Odfjell Drilling Ltd.

Report for the 3rd quarter of 2018

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

Key figures for the Group

All figures in USD million

Key figures Odfjell Drilling Ltd. Group	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Operating revenue	181	178	531	491	662
EBITDA	69	81	191	207	274
EBIT	29	41	71	86	112
Net profit (loss)	8	18	9	21	35
EBITDA margin	38%	45%	36%	42%	41%
Total assets			2,299	2,191	2,138
Net interest bearing debt			971	1,117	1,068
Equity			1,015	757	767
Equity ratio			44%	35%	36%

Highlights Q3 2018

Odfjell Drilling Ltd. Group

- Operating revenue of USD 181 million compared to USD 178 million in Q3 2017.
- EBITDA of USD 69 million compared to USD 81 million in Q3 2017.
- EBITDA margin of 38% compared to an EBITDA margin of 45% in Q3 2017.
- The Group's contract backlog is USD 2.5 billion, whereof USD 1.5 billion is firm backlog. The comparable figure at the end of Q3 2017 was USD 2.6 billion, whereof USD 1.3 billion was firm backlog.

Mobile Offshore Drilling Units segment

- Operating revenue of USD 119 million compared to USD 128 million in Q3 2017.
- EBITDA of USD 59 million compared to USD 65 million in Q3 2017.
- EBITDA margin of 49% compared to 50% in Q3 2017.

Drilling & Technology segment

- Operating revenue of USD 40 million compared to USD 29 million in Q3 2017.
- EBITDA of USD 7 million compared to USD 11 million to Q3 2017.
- EBITDA margin of 17% compared to an EBITDA margin of 36% in Q3 2017.

Well Services segment

- Operating revenue of USD 27 million compared to USD 26 million in Q3 2017.
- EBITDA of USD 7 million compared to USD 10 million in Q3 2017.
- EBITDA margin of 27% compared to 38% in Q3 2017.

Subsequent equity offering

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.

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 10-year 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 Q4 2018/Q1 2019.

The facility shall be repaid by quarterly instalments of USD 8.55 million, first time 9 months after the delivery of Deepsea Nordkapp.

The final loan documentation was entered into on 30 October 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.

Additional work secured for Deepsea Bergen

Odfjell Drilling signed, on 11 September 2018, a contract with Ithaca Energy (UK) Limited for one firm production well, plus optional wells (to be mutually agreed) on the UK Continental Shelf.

Commencement of the firm well is scheduled for February 2019 with an expected duration of 115 days and will be followed by a contract on Norwegian Continental Shelf with OMV Norge for a one firm "high pressure high temperature" well as earlier announced.

Furthermore, Odfjell Drilling has, on 16 November 2018, signed a drilling contract with MOL Norge for one exploration well in direct continuation of Deepsea Bergen's contract with OMV Norge, estimated to expire in Q3/Q4 2019. The estimated duration is approximately 50 days plus possible well testing. The addition of the well with MOL Norge will keep Deepsea Bergen continuously employed during 2019. The contract value is estimated to USD 9 million plus potential incentive bonus.

Extension of Drilling Services bank facility

Odfjell Drilling has, on 6 November 2018, entered into an amendment agreement (with its lenders in the Odfjell Drilling Services Ltd., facility) to extend the facility to November 2019. Additionally, the waiver consent regarding the debt service coverage ratio of the Odfjell Drilling Services group has been extended to the new maturity date of the facility. The amortisation profile of the loan will be unchanged with semi-annual instalments of USD 20 million in November 2018 and May 2019. The balloon will consequently be USD 250 million at the new maturity date.

Migration to the United Kingdom

The Board of Directors of Odfjell Drilling Ltd. has, on 19 November 2018, following a strategic review proposed that the Company should be managed and controlled from the United Kingdom rather than Bermuda. Some of the key reasons behind this conclusion are the size of the Group's existing operations and presence in the United Kingdom, the location of certain key personnel in the United Kingdom, the proximity to the North Sea basin and the fact that the UK is well established as a holding company jurisdiction for international groups because of its globally recognized legal system and tax framework. The Company's new head office would be in Aberdeen, which would ultimately result in the Company becoming resident in the United Kingdom for tax purposes.

The proposal is subject approval by the Company's shareholders. A Special General Meeting is convened for 11 December 2018. For further details, please see "Notice of Special General Meeting of Shareholders – 11 December 2018" at the Company's webpage.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q3 2018

Operating revenue for Q3 2018 was USD 181 million (USD 178 million), an increase of USD 3 million, due to increased activity in Drilling & Technology as well as in the Well Services segment, offset by decreased revenue in the MODU segment from Q3 2017 to Q3 2018.

EBITDA in Q3 2018 was USD 69 million (USD 81 million), a decrease of USD 12 million. The Q3 2017 EBITDA was positively impacted by a gain from sale of investment in Robotic Drilling Systems AS (RDS) of USD 9.5 million.

The EBITDA margin in Q3 2018 was 38% (45%).

EBIT in Q3 2018 was USD 29 million (USD 41 million), a decrease of USD 12 million.

Net financial expenses in Q3 2018 amounted to USD 20 million (USD 21 million). The decrease of USD 1 million was mainly related to the change in net currency gains and losses.

In Q3 2018 the tax expense was USD 1 million (USD 2 million).

Net profit in Q3 2018 was USD 8 million (USD 18 million).

Profit & loss YTD 2018

Operating revenue for YTD 2018 was USD 531 million (USD 491 million), an increase of USD 40 million, mainly due to increased activity in Drilling & Technology, from YTD 2017 to YTD 2018.

EBITDA in YTD 2018 was USD 191 million (USD 207 million), a decrease of USD 16 million. The YTD 2017 EBITDA was positively impacted by the gain from sale of investment in RDS of USD 9.5 million. The decrease in EBITDA was also explained by Deepsea Bergen entering into new contracts at a lower day rate as from mid 2017.

The EBITDA margin in YTD 2018 was 36% (42%).

EBIT in YTD 2018 was USD 71 million (USD 86 million), a decrease of USD 15 million.

Net financial expenses in YTD 2018 amounted to USD 60 million (USD 59 million). The decrease of USD 1 million was mainly related to increased interest expenses.

In YTD 2018 the tax expense was USD 2 million (USD 4 million).

Net profit in YTD 2018 was USD 9 million (USD 21 million).

Balance sheet

Total assets as at 30 September 2018 amounted to USD 2,299 million (USD 2,138 million as at 31 December 2017), an increase of USD 161 million, mainly due to the newbuild in progress (Deepsea Nordkapp).

Equity as at 30 September 2018 amounted to USD 1,015 million (USD 767 million as at 31 December 2017) an increase of USD 248 million, mainly due to paid in capital.

The equity ratio was 44% as at 30 September 2018 (36% as at 31 December 2017), an increase of 8%.

Net interest bearing debt as at 30 September 2018 amounted to USD 971 million (USD 1,068 million as at 31 December 2017), a decrease of USD 97 million.

Cash flow

Net cash flow from operating activities in Q3 2018 was positive with USD 32 million. The Group paid USD 16 million in interest.

Net cash outflow from investing activities in Q3 2018 was USD 15 million related to net capital expenditures, mainly due to the newbuild in progress.

USD 15 million was used for instalments on existing credit facilities in Q3 2018.

Net cash flow from operating activities in YTD 2018 was positive with USD 124 million. The Group paid USD 48 million in interest.

Net cash outflow from investing activities in YTD 2018 was USD 255 million related to net capital expenditures, mainly due to ongoing investment in the newbuild.

USD 85 million was used for instalments on existing credit facilities in YTD 2018.

Net proceeds from capital increases were USD 236 million.

At 30 September 2018 cash and cash equivalents amounted to USD 184 million. There has been a total positive net change in cash and cash equivalents of USD 18 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	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Operating revenue	119	128	358	363	481
EBITDA	59	65	166	186	244
EBIT	26	31	67	87	111
EBITDA margin	49%	50%	46%	51%	51%

Operating revenue for the MODU segment in Q3 2018 was USD 119 million (USD 128 million), a decrease of USD 9 million. The change is mainly explained by lower revenue for Deepsea Stavanger due to lower day rates compared to Q3 2017.

EBITDA for the MODU segment in Q3 2018 was USD 59 million (USD 65 million), a decrease of USD 6 million. The decrease in EBITDA is due to the same reasons as mentioned above.

EBIT for the MODU segment in Q3 2018 was USD 26 million (USD 31 million), a decrease of USD 5 million.

Operating revenue for the MODU segment YTD 2018 was USD 358 million (USD 363 million), a decrease of USD 5 million. This change is explained by the decrease in revenue for Deepsea Bergen due to a lower day rate compared to the corresponding period in 2017. The decrease in revenue for Deepsea Bergen was partly offset by higher utilization for the fleet in 2018 compared to last year.

EBITDA for the MODU segment YTD 2018 was USD 166 million (USD 186 million), a decrease of USD 20 million. The decrease in EBITDA relates mainly to the change in day rate and utilization as explained above.

EBIT for the MODU segment YTD 2018 was USD 67 million (USD 87 million), a decrease of USD 20 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	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Deepsea Stavanger	98.9 %	99.3 %	98.7 %	98.3 %	98.4 %
Deepsea Atlantic	98.1 %	98.4 %	98.8 %	98.0 %	97.6 %
Deepsea Bergen	96.1 %	99.4 %	98.3 %	99.1 %	97.6 %
Deepsea Aberdeen	98.9 %	98.1 %	98.3 %	97.1 %	95.5 %

- Deepsea Stavanger has been operating for Aker BP on the NCS in Q3 2018.
- Deepsea Atlantic has been operating for Equinor on the NCS in Q3 2018.
- Deepsea Bergen has been operating for Equinor on the NCS in Q3 2018.
- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q3 2018.

Drilling & Technology (D&T)

All figures in USD million

Key figures Drilling & Technology segment	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Operating revenue..	40	29	108	73	105
EBITDA..	7	11	8	12	15
EBIT...	7	10	8	11	14
EBITDA margin...	17%	36%	8%	16%	14%

Operating revenue for the D&T segment in Q3 2018 was USD 40 million (USD 29 million), an increase of USD 11 million. The increase in revenue was primarily attributable to an increased number of platform drilling contracts in operation and increased activity in the Technology segment compared to Q3 2017.

EBITDA for the D&T segment in Q3 2018 was USD 7 million (USD 11 million), a decrease of USD 4 million. In Q3 2017 a gain of USD 9.5 million from the disposal of the Company's shares in RDS was included. The Q3 2018 EBITDA is mainly affected by higher volume and higher margins in both Drilling and Technology, in addition to reversal of accruals in relation to change of contracts.

EBIT for the D&T segment Q3 2018 was USD 7 million (USD 10 million), a decrease of USD 3 million. The decrease in EBIT relates to the changes as explained above.

Operating revenue for the D&T segment YTD 2018 was USD 108 million (USD 73 million), an increase of USD 35 million. 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 for the D&T segment YTD 2018 was USD 8 million (USD 12 million), a decrease of USD 4 million. The decrease is due to the gain on sale of RDS in 2017 partly offset by the increase related to the EBITDA result in the quarter this year, as explained above.

EBIT for the D&T segment YTD 2018 was USD 8 million (USD 11million), a decrease of USD 3 million. The decrease in EBIT relates to the changes as explained above.

Well Services (OWS)

All figures in USD million

Key figures Well Services segment	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Operating revenue..	27	26	82	70	97
EBITDA..	7	10	20	23	32
EBIT...	1	3	2	2	4
EBITDA margin...	27%	38%	25%	33%	33%

Operating revenue for the OWS segment in Q3 2018 was USD 27 million (USD 26 million), an increase of USD 1 million. The increase in revenue for the OWS segment in Q3 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 Q3 2018 was USD 7 million (USD 10 million), a decrease of USD 3 million. EBITDA margin for the OWS segment in Q3 2018 was 27% compared to 38% for Q3 2017. The decrease in EBITDA is mainly attributable to lower margin contract portfolio and higher costs related to the mobilisation of new contracts and increased 3rd party equipment rentals.

EBIT for the OWS segment in Q3 2018 was USD 1 million (USD 3 million).

Operating revenue for the OWS segment YTD 2018 was USD 82 million (USD 70 million), an increase of USD 12 million. The increase YTD 2018 revenue is explained by significant volume growth mainly driven by the Tubular Running Services product line.

EBITDA for the OWS segment YTD 2018 was USD 20 million (USD 23 million), a decrease of USD 3 million. EBITDA margin for the OWS segment YTD 2018 was 25% compared to 33% in 2017. The decrease in EBITDA margin is mainly due to increased volumes at lower prices as the price pressure in the well service segment has continued.

EBIT for the OWS segment YTD 2018 was USD 2 million, same as last year.

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.

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 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 concluded its contract with Aker BP on 11 October 2018 and is currently en route to South Africa for the one well contract with Total. It is expected that operation phase will start in December this year. The unit will thereafter return to Norway and continue on a 12 months contract under the alliance agreement with Aker BP. We estimate commencement of this contract to be in May 2019. Deepsea Atlantic will start its new drilling contract under the master frame agreement with Equinor early next year following the completion of the current Johan Sverdrup contract and the 5 year SPS survey scheduled for December 2018. Deepsea Aberdeen is contracted until April 2022 for BP West of Shetland. Deepsea Bergen will operate for Equinor until January next year. The unit will thereafter move to the UK continental shelf for a one well drilling contract for Ithaca starting 1 February 2019. Thereafter the unit will return to Norway and commence work for OMV around mid Q2 19. This well has an expected duration of 130 days. Finally, the newbuild Deepsea Nordkapp is scheduled for delivery in Q4 2018/Q1 2019 and will thereafter mobilize for operations with Aker BP on the NCS. Commencement of operations is expected to June 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 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 under construction, 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).....................	0.5	0.3
Total recordable incident frequency (as per 1 million working hours).......	0.9	1.8
Sick leave (percentage)..	3.3	2.7
Dropped objects frequency (as per 1 million working hours)......................	3.0	3.5
Number of employees..	2,435	2,211

Hamilton, Bermuda
28 November 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 Ltd.

Condensed Consolidated Financial Statements

3rd quarter of 2018

Unaudited

Condensed Consolidated Income Statement

USD thousands	Note	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Operating revenue	2,3	**181,189**	**178,448**	**530,855**	**491,486**	**662,158**
Other gains and losses		406	9,787	1,586	9,952	11,215
Personnel expenses		(81,903)	(70,842)	(241,801)	(194,650)	(260,815)
Other operating expenses	14	(30,484)	(36,615)	(99,303)	(99,753)	(138,838)
EBITDA		**69,207**	**80,777**	**191,337**	**207,034**	**273,720**
Depreciation, amortisation and impairment	5	(39,986)	(40,103)	(120,554)	(121,299)	(161,436)
Operating profit (EBIT)		**29,221**	**40,674**	**70,783**	**85,735**	**112,285**
Share of profit (loss) from other joint ventures		-	(378)	-	(1,485)	(1,485)
Net financial items	13	(20,184)	(20,867)	(60,417)	(58,638)	(74,111)
Profit/(loss) before tax		**9,038**	**19,429**	**10,366**	**25,612**	**36,688**
Income taxes	10	(666)	(1,613)	(1,745)	(4,325)	(1,335)
Profit/(loss) for the period		**8,372**	**17,816**	**8,621**	**21,287**	**35,353**
Earnings per share (USD)						
Basic earnings per share	8	0.03	0.09	0.03	0.11	0.18
Diluted earnings per share	8	0.03	0.09	0.03	0.11	0.18

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Profit/(loss) for the period		**8,372**	**17,816**	**8,621**	**21,287**	**35,353**
Other comprehensive income:						
Items that will not be reclassified to profit or loss:						
Actuarial gain / (loss) on post employment benefit obligations		555	(238)	555	(238)	(266)
Items that are or may be reclassified to profit or loss:						
Cash flow hedges		63	(231)	178	479	353
Currency translation differences		917	8,475	2,514	12,967	9,531
Other comprehensive income for the period, net of tax		**1,535**	**8,006**	**3,247**	**13,208**	**9,618**
Total comprehensive income for the period		**9,907**	**25,822**	**11,868**	**34,494**	**44,971**

Condensed Consolidated Statement of Financial Position

USD thousands	Note	30.09.2018	30.09.2017	31.12.2017
Assets				
Deferred tax asset		2,586	2,383	3,566
Intangible assets	5	32,131	34,086	32,855
Property, plant and equipment	5	1,919,076	1,813,067	1,782,393
Financial non-current assets	4	1,176	199	551
Total non-current assets		**1,954,969**	**1,849,736**	**1,819,365**
Trade receivables		133,091	139,002	137,438
Contract assets		-	-	-
Other current assets	4	27,330	24,398	15,455
Cash and cash equivalents		183,620	177,752	165,970
Total current assets		**344,040**	**341,151**	**318,863**
Total assets		**2,299,009**	**2,190,887**	**2,138,228**
Equity and liabilities				
Total paid-in capital	12	565,125	328,841	328,841
Other equity	12	450,084	427,740	438,216
Total equity		**1,015,210**	**756,581**	**767,057**
Non-current interest-bearing borrowings	9	342,451	1,134,038	1,076,103
Post-employment benefits		10,796	17,607	18,084
Non-current contract liabilities		1,759	-	-
Other non-current liabilities	4	295	5,973	5,331
Total non-current liabilites		**355,301**	**1,157,618**	**1,099,519**
Current interest-bearing borrowings	9	812,611	160,635	157,472
Contract liabilities		22,950	-	-
Trade payables		33,379	27,684	35,214
Other current liabilities	4,14	59,559	88,369	78,966
Total current liabilities		**928,499**	**276,689**	**271,652**
Total liabilities		**1,283,799**	**1,434,307**	**1,371,171**
Total equity and liabilities		**2,299,009**	**2,190,887**	**2,138,228**

Condensed Consolidated Statement of Changes in Equity

USD thousands	Share capital	Other contributed capital	Other reserves	Retained earnings	Total equity
	Equity attributable to owners of the parent				
Balance at 1 January 2017	1,987	326,853	(114,903)	508,148	722,086
Profit/(loss) for the period	-	-	-	21,287	21,287
Other comprehensive income for the period	-	-	13,446	(238)	13,208
Total comprehensive income for the period	-	-	13,446	21,048	34,494
Balance at 30 September 2017	**1,987**	**326,853**	**(101,456)**	**529,196**	**756,581**
Total comprehensive income for the Q4 period	-	-	(3,563)	14,039	10,477
Balance at 31 December 2017	**1,987**	**326,853**	**(105,019)**	**543,235**	**767,057**
Profit/(loss) for the period	-	-	-	8,621	8,621
Other comprehensive income for the period	-	-	2,692	555	3,247
Total comprehensive income for the period	-	-	2,692	9,176	11,868
Capital increase common shares	380	171,414			171,794
Capital increase preference shares	161	74,839			75,000
Transaction costs		(10,676)			(10,676)
Cost of Share-option plan		166			166
Transactions with owners	542	235,743	-	-	236,285
Balance at 30 September 2018	**2,529**	**562,596**	**(102,327)**	**552,412**	**1,015,210**

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Cash flows from operating activities:						
Profit/(loss) before tax		9,038	19,429	10,366	25,612	36,688
Adjustment for provisions and other non-cash elements		58,720	50,269	167,589	168,323	222,878
Changes in working capital		(19,380)	(15,148)	(5,663)	(18,891)	(14,140)
Cash generated from operations		***48,378***	***54,550***	***172,292***	***175,043***	***245,426***
Interest paid		(15,795)	(14,970)	(47,639)	(47,433)	(64,688)
Net income tax (paid) / refunded		(434)	(796)	(823)	(14,682)	(14,900)
Net cash flow from operating activities		**32,150**	**38,784**	**123,829**	**112,928**	**165,839**
Cash flows from investing activities:						
Purchase of property, plant and equipment	5	(15,324)	(3,194)	(256,894)	(19,877)	(29,468)
Proceeds from sale of property, plant and equipment		448	411	1,838	645	2,036
Other long term receivables		1	57	3	96	64
Proceeds from financial investments incl. joint ventures		-	18,206	-	20,468	26,580
Net cash flow from investing activities		**(14,875)**	**15,480**	**(255,053)**	**1,333**	**(787)**
Cash flows from financing activities:						
Net (payments)/proceeds from borrowings financial institutions		-	(737)	-	(737)	(737)
Repayments of borrowings to financial institutions	9	(15,000)	(26,500)	(85,000)	(122,500)	(183,500)
Net proceeds from capital increases	12	185	-	236,118	-	-
Net cash flow from financing activities		**(14,815)**	**(27,237)**	**151,118**	**(123,237)**	**(184,237)**
Effects of exchange rate changes on cash and cash equivalents		39	2,415	(2,245)	5,105	3,533
Net increase (decrease) in cash and cash equivalents		**2,499**	**29,442**	**17,650**	**(3,871)**	**(15,653)**
Cash and cash equivalents at beginning of period		181,121	148,310	165,970	181,623	181,623
Cash and cash equivalents at period end		**183,620**	**177,752**	**183,620**	**177,752**	**165,970**

Note 1 | Accounting Principles

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

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

These condensed interim financial statements were approved by the Board of Directors on 28 November 2018 and have not been audited.

Basis for preparation
These condensed interim financial statements for the nine months period ended 30 September 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.

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.

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
USD thousands	Q3 18	Q3 17	Q3 18	Q3 17	Q3 18	Q3 17	Q3 18	Q3 17	Q3 18	Q3 17
External segment revenue	119,227	127,273	38,539	27,452	18,997	20,010	4,426	3,712	181,189	178,448
Inter segment revenue	-	798	1,376	1,591	7,981	6,344	(9,356)	(8,733)	-	-
Total revenue	**119,227**	**128,071**	**39,915**	**29,043**	**26,978**	**26,354**	**(4,930)**	**(5,021)**	**181,189**	**178,448**
EBITDA	**58,815**	**64,506**	**6,807**	**10,588**	**7,260**	**10,107**	**(3,674)**	**(4,425)**	**69,207**	**80,777**
Depreciation and impairment	(33,147)	(33,081)	(18)	(236)	(5,920)	(6,702)	(901)	(84)	(39,986)	(40,103)
EBIT	**25,668**	**31,425**	**6,788**	**10,352**	**1,340**	**3,405**	**(4,575)**	**(4,508)**	**29,221**	**40,674**

	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	357,760	361,660	101,768	67,684	57,879	54,659	13,448	7,482	530,855	491,486
Inter segment revenue	-	1,786	5,796	5,339	23,637	15,124	(29,433)	(22,249)	-	-
Total revenue	**357,760**	**363,446**	**107,564**	**73,023**	**81,516**	**69,783**	**(15,984)**	**(14,767)**	**530,855**	**491,486**
EBITDA	**166,122**	**185,690**	**8,174**	**11,529**	**20,344**	**23,045**	**(3,303)**	**(13,230)**	**191,337**	**207,034**
Depreciation and impairment	(99,383)	(98,928)	(51)	(676)	(18,357)	(21,415)	(2,762)	(281)	(120,554)	(121,299)
EBIT	**66,739**	**86,762**	**8,122**	**10,854**	**1,987**	**1,629**	**(6,065)**	**(13,511)**	**70,783**	**85,735**

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:	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
EBIT for reportable segments	**33,796**	**45,183**	**76,848**	**99,246**	**129,235**
Corporate	(4,753)	(5,786)	(6,682)	(15,407)	(19,172)
Accounting differences	179	1,278	617	1,896	2,222
EBIT - Consolidated Group	**29,221**	**40,674**	**70,783**	**85,735**	**112,285**
Share of profit (loss) from joint ventures	-	(378)	-	(1,485)	(1,485)
Net financial items	(20,184)	(20,867)	(60,417)	(58,638)	(74,111)
Profit / (loss) before tax - Consolidated Group	**9,038**	**19,429**	**10,366**	**25,612**	**36,688**

Note 3 | Revenues

USD thousands	Q3 18	YTD 18
Revenue from contracts with customers	181,189	530,855
Other operating revenue	-	-
Operating revenue	**181,189**	**530,855**

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 continouous transfer of control to the customer.

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

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

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

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

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.

Note 3 | Revenues - cont.

Disaggregation of revenue from contract with customers

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services	Corporate / Elimination	Consolidated
USD thousands	Q3 18	Q3 18	Q3 18	Q3 18	Q3 18
Primary geographical markets					
Norway	77,131	26,170	13,725	(4,424)	112,602
UK	39,995	13,744	2,339	(675)	55,404
Europe - other countries	-	-	3,961	17	3,978
Asia	2,101	-	6,879	151	9,131
Other countries	-	-	75	0	75
Total operating revenue	**119,227**	**39,915**	**26,978**	**(4,930)**	**181,189**

	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	232,159	66,414	43,772	(13,501)	328,844
UK	118,840	41,150	6,213	(2,701)	163,502
Europe - other countries	-	-	13,755	(390)	13,365
Asia	6,761	-	17,525	608	24,894
Other countries	-	-	251	0	251
Total operating revenue	**357,760**	**107,564**	**81,516**	**(15,984)**	**530,855**

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 30.09.2018	IAS 39 30.09.2017	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	957	-	318
- Interest rate swaps - Other current assets	2	-	131	102
Debt instruments at amortised cost				
- Other non-current receivables		220	254	233
- Trade and other current receivables		136,454	148,720	140,538
Total financial assets		**137,631**	**154,708**	**141,190**

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

USD thousands	Level	IFRS 9 30.09.2018	IAS 39 30.09.2017	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	-	10	-
- Foreign exchange forward contracts - Other current liabilities	2	9	60	186
Financial liabilities at amortised cost				
- Other non-current payables		295	-	-
- Trade and other payables		92,693	95,186	89,188
- Non-current interest-bearing borrowings		342,451	1,134,038	1,076,103
- Current interest-bearing borrowings		812,611	160,635	157,472
Total financial liabilities		**1,248,059**	**1,389,929**	**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:

	30.09.2018	30.09.2017	31.12.2017
Non-current	342,451	1,134,038	1,076,103
Current	812,611	160,635	157,472
Total	**1,155,062**	**1,294,673**	**1,233,575**

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Other non-current receivables
- Trade and other current receivables
- Cash and cash equivalents (excluding bank overdrafts)
- Trade and other payables

Note 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	5,904	4,564	233,668	10,637	783	255,556
Disposals	-	-	-	(569)	(4)	(573)
Depreciation	(66,627)	(32,740)	-	(17,975)	(927)	(118,268)
Currency translation differences	-	-	-	(5)	(28)	(33)
Net book amount as at 30 September 2018	**1,549,395**	**60,693**	**233,668**	**74,480**	**839**	**1,919,076**
Opening net book amount as at 1 January 2017	1,680,965	124,892	-	105,027	1,870	1,912,754
Additions	11,298	5,466	-	2,406	211	19,381
Disposals	-	-	-	(204)	(73)	(277)
Depreciation	(65,783)	(31,862)	-	(20,633)	(887)	(119,165)
Currency translation differences	-	183	-	105	87	374
Net book amount as at 30 September 2017	**1,626,480**	**98,678**	**-**	**86,701**	**1,208**	**1,813,067**
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 delievered from the shipyard in Q4 2018/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 September 2018, no impairment has been identified for any of the rigs.

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**	**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%	10.4%
Firm contract days	608	551	1,278	322
Firm contract day rates (weighted average)	306	301	433	165
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	18,000	1,000
- WACC increased by	2 pp	73,000	76,000	58,000	1,000
- Day rate level decreased by	5%	47,000	48,000	12,000	4,000
- Day rate level decreased by	10%	94,000	97,000	53,000	7,000
- Normalised opex level increased by	5%	23,000	24,000	-	1,000
- Normalised opex level increased by	10%	46,000	47,000	21,000	3,000
- Financial utilisation in normalised period decreased	1 pp	10,000	10,000	-	1,000
- Financial utilisation in normalised period decreased	2 pp	19,000	20,000	-	1,000
- Financial utilisation in normalised period decreased	3 pp	29,000	30,000	-	2,000

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	-	1,337	1,337
Amortisation	-	(2,285)	(2,285)
Currency translation differences	120	104	223
Net book amount as at 30 September 2018	**19,856**	**12,275**	**32,131**
Opening net book amount as at 1 January 2017	18,786	14,223	33,009
Additions	-	496	496
Amortisation	-	(2,135)	(2,135)
Currency translation differences	1,588	1,128	2,716
Net book amount as at 30 September 2017	**20,374**	**13,712**	**34,086**

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 30.09.2018.

The key assumptions used for value-in-use calculations as per Q3 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)	9.8 %	8.6%	9.3%

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 2 million, while 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 30.09.2018.

Note 6 | Commitments

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

USD thousands	30.09.2018	30.09.2017	31.12.2017
Newbuild in progress	290,530	-	-
Rig investments	7,787	6,110	4,674
Rental and casing equipment, due in 1 year	3,341	1,570	2,814
Total	**301,659**	**7,680**	**7,489**

Newbuild in progress is related to Deepsea Nordkapp.

Rig investments as per 30 September 2018 are mainly for Deepsea Atlantic investments related to peridic 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 September 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 the not recognised cost portion of the options.

USD thousands	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Profit/(loss) for the period	8,372	17,816	8,621	21,287	35,353
Adjustment for dividends on preference shares	(1,864)	-	(2,487)	-	-
Profit/(loss) for the period due to holders of common shares	**6,508**	**17,816**	**6,134**	**21,287**	**35,353**
Adjustment related to warrants and share option plan	-	-	-	-	-
Diluted profit/(loss) for the periode due to the holders of common shares	**6,508**	**17,816**	**6,134**	**21,287**	**35,353**

	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Weighted average number of common shares in issue	236,778,114	198,736,900	217,890,394	198,736,900	198,736,900
Effects of dilutive potential common shares:					
Warrants	-	-	-	-	-
Share option plan	-	-	-	-	-
Diluted average number of shares outstanding	236,778,114	198,736,900	217,890,394	198,736,900	198,736,900

	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Basic earnings per share	0.03	0.09	0.03	0.11	0.18
Diluted earnings per share	0.03	0.09	0.03	0.11	0.18

Note 9 | Interest-bearing borrowings

USD thousands	30.09.2018	30.09.2017	31.12.2017
Non-current	342,451	1,134,038	1,076,103
Current	812,611	160,635	157,472
Total	**1,155,062**	**1,294,673**	**1,233,575**

Movements in non-current borrowings are analysed as follows:	30.09.2018	30.09.2017	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)	(737)
Non-cash flows:			
Reclassified to current portion of non current borrowings	(737,846)	(78,000)	(137,500)
Change in transaction cost, unamortised	4,193	4,594	6,160
Carrying amount as at end of period	**342,451**	**1,134,038**	**1,076,103**

Movements in current borrowings are analysed as follows:	30.09.2018	30.09.2017	31.12.2017
Carrying amount as at 1 January	157,472	204,058	204,058
Cash flows:			
Repayment bank loan	(85,000)	(122,500)	(183,500)
Non-cash flows:			
Reclassified to current portion of non current borrowings	737,846	78,000	137,500
Change in transaction cost, unamortised	305	-	-
Change in accrued interest cost	1,988	1,077	(586)
Carrying amount as at end of period	**812,611**	**160,635**	**157,472**

The Odfjell Drilling Services Ltd., facility with the remaining contractual amount of USD 290 million is at 30 September 2018 classified as current borrowings. See further information about the facility below.

The Odfjell Invest Ltd., facility has a final instalment of USD 387.5 million with maturity date in September 2019. At 30 September 2018 the remaining contractual amount of USD 437.5 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	30.09.2018	30.09.2017	31.12.2017
Maturity within 3 months	62,000	63,500	12,500
Maturity between 3 and 6 months	19,500	12,500	57,500
Maturity between 6 and 9 months	315,500	57,500	16,000
Maturity between 9 months and 1 year	407,000	16,000	62,000
Maturity between 1 and 2 years	87,500	804,000	775,000
Maturity between 2 and 3 years	52,000	84,000	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	**1,154,500**	**1,300,500**	**1,239,500**

The Odfjell Drilling Services Ltd., facility is included in the maturity table above according to the contractual maturity dates as they were at the balance sheet date, with the last instalment due in September 2018.

Note 9 | Interest-bearing borrowings - cont

Extension of Odfjell Drilling Services bank facility

Odfjell Drilling has, on 6 November 2018, entered into an amendment agreement (with its lenders in the Odfjell Drilling Services Ltd., facility) to extend the facility to November 2019. Additionally, the waiver consent regarding the debt service coverage ratio of the Odfjell Drilling Services group has been extended to the new maturity date of the facility. The amortisation profile of the loan will be unchanged with semi-annual instalments of USD 20 million in November 2018 and May 2019. The balloon will consequently be USD 250 million at the new maturity date.

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 10-year tranche of USD 162.5 million guaranteed by K-SURE and a 5-year commercial bank tranche of USD 162.5 million. The K-SURE tranche shall be prepaid at the final maturity date of the commercial tranche if the commercial tranche at that time has not been refinanced or prolonged at terms reasonably acceptable to K-SURE and the lenders funding the K-SURE tranche. The loan facility is available at the delivery of Deepsea Nordkapp, expected in Q4 2018/ Q1 2019.
The facility shall be repaid by quarterly installments of USD 8.55 million, with the first instalment 9 months after the delivery of Deepsea Nordkapp.

The final loan documentation was entered into on 30 October 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.

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

Covenants

At balance sheet date, the debt service coverage ratio covenant in Odfjell Drilling Services Ltd., had 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 amendment agreement entered into on 6 November 2018 extended the waiver consent and liquidity requirement until maturity of the facility, being November 2019.

The Group is compliant with all financial covenants as at 30 September 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	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Withholding tax, ordinary taxation	(417)	(242)	(1,271)	(973)	(1,334)
Tax payable, ordinary taxation	(16)	(1,092)	352	(2,976)	(900)
Change in deferred tax, ordinary taxation	(233)	(279)	(826)	(375)	899
Total tax expense	**(666)**	**(1,613)**	**(1,745)**	**(4,325)**	**(1,335)**
Average tax rate	7%	8%	17%	17%	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 September 2018.

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
New shares issued at 11 July 2018	46,302	USD 0.01	0
Common shares issued as at 30 September 2018	**236,783,202**		**2,368**
Preference shares			
New preference shares issued at 30 May 2018	16,123,125	USD 0.01	161
Total issued preference shares as at 30 September 2018	**16,123,125**		**2,529**

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

On 30 May 2018 the company issued warrants for 5,925,000 common shares to an affiliate of Akastor ASA for a total consideration of USD 1.00. The Warrants will be exercisable in six equal tranches from 2019 to 2024. A tranche which has become exercisable may also be exercised on the exercise dates for the subsequent tranches if the conditions for such subsequent exercise(s) are satisfied. Each tranche may be exercised if the price of the Shares has increased by a defined percentage over NOK 36 on the relevant exercise date (i.e. 31 May in 2019, 2020, 2021, 2022, 2023 and 2024 respectively), being NOK 43.20 for tranche 1, NOK 51.84 for tranche 2, NOK 62.21 for tranche 3, NOK 74.25 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.

Note 12 | Equity & shareholder information - cont

Largest common shareholders at 30 September 2018	Holding	% of shares
Odfjell Partners Ltd.	142,000,000	59.97%
Deutsche Bank AG	7,680,000	3.24%
Goldman Sachs & Co. LLC	6,510,752	2.75%
J.P.Morgan Chase Bank N.A. London	5,450,046	2.30%
UBS AG	3,000,000	1.27%
The Bank of New York Mellon SA/NV	2,699,621	1.14%
Fidelity Select Portfolios: Energy	2,107,082	0.89%
J.P.Morgan Bank Luxembourg S.A.	2,095,578	0.89%
State Street Bank and Trust Co.	1,918,257	0.81%
Citybank, N.A.	1,900,000	0.80%
J.P.Morgan Chase Bank N.A. London	1,861,092	0.79%
J.P.Morgan Securities PLC	1,625,560	0.69%
Citybank, N.A.	1,604,327	0.68%
Goldman Sachs International	1,486,604	0.63%
J.P.Morgan Chase Bank N.A. London	1,418,115	0.60%
J.P.Morgan Chase Bank N.A. London	1,385,001	0.58%
Skandinaviska Enskilda Banken S.A.	1,275,000	0.54%
Catella Hedgefond	1,268,131	0.54%
BNP Paribas Securities Services	1,258,359	0.53%
Fondsfinans Norge	1,200,000	0.51%
Total 20 largest common shareholders	**189,743,525**	**80.13%**
Other common shareholders	47,039,677	19.87%
Total common shareholders	**236,783,202**	**100.00%**

Note 13 | Net financial items

USD thousands	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Interest income	493	334	1,399	792	1,535
Interest expense	(17,571)	(16,420)	(51,029)	(49,301)	(65,636)
Other borrowing expenses	(1,499)	(1,639)	(4,498)	(4,826)	(6,392)
Gain/(loss) on interest rate swaps	24	262	538	222	520
Net currency gain/(loss)	(1,374)	(3,211)	(5,017)	(4,757)	(3,087)
Other financial items	(257)	(194)	(1,810)	(767)	(1,051)
Net financial items	**(20,184)**	**(20,867)**	**(60,417)**	**(58,638)**	**(74,111)**

Note 14 | 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.

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

The company have 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.

See information in *Note 15 Subsquent events* regarding changes in the share option programme.

The Group had the following material transactions with related parties:

USD thousands	Q3 18	Q3 17	YTD 18	YTD 17	FY 17
Sales of services:					
- Robotic Drilling System AS	-	-	-	20	20
- Deep Sea Metro Ltd. Group	-	-	-	3,770	3,770
Total	**-**	**-**	**-**	**3,791**	**3,791**
Operating expenses:					
- Kokstad Holding AS group (related to main shareholder)	1,609	1,651	4,975	4,814	6,392
Total	**1,609**	**1,651**	**4,975**	**4,814**	**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 the table above.

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

USD thousands	30.06.2018	30.09.2017	31.12.2017
Current liabilities:			
- Kokstad Holding AS group (related to main shareholder)	-	1,947	647
Total	**-**	**1,947**	**647**

Note 15 - Important events occurring after the reporting period

Extension of Drilling Services bank facility

Odfjell Drilling has, on 6 November 2018, entered into an amendment agreement (with its lenders in the Odfjell Drilling Services Ltd., facility) to extend the facility to November 2019. Additionally, the waiver consent regarding the debt service coverage ratio of the Odfjell Drilling Services group has been extended to the new maturity date of the facility. The amortisation profile of the loan will be unchanged with semi-annual instalments of USD 20 million in November 2018 and May 2019. The balloon will consequently be USD 250 million at the new maturity date.

LOI MOL Norge

Odfjell Drilling has, on 16 November 2018, signed a drilling contract with MOL Norge for one exploration well in direct continuation of Deepsea Bergen's contract with OMV Norge, estimated to expire in Q3/Q4 2019. The estimated duration is approximately 50 days plus possible well testing. The addition of the well with MOL Norge will keep Deepsea Bergen continuously employed during 2019. The contract value is estimated to USD 9 million plus potential incentive bonus.

Changes in share option programme

The Board of Directors have, on 19 November 2018, resolved that the terms of the options of the CEO, Simen Lieungh, shall be amended so that the right to subscribe for shares shall be at a subscription price of the share price as of the end of trading at the Oslo Stock Exchange as of 19 November 2018, which was NOK 26.65. The other elements in the share option agreement shall remain unchanged.

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