowings are analysed as follows:	30.06.2018	30.06.2017	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	(333,954)	(98,000)	(137,500)
Change in transaction cost, unamortised	2,999	2,936	6,160
Carrying amount as at end of period	745,148	1,113,116	1,076,103

Movements in current borrowings are analysed as follows:	30.06.2018	30.06.2017	31.12.2017
Carrying amount as at 1 January	157,472	204,058	204,058
Cash flows:			
Repayment bank loan	(70,000)	(96,000)	(183,500)
Non-cash flows:			
Reclassified to current portion of non current borrowings	333,954	98,000	137,500
Change in accrued interest cost	695	(39)	(586)
Carrying amount as at end of period	422,121	206,019	157,472

The Odfjell Drilling Services Ltd., facility has a final instalment of USD 270 million with maturity date in May 2019. At 30 June 2018 the remaining contractual amount of USD 290 million is classified as current borrowings.

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	30.06.2018	30.06.2017	31.12.2017
Maturity within 3 months	16,000	26,500	12,500
Maturity between 3 and 6 months	62,000	71,500	57,500
Maturity between 6 and 9 months	19,500	26,500	16,000
Maturity between 9 months and 1 year	315,500	71,500	62,000
Maturity between 1 and 2 years	480,000	416,000	775,000
Maturity between 2 and 3 years	65,500	452,000	79,500
Maturity between 3 and 4 years	211,000	52,000	237,000
Maturity between 4 and 5 years	-	211,000	-
Maturity beyond 5 years	-	-	-
Total contractual amounts	1,169,500	1,327,000	1,239,500

The Odfjell Invest Ltd., facility has a final instalment of USD 400 million with maturity date of 23 September 2019 included in the tables above. However, if the Odfjell Drilling Services Ltd., facility has not been refinanced or extended 6 months prior to its final maturity date being 9 May 2019 with a new final maturity date falling after 23 September 2019, the Odfjell Invest Ltd facility shall mature 3 months prior to the final maturity date of the Odfjell Drilling Services facility.

The group has no available undrawn facilities as per 30 June 2018.

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 9 | Interest-bearing borrowings - cont

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 30 June 2018.

Note 10 | Income taxes

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

USD thousands	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Withholding tax, ordinary taxation	(532)	(341)	(855)	(731)	(1,334)
Tax payable, ordinary taxation	246	(306)	367	(1,885)	(900)
Change in deferred tax, ordinary taxation	(591)	(48)	(592)	(97)	899
Total tax expense	(876)	(695)	(1,080)	(2,712)	(1,335)
Average tax rate	11%	6%	81%	44%	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 11 | Contingencies

See note 12 regarding outstanding warrants.

There are no other material contingencies to be disclosed as per 30 June 2018.

Odfjell Drilling Ltd.

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Note 12 | Equity & shareholder information

	No. of shares	Nominal value	Share capital USD thousands
Listed shares			
Common shares issued as at 1 January 2018	198,736,900	USD 0.01	1,987
New shares issued at 16 May 2018	38,000,000	USD 0.01	380
Common shares issued as at 30 June 2018	236,736,900		2,367
Preference shares			
New preference shares issued at 30 May 2018	16,123,125	USD 0.01	161
Total issued preference shares as at 30 June 2018	16,123,125		2,529

The preference shares are issued to an affiliate of Akastor ASA. The preference shares does not carry any voting rights. The Preference Shares will entitle the holder(s) to a preferred a payment in kind dividend of 5% per annum capitalised semi-annually, as well as a cash dividend of 5% per annum paid semi-annually. The Company may elect to postpone the payment of the cash dividend in return for a 5% increase per annum. From 30 May 2024 there will be a dividend step-up, provided that the preference capital and dividends have not been repaid. The Company does not have any obligation to repay the Preference Shares, but have the right to call a portion, or all of the preference shares in exchange for a cash consideration. If the Preference Shares are called before six years after the issue the company will have to pay a premium.

On 30 May 2018 the company also issued warrants for 5,925,000 common shares to an affiliate of Akastor ASA for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024. A tranche which has become exercisable may also be exercised on the exercise dates for the subsequent tranches if the conditions for such subsequent exercise(s) are satisfied. Each tranche may be exercised if the price of the Shares has increased by a defined percentage over NOK 36 on the relevant exercise date (i.e. 31 May in 2019, 2020, 2021, 2022, 2023 and 2024 respectively), being NOK 43.20 for tranche 1, NOK 51.84 for tranche 2, NOK 62.21 for tranche 3, NOK 74.25 for tranche 4, NOK 89.58 for tranche 5 and NOK 107.50 for tranche 6. After 2024, any unexercised Warrants will, to the extent the thresholds have not been met, be exercisable on a linear prorata basis. For each Warrant held, the holder shall be entitled to subscribe for one new common Share in the Company at a subscription price of USD 0.01.

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 12 | Equity & shareholder information - cont

Largest common shareholders at 30 June 2018	Holding	% of shares
Odfjell Partners Ltd.	142,000,000	59.98%
Deutsche Bank AG	7,690,451	3.25%
Goldman Sachs & Co. LLC	6,664,598	2.82%
J.P.Morgan Chase Bank N.A. London	5,450,046	2.30%
J.P.Morgan Securities PLC	3,727,480	1.57%
UBS AG	3,113,389	1.32%
Fidelity Select Portfolios: Energy	2,531,294	1.07%
The Bank of New York Mellon SA/NV	2,126,734	0.90%
State Street Bank and Trust Co.	1,944,257	0.82%
J.P.Morgan Chase Bank N.A. London	1,850,923	0.78%
J.P.Morgan Chase Bank N.A. London	1,581,523	0.67%
J.P.Morgan Chase Bank N.A. London	1,434,615	0.61%
The Bank of New York Mellon SA/NV	1,260,365	0.53%
Citybank, N.A.	1,257,504	0.53%
VPF Nordea Kapital	1,235,701	0.52%
The Bank of New York Mellon SA/NV	1,161,524	0.49%
MSIO Equity	1,160,677	0.49%
Fidelity Select Portfolios: Energy	1,143,380	0.48%
J.P.Morgan Bank Luxembourg S.A.	1,102,939	0.47%
Verdipapirfondet Delphi Norge	1,081,660	0.46%
Total 20 largest common shareholders	189,519,060	80.05%
Other common shareholders	47,217,840	19.95%
Total common shareholders	236,736,900	100.00%

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Note 13 | Net financial items

USD thousands	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Interest income	467	221	906	458	1,535
Interest expense	(17,244)	(16,455)	(33,458)	(32,881)	(65,636)
Other borrowing expenses	(1,499)	(1,598)	(2,999)	(3,187)	(6,392)
Gain/(loss) on interest rate swaps	79	(169)	514	(40)	520
Net currency gain/(loss)	1,484	(850)	(3,643)	(1,546)	(3,087)
Other financial items	(951)	(187)	(1,553)	(574)	(1,051)
Net financial items	(17,665)	(19,038)	(40,233)	(37,770)	(74,111)

Note 14 | Related-party transactions

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 59.98% of the common shares. Chairman of the Board, Helene Odfjell, controls Odfjell Partners Ltd.

Simen Lieungh (CEO & President) controls 0.40% of the common shares in the company as per 30 June 2018.

The company entered at 16 May 2018 into a long term incentive share option programme with the CEO of the company, Simen Lieungh, granting him options to purchase 960,000 common shares at a subscription price of NOK 36 per share. The options can only be exercised in three tranches of 320,000 options each, with vesting periods of two, three and four years. The options may be exercised during the subsequent year. Any options not exercised in the first two tranches can be rolled forward to the next tranches. Any options not exercised within 16 May 2023 will be terminated.

The Group had the following material transactions with related parties:

USD thousands	Q2 18	Q2 17	YTD 18	YTD 17	FY 17
Sales of services:					
- Robotic Drilling System AS	-	10	-	20	20
- Deep Sea Metro Ltd. Group	-	-	-	3,770	3,770
Total	-	10	-	3,791	3,791
Operating expenses:					
- Kokstad Holding AS group (related to main share holder)	1,649	1,548	3,367	3,163	6,392
Total	1,649	1,548	3,367	3,163	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	30.06.2018	30.06.2017	31.12.2017
Current receivables:			
- Robotic Drilling System AS (divested 31 August 2017)	-	88	-
Total	-	88	-
Current liabilities:			
- Kokstad Holding AS group (related to main share holder)	-	-	647
- Robotic Drilling System AS (divested 31 August 2017)	-	168	-
Total	-	168	647

Unaudited

Note 15 - Important events occurring after the reporting period

Share capital increase

On 11 July 2018 the Company issued 46,302 new common shares, each with a par value of USD 0.01, at an offer price of NOK 36.00 per common share in connection with the Subsequent Offering. The Offer Shares have been legally and validly issued. Following the issuance of the Offer Shares, the Company's issued share capital is increased by USD 463.02, from USD 2,528,600.25 to USD 2,529,063.27, consisting of 236,783,202 common shares and 16,123,125 preference shares, each with a par value of USD 0.01. The authorised share capital of the Company is USD 3,000,000 consisting of 280,000,000 common shares and 20,000,000 preference shares with a par value of USD 0.01 each.

Bank financing of Deepsea Nordkapp

Odfjell Drilling accepted on 28 August 2018 a firm offer for a USD 325 million senior secured term loan facility for Deepsea Nordkapp. The facility includes a tranche of USD 162.5 million guaranteed by K-SURE and a 5-year commercial bank tranche of USD 162.5 million. The loan facility is available at delivery of Deepsea Nordkapp, expected in Q1 2019.

The facility shall be repaid by quarterly instalments of USD 8.55 million, first time in Q4 2019. At the current swap rate the total average interest is approx. 5.4% p.a.

The offer is subject to final documentation, and signing of the finance documents are expected by end of September 2018.

Following this, Deepsea Nordkapp is fully funded, including ready-to-drill project costs and working capital requirements, with bank debt, equity and yard seller's credit.

There have been no other events after the balance sheet date with material effect on the quarterly financial statements ended 30 June 2018.

Odffjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ended 30 June 2018

Responsibility statement

We confirm, to the best of our knowledge, that the condensed set of consolidated financial statements for the period 1 January to 30 June 2018 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year and major transactions with related parties.

Bermuda, 28 August 2018
Board of Directors of Odffjell Drilling Ltd.

Helene Odffjell
Chairman
(Sign.)

Susanne Munch Thore
Director
(Sign.)

Kirk L. Davis
Director
(Sign.)

Henry Hamilton III
Director
(Sign.)

Bengt Lie Hansen
Director
(Sign.)