Odfjell Drilling Ltd.

Report for the 4th quarter of 2019 and preliminary results for the financial year ending 31 December 2019

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

Key figures for the Group

All figures in USD million

Key figures Odfjell Drilling Ltd. Group	Q4 19	Q4 18	FY 19	FY 18
Operating revenue…………………………………………	221	168	823	698
EBITDA………………………………………………………	93	68	332	259
EBIT…………………………………………………………	42	28	147	99
Net profit (loss)………………………………………	11	19	41	27
EBITDA margin…………………………………………	42%	40%	40%	37 %
Total assets………………………………………………			2,686	2,276
Net interest bearing debt……………………………			1,221	920
Equity…………………………………………………………			1,062	1,024
Equity ratio………………………………………………			40%	45 %

Highlights Q4 2019

Odfjell Drilling Ltd. Group

- Operating revenue of USD 221 million compared to USD 168 million in Q4 2018.
- EBITDA of USD 93 million compared to USD 68 million in Q4 2018.
- EBITDA margin of 42% compared to an EBITDA margin of 40% in Q4 2018.
- The Group's contract backlog is USD 2.3 billion, whereof USD 1.3 billion is firm backlog. The comparable figure at the end of Q4 2018 was USD 2.4 billion, whereof USD 1.4 billion was firm backlog.

Mobile Offshore Drilling Units segment (MODU)

- Operating revenue of USD 160 million compared to USD 119 million in Q4 2018.
- EBITDA of USD 80 million compared to USD 60 million in Q4 2018.
- EBITDA margin of 50% compared to an EBITDA margin of 51% in Q4 2018.

Drilling & Technology segment (D&T)

- Operating revenue of USD 38 million compared to USD 37 million in Q4 2018.
- EBITDA of USD 6 million compared to USD 5 million to Q4 2018.
- EBITDA margin of 15%, unchanged compared to EBITDA margin in Q4 2018.

Well Services segment (OWS)

- Operating revenue of USD 31 million compared to USD 25 million in Q4 2018.
- EBITDA of USD 11 million compared to USD 6 million in Q4 2018.
- EBITDA margin of 36% compared to an EBITDA margin of 22% in Q4 2018.

Deepsea Yantai commenced contract with Neptune Energy

Deepsea Yantai commenced, on 31 October 2019, its contract with Neptune Energy on the Norwegian Continental Shelf. The contract is currently for 8 firm wells after Neptune Energy recently exercised an additional two wells of the optional wells package. There are 8 optional wells remaining.

Secured platform drilling contract on the Greater Ekofisk field

Odfjell Drilling was, on 18 December 2019, awarded the contract for Platform Drilling, Maintenance and Minor Modifications for ConocoPhillips Skandinavia AS.

The contract work includes drilling operations, work-over campaigns, Plug & Abandoned activities and all preventative and corrective maintenance of ConocoPhillips' drilling facilities on three offshore platforms in the Greater Ekofisk Area. The contract period is for five years, with an option to extend two times, each time by up to three years. The contract is estimated to start in beginning of Q3 2020.

Aker BP exercised first optional year on Deepsea Nordkapp

Aker BP exercised, on 18 December 2019, the first 12 months option for Deepsea Nordkapp under the contract entered into between the parties in April 2018. The first 12 month option shall commence after expiry of the two year firm period in May 2021.

The approximate contract value for the firm scope is USD 128 million (excluding any integrated services). In addition, a performance bonus will be applicable.

Equinor awarded more work to Deepsea Atlantic

Equinor awarded, on 20 December 2019, three firm wells plus two optional wells for Deepsea Atlantic under the Master Frame Agreement.

The two optional wells were finally exercised on 26 February 2020, securing Deepsea Atlantic with five new firm wells in total.

The wells have been awarded under the Continued Optionality mechanism in the Contract entered into between the parties in May 2018, as part of the overall Master Frame Agreement. The work shall commence after the completion of the current scope estimated to be in Q2 2020 and is expected to take the rig throughout 2020.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q4 2019

Operating revenue for Q4 2019 was USD 221 million (USD 168 million), an increase of USD 53 million, mainly due to increased revenue in the MODU segment from Q4 2018 to Q4 2019.

EBITDA in Q4 2019 was USD 93 million (USD 68 million), an increase of USD 25 million, mainly due to increased EBITDA from the MODU segment. Implementation of *IFRS 16 Leases* has affected the Q4 2019 EBITDA positively with USD 2 million.

The EBITDA margin in Q4 2019 was 42% (40%).

EBIT in Q4 2019 was USD 42 million (USD 28 million), an increase of USD 14 million.

Net financial expenses in Q4 2019 amounted to USD 31 million (USD 7 million). The net financial expenses in Q4 2018 was affected by a USD 10 million gain from bonds and warrants in Golden Close Maritime Corp. Ltd. in 2018. The remaining increase in net expenses from Q4 2018 to Q4 2019 included change in fair value of derivatives, increase in interest expenses and change in net currency gains and losses.

In Q4 2019, the tax expense was USD 1 million (USD 2 million).

Net profit in Q4 2019 was USD 11 million (USD 19 million).

Profit & loss FY 2019

Operating revenue FY 2019 was USD 823 million (USD 698 million), an increase of USD 125 million, mainly due to increased revenue in the MODU segment from FY 2018 to FY 2019.

EBITDA FY 2019 was USD 332 million (USD 259 million), an increase of USD 73 million, mainly due to increased EBITDA from the MODU segment. Implementation of *IFRS 16 Leases* has affected the FY 2019 EBITDA positively with USD 8 million, while the FY 2018 EBITDA was positively impacted by a pension adjustment of USD 6 million.

The EBITDA margin FY 2019 was 40% (37%).

EBIT FY 2019 was USD 147 million (USD 99 million), an increase of USD 48 million.

Net financial expenses FY 2019 amounted to USD 103 million (USD 67 million). The gain of USD 10 million from bonds and warrants in Golden Close Maritime Corp. Ltd., affected the net financial expenses positively in 2018. The remaining increase of USD 26 million includes change in fair value of warrant liabilities in addition to recognised modification loss related to the extension and amendment of the Drilling Services USD 250 million bank facility, in addition to an increase in interest expenses.

FY 2019 the tax expense was USD 3 million (USD 4 million).

Net profit FY 2019 was USD 41 million (USD 27 million).

Balance sheet

Total assets as at 31 December 2019 amounted to USD 2,686 million (USD 2,276 million), an increase of USD 410 million, mainly due to the new mobile drilling unit (Deepsea Nordkapp) in addition to right-of-use assets (*IFRS 16 Leases)* amounting to USD 46 million*.*

Equity as at 31 December 2019 amounted to USD 1,062 million (USD 1,024 million) an increase of USD 38 million.

The equity ratio was 40% as at 31 December 2019 (45%).

Net interest bearing debt as at 31 December 2019 amounted to USD 1,221 million (USD 920 million), an increase of USD 301 million. The increase is mainly due to the financing of Deepsea Nordkapp and refinancing of Deepsea Atlantic and Deepsea Stavanger.

Cash flow Q4 2019

Net cash flow from operating activities in Q4 2019 was positive with USD 76 million. The Group paid USD 22 million in interest related to operating activities.

Net cash outflow from investing activities in Q4 2019 was USD 17 million.

Net cash outflow from financing activities in Q4 2019 was USD 22 million. The Group paid USD 54 million in instalments on credit facilities in Q4 2019, while USD 35 million was drawn on the Odfjell Invest junior facility.

Cash flow FY 2019

Net cash flow from operating activities FY 2019 was positive with USD 198 million. The Group paid USD 78 million in interest related to operating activities.

Net cash outflow from investing activities FY 2019 was USD 428 million, mainly due to capital expenditures related to the new mobile drilling unit (Deepsea Nordkapp).

Net cash flow from financing activities FY 2019 was USD 231 million. Net cash flow from the drawn credit facilities amounted to USD 805 million. USD 400 million was used for repayment of the former Odfjell Invest facility, while USD 164 million was used for instalments on credit facilities.

At 31 December 2019, cash and cash equivalents amounted to USD 170 million. There has been a total reduction in cash and cash equivalents of USD 5 million since 31 December 2018. The Group has, as at 31 December 2019, USD 25 million in undrawn and available credit facilities.

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

All figures in USD million

Key figures MODU segment	Q4 19	Q4 18	FY 19	FY 18
Operating revenue..	160	119	599	476
EBITDA..	80	60	291	226
EBIT..	37	27	138	94
EBITDA margin...	50%	51%	49%	47 %

Operating revenue for the MODU segment in Q4 2019 was USD 160 million (USD 119 million), an increase of USD 41 million, mainly due to the new rigs Deepsea Nordkapp and management for Deepsea Yantai.

EBITDA for the MODU segment in Q4 2019 was USD 80 million (USD 60 million), an increase of USD 20 million. The change in EBITDA is mainly due to the operation of Deepsea Nordkapp, and improved EBITDA for Deepsea Atlantic, and Deepsea Stavanger, compared to previous year.

EBIT for the MODU segment in Q4 2019 was USD 37 million (USD 27 million), an increase of USD 10 million.

Operating revenue for the MODU segment FY 2019 was USD 599 million (USD 476 million), an increase of USD 123 million. This change is mainly due to Deepsea Nordkapp commencing operations in Q2 2019, added revenue for Deepsea Stavanger from the Total South Africa project in Q1 2019, and management for Deepsea Yantai.

EBITDA for the MODU segment FY 2019 was USD 291 million (USD 226 million), an increase of USD 65 million. The change in EBITDA is mainly due to the operation of Deepsea Nordkapp and the Total South Africa project for Deepsea Stavanger.

EBIT for the MODU segment FY 2019 was USD 138 million (USD 94 million), an increase of USD 44 million. The increase 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	Q4 19	Q4 18	FY 19	FY 18
Deepsea Stavanger..	99.2 %	98.0 %	98.7 %	98.7 %
Deepsea Atlantic..	97.1 %	96.9 %	97.8 %	98.4 %
Deepsea Bergen..	91.3 %	98.0 %	97.3 %	98.2 %
Deepsea Aberdeen..	96.0 %	98.7 %	97.2 %	98.4 %
Deepsea Nordkapp	96.1 %	n/a	98.0 %	n/a

- Deepsea Stavanger has been operating for Aker BP on the NCS in Q4 2019.
- Deepsea Atlantic has been operating for Equinor on the NCS in Q4 2019.
- Deepsea Bergen has been operating for OMV Norge until end of October, thereafter for MOL throughout the quarter. Both contracts on the NCS.
- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q4 2019.
- Deepsea Nordkapp has been operating for Aker BP on the NCS in Q4 2019.

Drilling & Technology

All figures in USD million

Key figures Drilling & Technology segment	Q4 19	Q4 18	FY 19	FY 18
Operating revenue..	38	37	147	145
EBITDA...	6	5	17	14
EBIT..	6	5	17	13
EBITDA margin..	15%	15%	12%	9 %

Operating revenue for the D&T segment in Q4 2019 was USD 38 million (USD 37 million), an increase of USD 1 million compared to Q4 2018.

EBITDA for the D&T segment in Q4 2019 was USD 6 million (USD 5 million), an increase of USD 1 million compared to same period in 2018. The EBITDA margin for the D&T segment in Q4 2019 was 15% (15%).

EBIT for the D&T segment Q4 2019 was USD 6 million (USD 5 million), an increase of USD 1 million compared to the same period in 2018.

Operating revenue for the D&T segment FY 2019 was USD 147 million (USD 145 million), an increase of USD 2 million due to increased activity level.

EBITDA for the D&T segment FY 2019 was USD 17 million (USD 14 million), an increase of USD 3 million. The EBITDA margin for the D&T segment FY 2019 was 12% (9 %). The increase in margin shows improving operational performance.

EBIT for the D&T segment FY 2019 was USD 17 million (USD 13 million), an increase of USD 4 million from 2018 due to the same reasons as mentioned above.

Well Services

All figures in USD million

Key figures Well Services segment	Q4 19	Q4 18	FY 19	FY 18
Operating revenue..	31	25	111	107
EBITDA...	11	6	31	26
EBIT..	5	(0)	9	2
EBITDA margin..	36%	22%	28%	24 %

Operating revenue for the OWS segment in Q4 2019 was USD 31 million (USD 25 million), an increase of USD 6 million, mainly due to higher activity in Norway and the Middle East Asia and African markets.

EBITDA for the OWS segment in Q4 2019 was USD 11 million (USD 6 million), an increase of USD 5 million. As for revenue, it is mainly due to increased activity in the Norwegian and MEAA markets. EBITDA margin for the OWS segment in Q4 2019 was 36% (22%). Increased margin in the quarter is mainly due to a new product line and gain on sale of assets.

EBIT for the OWS segment in Q4 2019 was USD 5 million (USD 0 million).

Operating revenue for the OWS segment FY 2019 was USD 111 million (USD 107 million). An increase in both the European and MEAA markets full year revenue was offset by a reduction in the Norwegian market, which suffered a difficult first quarter.

EBITDA for the OWS segment FY 2019 was USD 31 million (USD 26 million). The EBITDA margin for the OWS segment FY 2019 was 28% (24%).

EBIT for the OWS segment FY 2019 was USD 9 million (USD 2 million).

Environmental, social and governance (ESG)

Odfjell Drilling has, over the last few years, strongly focused on reduction of emissions to air from our offshore drilling units. Currently, the initiatives are focused around operational optimization leading to significant fuel reduction. The next step is further technical optimization including hybridization, which will ensure that our rigs will further reduce the carbon footprint. Odfjell Drilling recognises the increased requirements from authorities, investors and financial institutions among others, with regards to ESG-strategy and reporting. During the last part of 2019, a project with the objective to revisit and improve the strategy within ESG for all business areas was initiated.

Outlook

The drilling and oil service market has developed positively in recent years due to strong focus on cost discipline and more efficient operations, combined with a healthier oil price development. This has led to increased appetite for field development and production spending across the segment, however with some regional differences. The risk of negative development in the global economy has also shed uncertainty into the commodity market with volatile oil prices as a consequence.

The expected overall increase in drilling activity has been further delayed, still providing a low utilization of the total available drilling fleet for ultra deep and benign water operations in general. The harsh environment market has however continued its positive trend with significant higher activity now compared to a few years back in time and it is believed that this segment will continue to increase its activity level in the medium to long term horizon.

The modern fleet of harsh environment units is fully utilized and there is limited access to additional units. Increased lead time and high utilization will improve dayrates for modern harsh environment drilling units in the medium to long run. However, the current dayrate level does still not support any newbuild activity based on expected return on capital employed for the next couple of years. With a total period of 3-4 years from decision to delivery of a newbuild, Odfjell Drilling is well positioned to benefit in this period with a fleet consisting of 6th generation semi-submersibles with proven efficient capabilities in harsh environments.

Deepsea Stavanger commenced its current contract with Aker BP on the NCS on 7 April 2019 and will continue until commencement of its next contract with Total in South Africa whereby mobilization is expected to start in April 2020.

Deepsea Atlantic is currently operating for Equinor under the Master Frame Agreement. The unit was recently awarded additional wells under the Master Frame Agreement, expected to take the unit throughout 2020.

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

Deepsea Bergen operated for OMV Norge until 29 October 2019 and thereafter commenced its one well contract with MOL. The MOL contract is expected to be finalized in March 2020 and Deepsea Bergen has currently no new work beyond this.

Deepsea Nordkapp commenced operations for Aker BP under the Alliance agreement on 10 May 2019. The firm period, after exercise of the first option is now for 3 years with an additional 1 year option.

OWS is still facing fierce competition for its services globally. An increased operational activity in the European and Middle East markets has been observed, which subsequently will increase utilisation of equipment and price level.

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 current 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 clients' spending budgets and developments in the financial and fiscal markets and within the Group. Furthermore, as the Group's fully owned fleet consists of five 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 financial institutions to focus on contract backlog as the major criteria for debt financing. The market for rig financing is still challenging and additional funding sources may not be available to the Group in the future for refinancing existing facilities as they mature.

The uncertainties and volatility in today's financial markets represent a risk for the Group with respect to funding should these market conditions continue over time. The market outlook and contract situation for the Group's mobile offshore drilling units may also affect covenant risk since reduced revenues from drilling operations directly affect the operating results and cash flow from operations.

Total liquidity position continues to be monitored. The Group has, in recent years, implemented cost reduction and efficiency improvement programs, and continued its focus on capital discipline in order to improve its competitiveness in this challenging market.

Quality, health, safety & environment (QHSE)

Key figures QHSE	FY 19	FY 18
Lost time incident frequency (as per 1 million working hours)…………………	1.4	1.0
Total recordable incident frequency (as per 1 million working hours)……	3.2	1.6
Sick leave (percentage)………………………………………………………………………	2.8	3.1
Dropped objects frequency (as per 1 million working hours)………………….	2.5	3.0
Number of employees……………………………………………………………………….	2,579	2,385

Aberdeen, United Kingdom
26 February 2020

Board of Directors of Odfjell Drilling Ltd.

Helene Odfjell, Chairman | Susanne Munch Thore, Director

Alasdair Shiach, Director | Thomas Marsoner, Director

Appendix 1: Definitions of alternative performance measures

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.

EBIT margin
EBIT/Operating revenue

EBITDA margin
EBITDA/Operating revenue

ESG
Environmental, social and governance

Equity ratio
Total equity/total equity and liabilities

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.

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

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

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements

4th quarter of 2019 and preliminary results for the financial year ending 31 December 2019

Unaudited

Condensed Consolidated Income Statement

USD thousands	Note	Q4 19	Q4 18	FY 19	FY 18
Operating revenue	3,4	**220,697**	**167,620**	**823,195**	**698,476**
Other gains and losses		553	625	1,312	2,211
Personnel expenses		(90,179)	(61,868)	(328,353)	(303,669)
Other operating expenses		(38,355)	(38,568)	(164,395)	(137,871)
EBITDA		**92,716**	**67,810**	**331,759**	**259,147**
Depreciation, amortisation and impairment	6,7,8	(50,925)	(40,076)	(185,192)	(160,630)
Operating profit (EBIT)		**41,791**	**27,733**	**146,567**	**98,517**
Net financial items	15	(30,649)	(6,961)	(102,762)	(67,377)
Profit/(loss) before tax		**11,142**	**20,773**	**43,805**	**31,139**
Income taxes		(614)	(2,043)	(2,984)	(3,789)
Profit/(loss) for the period		**10,528**	**18,729**	**40,820**	**27,350**
Earnings per share (USD)					
Basic earnings per share	11	0.04	0.07	0.14	0.10
Diluted earnings per share	11	0.04	0.07	0.14	0.10

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q4 19	Q4 18	FY 19	FY 18
Profit/(loss) for the period		**10,528**	**18,729**	**40,820**	**27,350**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Actuarial gain / (loss) on post employment benefit obligations		3,820	(76)	(304)	479
Items that are or may be reclassified to profit or loss:					
Cash flow hedges		1,944	9	1,124	186
Currency translation differences		7,994	(8,111)	446	(5,597)
Other comprehensive income for the period, net of tax		**13,758**	**(8,178)**	**1,265**	**(4,932)**
Total comprehensive income for the period		**24,287**	**10,551**	**42,085**	**22,419**

Condensed Consolidated Statement of Financial Position

USD thousands	Note	31.12.2019	31.12.2018
Assets			
Deferred tax asset		777	1,271
Intangible assets	6	29,678	29,811
Property, plant and equipment	7,8	2,280,867	1,928,132
Financial non-current assets	5	1,726	769
Total non-current assets		**2,313,048**	**1,959,983**
Trade receivables		174,158	103,056
Contract assets		9,392	-
Other current assets	5	20,104	38,545
Cash and cash equivalents		169,694	174,761
Total current assets		**373,348**	**316,363**
Total assets		**2,686,396**	**2,276,345**
Equity and liabilities			
Total paid-in capital	14	564,959	564,959
Other equity		497,419	458,714
Total equity		**1,062,378**	**1,023,673**
Non-current interest-bearing borrowings	12	1,173,882	311,819
Non-current lease liabilities	8	38,901	-
Post-employment benefits		7,725	9,934
Non-current contract liabilities		1,559	369
Other non-current liabilities	5	9,663	-
Total non-current liabilites		**1,231,730**	**322,122**
Current interest-bearing borrowings	12	216,581	782,980
Current lease liabilities	8	7,757	-
Contract liabilities		39,265	27,584
Trade payables		46,168	42,047
Other current liabilities	5	82,517	77,940
Total current liabilities		**392,288**	**930,550**
Total liabilities		**1,624,018**	**1,252,672**
Total equity and liabilities		**2,686,396**	**2,276,345**

Condensed Consolidated Statement of Changes in Equity

				Equity attributable to:		
USD thousands	Total paid-in capital	Other equity	Total equity	Common shares	Preference shares	Total equity
Balance at 1 January 2018	328,841	438,216	767,057	767,057	-	767,057
Profit/(loss) for the period	-	27,350	27,350	22,932	4,418	27,350
Other comprehensive income for the period	-	(4,931)	(4,931)	(4,931)		(4,931)
Total comprehensive income for the period	-	22,419	22,419	18,001	4,418	22,419
Capital increase common shares	171,794	-	171,794	171,794	-	171,794
Capital increase preference shares	75,000	-	75,000	-	75,000	75,000
Transaction costs	(10,676)	-	(10,676)	(10,676)	-	(10,676)
Dividend paid to preference share holders	-	(2,209)	(2,209)	-	(2,209)	(2,209)
Cost of Share-option plan		288	288	288	-	288
Transactions with owners	236,118	(1,921)	234,197	161,406	72,791	234,197
Balance at 31 December 2018	**564,959**	**458,714**	**1,023,673**	**946,464**	**77,209**	**1,023,673**
Profit/(loss) for the period	-	40,820	40,820	33,003	7,817	40,820
Other comprehensive income for the period	-	1,265	1,265	1,265		1,265
Total comprehensive income for the period	-	42,085	42,085	34,268	7,817	42,085
Dividend to preference share holders	-	(3,909)	(3,909)	-	(3,909)	(3,909)
Cost of Share-option plan	-	528	528	528	-	528
Transactions with owners	-	(3,381)	(3,381)	528	(3,909)	(3,381)
Balance at 31 December 2019	**564,959**	**497,419**	**1,062,378**	**981,260**	**81,118**	**1,062,378**

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q4 19	Q4 18	FY 19	FY 18
Cash flows from operating activities:					
Profit/(loss) before tax		11,142	20,773	43,805	31,139
Adjustment for provisions and other non-cash elements		76,478	44,414	281,642	212,003
Changes in working capital		10,624	50,048	(46,640)	44,384
Cash generated from operations		***98,244***	***115,235***	***278,808***	***287,526***
Interest paid		(21,647)	(18,166)	(77,940)	(65,805)
Net income tax (paid) / refunded		(1,039)	(368)	(2,549)	(1,191)
Net cash flow from operating activities		**75,558**	**96,701**	**198,319**	**220,530**
Cash flows from investing activities:					
Purchase of property, plant and equipment	6,7	(19,777)	(48,983)	(425,579)	(305,876)
Capitalised interest paid		-	-	(7,027)	-
Proceeds from sale of property, plant and equipment		2,485	752	3,345	2,590
Other long term receivables		(2)	54	46	56
Proceeds from financial investments incl. joint ventures		(1)	9,739	967	9,739
Net cash flow from investing activities		**(17,294)**	**(38,438)**	**(428,247)**	**(293,491)**
Cash flows from financing activities:					
Net (payments)/proceeds from borrowings financial institutions	12	35,000	-	805,162	-
Repayment of borrowings to financial institutions	12	(54,053)	(60,300)	(564,253)	(145,300)
Repayment of lease liabilities	8	(1,047)	-	(6,297)	-
Net proceeds from capital increases		-	-	-	236,118
Dividends paid to preference share holders		(1,994)	(2,209)	(3,909)	(2,209)
Net cash flow from financing activities		**(22,094)**	**(62,509)**	**230,704**	**88,609**
Effects of exchange rate changes on cash and cash equivalents		2,186	(4,613)	(5,843)	(6,858)
Net increase (decrease) in cash and cash equivalents		**38,356**	**(8,859)**	**(5,067)**	**8,791**
Cash and cash equivalents at beginning of period		131,338	183,620	174,761	165,970
Cash and cash equivalents at period end		**169,694**	**174,761**	**169,694**	**174,761**

Note 1 | Accounting Principles

General information

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

Odfjell Drilling Ltd., is incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. A special general meeting in Odfjell Drilling Ltd resolved 11 December 2018 to migrate its head office from Bermuda to Aberdeen,Scotland.The company is as a consequence of this migration a resident of United Kingdom and the residential address is Bergen House, Crawpeel Road, Altens Aberdeen AB12 3LG, Scotland, United Kingdom.

These condensed interim financial statements were approved by the Board of Directors on 26 February 2020 and have not been audited.

Basis for preparation

These condensed interim financial statements for the twelve months period ended 31 December 2019 have been prepared in accordance with IAS 34, 'Interim financial reporting'. These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018.

Going concern

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

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

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

Accounting principles

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

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

Use of estimates

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

In preparing these interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

There will always be uncertainty related to judgement and assumptions related to accounting estimates. Reference is made to *Note 6 Intangible assets*, and *Note 7 Property, plant and equipment* where assumptions and sensitivity analysis for goodwill and mobile drilling units are presented.

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

Note 2 | New accounting standards

IFRS 16 *Leases*

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

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

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

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

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

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

Note 2 | New accounting standards - cont.

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

	31.12.2019			Opening balance		
Consolidated statement of financial position	**IFRS 16**	**Impact**	**IAS 17**	**IFRS 16**	**Impact**	**IAS 17**
USD thousands	31.12.2019	IFRS 16	31.12.2019	01.01.2019	IFRS 16	31.12.2018
Assets						
Deferred tax asset	777	227	550	1,271	-	1,271
Property, plant and equipment	2,280,867	45,911	2,234,956	1,974,092	45,960	1,928,132
Other non-current assets	31,404	-	31,404	30,580	-	30,580
Total non-current assets	**2,313,048**	**46,138**	**2,266,910**	**2,005,943**	**45,960**	**1,959,983**
Trade receivables and contract assets	183,549	-	183,549	103,056	-	103,056
Other current assets	20,104	(407)	20,511	38,310	(235)	38,545
Cash and cash equivalents	169,694	-	169,694	174,761	-	174,761
Total current assets	**373,348**	**(407)**	**373,754**	**316,128**	**(235)**	**316,363**
Total assets	**2,686,396**	**45,731**	**2,640,665**	**2,322,070**	**45,725**	**2,276,345**
Equity and liabilities						
Total paid-in capital	564,959	-	564,959	564,959	-	564,959
Other equity	497,419	(928)	498,346	458,714	-	458,714
Total equity	**1,062,378**	**(928)**	**1,063,305**	**1,023,673**	**-**	**1,023,673**
Non-current interest-bearing borrowings	1,173,882	-	1,173,882	311,819	-	311,819
Non-current lease liabilities	38,901	38,901	-	37,814	37,814	-
Other non-current liabilities	18,947	-	18,947	10,303	-	10,303
Total non-current liabilites	**1,231,730**	**38,901**	**1,192,829**	**359,936**	**37,814**	**322,122**
Current interest-bearing borrowings	216,581	-	216,581	782,980	-	782,980
Current lease liabilities	7,757	7,757	-	7,911	7,911	-
Other current liabilities	167,950	-	167,950	147,571	-	147,571
Total current liabilities	**392,288**	**7,757**	**384,530**	**938,461**	**7,911**	**930,550**
Total liabilities	**1,624,018**	**46,659**	**1,577,359**	**1,298,397**	**45,725**	**1,252,672**
Total equity and liabilities	**2,686,396**	**45,731**	**2,640,665**	**2,322,070**	**45,725**	**2,276,345**
Equity ratio	40 %		40 %	44 %		45 %

Note 2 | New accounting standards - cont.

The following tables show the impacts arising from IFRS16 for 2019.

Consolidated Income Statement	IFRS 16	Impact IFRS 16	IAS 17	IAS 17	IFRS 16	Impact IFRS 16	IAS 17	IAS 17
USD thousands	Q4 19	Q4 19	Q4 19	Q4 18	FY 19	FY 19	FY 19	FY 18
Operating revenue	**220,697**	**-**	**220,697**	**167,620**	**823,195**	**-**	**823,195**	**698,476**
Other gains and losses	553	-	553	625	1,312	-	1,312	2,211
Personnel expenses	(90,179)	-	(90,179)	(61,868)	(328,353)	-	(328,353)	(303,669)
Other operating expenses	(38,355)	1,999	(40,354)	(38,568)	(164,395)	8,094	(172,489)	(137,871)
EBITDA	**92,716**	**1,999**	**90,717**	**67,810**	**331,759**	**8,094**	**323,665**	**259,147**
Depreciation, amortisation and impairment	(50,925)	(1,662)	(49,262)	(40,076)	(185,192)	(6,698)	(178,494)	(160,630)
Operating profit (EBIT)	**41,791**	**337**	**41,454**	**27,733**	**146,567**	**1,395**	**145,171**	**98,517**
Net financial items	(30,649)	(599)	(30,051)	(6,961)	(102,762)	(2,530)	(100,232)	(67,377)
Profit/(loss) before tax	**11,142**	**(262)**	**11,404**	**20,773**	**43,805**	**(1,135)**	**44,940**	**31,139**
Income taxes	(614)	37	(651)	(2,043)	(2,984)	212	(3,196)	(3,789)
Profit/(loss) for the period	**10,528**	**(224)**	**10,753**	**18,729**	**40,820**	**(923)**	**41,744**	**27,350**

Consolidated Statement of Cash Flows	IFRS 16	Impact IFRS 16	IAS 17	IAS 17	IFRS 16	Impact IFRS 16	IAS 17	IAS 17
USD thousands	Q4 19	Q4 19	Q4 19	Q4 18	FY 19	FY 19	FY 19	FY 18
Cash flows from operating activities:								
Profit/(loss) before tax	11,142	(262)	11,404	20,773	43,805	(1,135)	44,940	31,139
Adjustment for provisions and other non-cash elements	76,478	2,261	74,217	44,414	281,642	9,229	272,414	212,003
Changes in working capital	10,624	(794)	11,418	50,048	(46,640)	153	(46,793)	44,384
Cash generated from operations	***98,244***	***1,205***	***97,039***	***115,235***	***278,808***	***8,247***	***270,561***	***287,526***
Interest paid	(21,647)	(158)	(21,489)	(18,166)	(77,940)	(1,950)	(75,990)	(65,805)
Net income tax (paid) / refunded	(1,039)	-	(1,039)	(368)	(2,549)	-	(2,549)	(1,191)
Net cash flow from operating activities	**75,558**	**1,047**	**74,511**	**96,701**	**198,319**	**6,297**	**192,022**	**220,530**
Net cash flow from investing activities	**(17,294)**	**-**	**(17,294)**	**(38,438)**	**(428,247)**	**-**	**(428,247)**	**(293,491)**
Net (payments)/proceeds from borrowings financial institutions	35,000	-	35,000	-	805,162	-	805,162	-
Repayment of borrowings to financial institutions	(54,053)	-	(54,053)	(60,300)	(564,253)	-	(564,253)	(145,300)
Repayment of lease liabilities	(1,047)	(1,047)	-	-	(6,297)	(6,297)	-	-
Cash flow from other financial activities	(1,994)		(1,994)	(2,209)	(3,909)		(3,909)	233,909
Net cash flow from financing activities	**(22,094)**	**(1,047)**	**(21,047)**	**(62,509)**	**230,704**	**(6,297)**	**237,001**	**88,609**

Note 3 | Segment summary

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

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

- **MODU:** In the MODU segment, the Group operates drilling units owned by the Group and by third parties. The MODU segment also offers management services to other owners of drilling units; 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	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18
External segment revenue	160,159	118,690	33,488	28,689	23,861	19,569	3,189	672	220,697	167,620
Inter segment revenue	-	-	4,612	8,287	6,672	5,690	(11,284)	(13,977)	-	-
Total revenue	**160,159**	**118,690**	**38,100**	**36,976**	**30,533**	**25,260**	**(8,095)**	**(13,305)**	**220,697**	**167,620**
EBITDA - segments (NGAAP)	**79,797**	**60,066**	**5,528**	**5,371**	**10,860**	**5,651**	**(5,580)**	**(3,463)**	**90,605**	**67,624**
Depreciation and impairment	(42,946)	(33,292)	(25)	(20)	(5,437)	(5,793)	(827)	(972)	(49,235)	(40,076)
EBIT - segments (NGAAP)	**36,851**	**26,774**	**5,503**	**5,351**	**5,423**	**(142)**	**(6,408)**	**(4,435)**	**41,370**	**27,548**
Reconciliation:	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18
Accounting differences affecting EBITDA	131	107	26	24	390	4	1,565	50	2,111	186
EBITDA - IFRS	**79,928**	**60,173**	**5,554**	**5,395**	**11,250**	**5,655**	**(4,016)**	**(3,413)**	**92,716**	**67,810**
Accounting differences affecting Depreciation and impairment	(73)	-	-	-	(363)	-	(1,254)	-	(1,690)	-
EBIT - Consolidated	**36,909**	**26,881**	**5,529**	**5,375**	**5,450**	**(138)**	**(6,097)**	**(4,385)**	**41,791**	**27,733**
Net financial items									(30,649)	(6,961)
Profit / (loss) before tax - Consolidated Group									**11,142**	**20,773**

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

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

Note 3 | Segment summary - cont.

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18
External segment revenue	598,915	476,450	130,551	130,457	85,348	77,449	8,380	14,121	823,195	698,476
Inter segment revenue	-	-	16,352	14,082	25,834	29,327	(42,186)	(43,410)	-	-
Total revenue	**598,915**	**476,450**	**146,904**	**144,539**	**111,182**	**106,776**	**(33,806)**	**(29,289)**	**823,195**	**698,476**
EBITDA	**290,770**	**226,188**	**17,303**	**13,544**	**30,659**	**25,995**	**(15,530)**	**(7,383)**	**323,202**	**258,344**
Depreciation and impairment	(153,203)	(132,675)	(84)	(71)	(21,717)	(24,151)	(3,490)	(3,734)	(178,494)	(160,630)
EBIT	**137,567**	**93,513**	**17,219**	**13,473**	**8,942**	**1,845**	**(19,020)**	**(11,116)**	**144,708**	**97,714**
Reconciliation:	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18
Accounting differences affecting EBITDA	544	394	107	98	1,440	23	6,466	287	8,557	802
EBITDA - IFRS	**291,314**	**226,581**	**17,410**	**13,642**	**32,099**	**26,019**	**(9,063)**	**(7,095)**	**331,759**	**259,147**
Accounting differences affecting Depreciation and impairment	(304)	-	-	-	(1,268)	-	(5,126)	-	(6,698)	-
EBIT - Consolidated	**137,807**	**93,906**	**17,326**	**13,571**	**9,113**	**1,868**	**(17,679)**	**(10,829)**	**146,567**	**98,517**
Net financial items									(102,762)	(67,377)
Profit / (loss) before tax - Consolidated Group									**43,805**	**31,139**

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

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

Note 4 | Revenue

USD thousands	Q4 19	Q4 18	FY 19	FY 18
Revenue from contracts with customers	210,363	161,389	790,312	672,246
Other operating revenue	10,333	6,231	32,883	26,230
Operating revenue	**220,697**	**167,620**	**823,195**	**698,476**

Disaggregation of revenue

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Elimination		Consolidated	
USD thousands	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18
Primary geographical markets										
Norway	120,078	52,132	24,030	24,698	15,726	10,746	(7,314)	(12,561)	152,519	75,015
UK	40,081	39,462	14,070	12,278	1,839	2,760	(690)	(752)	55,300	53,748
Europe - other countries	-	-	-	-	5,650	5,542	-	35	5,650	5,577
Asia	-	1,176	-	-	7,098	6,128	(91)	(28)	7,007	7,276
Africa	-	25,920	-		201	53	-	2	201	25,975
Other geographical markets	-	-	-	-	20	29	-	-	20	29
Total operating revenue	**160,159**	**118,690**	**38,100**	**36,976**	**30,533**	**25,260**	**(8,095)**	**(13,305)**	**220,697**	**167,620**

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Elimination		Consolidated	
USD thousands	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18	FY 19	FY 18
Primary geographical markets										
Norway	364,521	284,291	93,126	91,111	49,766	54,518	(30,289)	(26,062)	477,124	403,859
UK	166,079	158,303	53,778	53,428	9,906	8,973	(3,637)	(3,454)	226,125	217,250
Europe - other countries	-	-	-	-	22,769	19,298	-	(356)	22,769	18,942
Asia	487	7,937	-	-	27,508	23,653	120	580	28,115	32,170
Africa	67,829	25,920	-	-	1,024	128	-	2	68,853	26,050
Other countries	-	-	-	-	209	205	-	(0)	209	205
Total operating revenue	**598,915**	**476,450**	**146,904**	**144,539**	**111,182**	**106,776**	**(33,806)**	**(29,289)**	**823,195**	**698,476**

Note 5 | Financial risk management and Financial instruments

Financial risk factors

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

The Group's refinancing risk is diversified with each loan facility maturing at different times until June 2024 - see repayment schedule and additional information in note 12. The Deepsea Bergen facility, currently outstanding USD 32 million, matures 30 September 2020, subject to termination options for the lenders if the borrower is unable to document the necessary backlog for Deepsea Bergen.

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

Calculation of the Group's sensitivity to interest rate fluctuations showed that the effect of an increase in interest rates by one percentage point (e.g. from 4.0% to 5.0%) is approximately USD 10 million annually including interest rate swaps, which isat the same level as at year-end 2018.

Liquidity risk

Operating in more than 20 jurisdictions Odfjell Drilling do from time to time receive enquiries from authorities about compliance related matters. The Group has per 31 December 2019 not received any formal material assessment which is not recognised in the financial statements. However, there might be a risk of demand for payment from relevant authorities during such process, even if the final conclusion is in the Groups favour.
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 12.

Credit risk

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

Fair value estimation

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

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

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

USD thousands	Level	31.12.2019	31.12.2018
Financial assets at fair value through profit or loss			
Derivatives not designated as hedging instruments			
- Interest rate swaps - Other non-current assets	2	-	599
- Foreign exchange forward contracts - Other current assets	2	23	-
Derivatives designated as hedging instruments			
- Interest rate swaps - Other non-current assets	2	1,606	
Debt instruments at amortised cost			
- Other non-current receivables	3	120	170
- Trade and other current receivables	3	187,521	106,717
Total financial assets		**189,270**	**107,486**

USD thousands	Level	31.12.2019	31.12.2018
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedging instruments			
- Interest rate swaps - Other non-current liabilities	2	70	-
Derivatives designated as hedging instruments			
- Interest rate swaps - Other non-current liabilities	2	482	-
Warrant liabilities - Other non-current liabilities	3	9,111	-
Financial liabilities at amortised cost			
- Non-current lease liabilities	3	38,901	-
- Current lease liabilities	3	7,757	-
- Trade and other payables	3	128,092	119,809
- Non-current interest-bearing borrowings	3	1,173,882	311,819
- Current interest-bearing borrowings	3	216,581	782,980
Total financial liabilities		**1,574,876**	**1,214,607**

Valuation techniques used to derive Level 2 fair values

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

Fair value of financial liabilities measured at amortised cost

The fair value of interest-bearing borrowings are as follows:

	31.12.2019	31.12.2018
Non-current	1,173,882	311,819
Current	216,581	782,980
Total	**1,390,462**	**1,094,798**

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

Note 6 | Intangible assets

USD thousands	Goodwill	Software and other intangible assets	Total intangible assets
Opening net book amount as at 1 January 2019	18,638	11,173	29,811
Additions	-	3,266	3,266
Amortisation	-	(3,090)	(3,090)
Currency translation differences	(195)	(114)	(309)
Closing net book amount as at 31 December 2019	**18,443**	**11,235**	**29,678**
Opening net book amount as at 1 January 2018	19,736	13,119	32,855
Additions	-	1,700	1,700
Amortisation	-	(3,044)	(3,044)
Currency translation differences	(1,098)	(603)	(1,701)
Closing net book amount as at 31 December 2018	**18,638**	**11,173**	**29,811**

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 2020 and the following years is based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax weighted average cost of capital and reflect specific risks relating to the relevant operating segments.

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

The key assumptions used for value-in-use calculations as per Q4 2019 are as follows:

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services
EBITDA margin in prognosis period	14% - 16%	5% - 7%	30% - 34%
Growth rate year 6 and forward	0.0%	0.0%	0.0%
Weighted Average Cost of Capital, pre-tax	8.5 %	8.4%	8.6%

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 11 million in the Drilling & Technology segment. None of the other scenarios indicated any impairment write-down of goodwill as at 31 December 2019.

Note 7 | Property, plant and equipment

USD thousands	Mobile drilling units	Periodic maintenance	Newbuild in progress	Well Services equipment	Other fixed assets	Right-of-use assets	Total fixed assets
Opening net book amount as at 1 January 2019	1,539,951	68,271	246,788	71,238	1,883	-	1,928,132
Effect change in accounting policies	-	-	-	-	-	45,960	45,960
Additions	40,230	48,778	367,583	25,205	2,413	6,997	491,207
Disposals	(1,195)	-	-	(786)	-	-	(1,981)
Depreciation	(107,788)	(45,384)	-	(21,286)	(946)	(6,698)	(182,102)
Reclassification	579,371	35,000	(614,371)	-	-	-	-
Currency translation differences	-	-	-	(7)	7	(348)	(349)
Net book amount as at 31 December 2019	**2,050,569**	**106,666**	**(0)**	**74,363**	**3,357**	**45,911**	**2,280,867**
Opening net book amount as at 1 January 2018	1,610,118	88,869	-	82,392	1,015	-	1,782,393
Additions	18,834	23,052	246,788	13,249	2,253	-	304,176
Disposals	-	-	-	(694)	(18)	-	(711)
Depreciation	(89,002)	(43,650)	-	(23,666)	(1,269)	-	(157,587)
Currency translation differences	-	-	-	(43)	(97)	-	(140)
Net book amount as at 31 December 2018	**1,539,951**	**68,271**	**246,788**	**71,238**	**1,883**	**-**	**1,928,132**
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 was related to Deepsea Nordkapp, a 6G harsh environment semi-submersible. The rig was constructed at Samsung Heavy Industries, South Korea, and was delivered from the shipyard 7 January 2019. The rig arrived in Norway primo April 2019, and the final completion activities was concluded 10 May 2019 when the rig commenced its contract with Aker BP.

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

Note 7 | Property, plant and equipment - cont.

Impairment tests on mobile drilling units

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

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

Based on impairment tests performed as at 31 December 2019, the Group has not identified any impairment for rigs, or reversal of previous impairment related to the 6G rigs Deepsea Atlantic and Deepsea Stavanger.

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

Key assumptions	**Deepsea Atlantic**	**Deepsea Stavanger**	**Deepsea Aberdeen**	**Deepsea Nordkapp**	**Deepsea Bergen**
	6G Semi	6G Semi	6G Semi	6G Semi	3G semi
Weighted Average Cost of Capital (WACC)	10.0%	10.0%	10.0%	10.0%	8.5%
Firm contract days	196	370	841	882	75
Firm contract day rates (weighted average)	309	404	426	329	180
Future normalised base case day rates - at full market recovery	435	435	435	435	200
Financial utilisation in normalised period	95%	95%	95%	95%	95%

Sensitivity analysis mobile drilling units		**Deepsea Atlantic**	**Deepsea Stavanger**	**Deepsea Aberdeen**	**Deepsea Nordkapp**	**Deepsea Bergen**
Estimated impairment write-down if:						
- WACC increased by	1 pp	33,000	38,000	12,000	49,000	-
- WACC increased by	2 pp	63,000	71,000	56,000	92,000	-
- Day rate level(*) decreased by	5 %	53,000	48,000	15,000	51,000	2,000
- Day rate level(*) decreased by	10 %	105,000	96,000	67,000	103,000	4,000
- Normalised opex level increased by	5 %	26,000	26,000	-	26,000	-
- Normalised opex level increased by	10 %	52,000	53,000	23,000	53,000	-
- Financial utilisation in normalised period decreased by	1 pp	12,000	12,000	-	11,000	-
- Financial utilisation in normalised period decreased by	2 pp	23,000	23,000	-	23,000	1,000
- Financial utilisation in normalised period decreased by	3 pp	35,000	35,000	-	34,000	1,000

(*) excluding firm contractual day rates

Note 8 | Leases

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

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

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

The balance sheet shows the following amounts related to leases:

USD thousands	Properties	Other fixed assets	Total Right-of-use assets
Net book amount as at 1 January 2019	45,158	802	45,960
Additions	6,989	8	6,997
Depreciation	(6,289)	(409)	(6,698)
Currency translation differences	(328)	(19)	(348)
Net book amount as at 31 December 2019	**45,530**	**382**	**45,911**

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

Lease liabilities

USD thousands	31.12.2019	01.01.2019
Non-current	38,901	37,814
Current	7,757	7,911
Total	**46,659**	**45,725**

Movements in non-current lease liabilities are analysed as follows:	31.12.2019
Carrying amount as at 1 January	37,814
Cash flows:	
Payments for the interest portion of the lease liability	(1,950)
Non-cash flows:	
New lease liabilities recognised in the year	6,981
Interest expense on lease liabilities	2,515
Reclassified to current portion of lease liabilities	(6,189)
Currency exchange differences	(270)
Carrying amount as at end of period	**38,901**

Movements in current lease liabilities are analysed as follows:	31.12.2019
Carrying amount as at 1 January	7,911
Cash flows:	
Payments for the principal portion of the lease liability	(6,297)
Non-cash flows:	
Reclassified from non-current portion of lease liabilities	6,189
Currency exchange differences	(45)
Carrying amount as at end of period	**7,757**

Note 9 | Commitments

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

USD thousands	31.12.2019	31.12.2018
Newbuild in progress	-	317,936
Rig investments	8,869	22,727
Rental and casing equipment, due in 1 year	4,619	1,927
Total	**13,488**	**342,590**

Newbuild in progress was related to Deepsea Nordkapp, which was completed in May 2019.

Note 10 | Paid dividends and acquisition of own shares

The Group paid cash dividends of USD 1.9 million at 1 July 2019 and USD 2.0 million at 31 December 2019 to the holders of the preference shares. Refer to note 14 Equity for more information about the preference shares.

The Group has not acquired any of its own shares in the interim period ending 31 December 2019.

Note 11 | Earnings per share

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

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

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

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

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

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

USD thousands	Q4 19	Q4 18	FY 19	FY 18
Profit/(loss) for the period	10,528	18,729	40,820	27,350
Adjustment for dividends on preference shares	(2,043)	(1,890)	(7,817)	(4,418)
Profit/(loss) for the period due to holders of common shares	**8,486**	**16,839**	**33,003**	**22,932**
Adjustment related to warrants and share option plan	-	-	-	-
Diluted profit/(loss) for the periode due to the holders of common shares	**8,486**	**16,839**	**33,003**	**22,932**

	Q4 19	Q4 18	FY 19	FY 18
Weighted average number of common shares in issue	236,783,202	236,783,202	236,783,202	222,599,942
Effects of dilutive potential common shares:				
Warrants	-	-	-	-
Share option plan	-	-	-	-
Diluted average number of shares outstanding	236,783,202	236,783,202	236,783,202	222,599,942

	Q4 19	Q4 18	FY 19	FY 18
Basic earnings per share	0.04	0.07	0.14	0.10
Diluted earnings per share	0.04	0.07	0.14	0.10

Note 12 | Interest-bearing borrowings

USD thousands	31.12.2019	31.12.2018
Non-current	1,173,882	311,819
Current	216,581	782,980
Total	**1,390,462**	**1,094,798**

Movements in non-current borrowings are analysed as follows:	31.12.2019	31.12.2018
Carrying amount as at 1 January	311,819	1,076,103
Cash flows:		
New bank loan	825,000	-
Paid transaction costs related to amendments and new loan	(19,838)	-
Non-cash flows:		
Reclassified from / (to) current borrowings	4,212	(767,565)
Seller's credit raised	43,250	-
Change in transaction cost, unamortised	9,438	3,280
Carrying amount as at end of period	**1,173,882**	**311,819**

Movements in current borrowings are analysed as follows:	31.12.2019	31.12.2018
Carrying amount as at 1 January	782,980	157,472
Cash flows:		
Repayment bank loan	(564,253)	(145,300)
Non-cash flows:		
Reclassified from / (to) non-current borrowings	(4,212)	767,565
Change in transaction cost, unamortised	2,018	2,717
Change in accrued interest cost	48	525
Carrying amount as at end of period	**216,581**	**782,980**

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

Repayment schedule for interest-bearing borrowings	31.12.2019	31.12.2018
Maturity within 3 months	28,053	19,500
Maturity between 3 and 6 months	74,053	65,500
Maturity between 6 and 9 months	39,053	407,000
Maturity between 9 months and 1 year	67,053	283,000
Maturity between 1 and 2 years	511,211	82,200
Maturity between 2 and 3 years	84,211	237,000
Maturity between 3 and 4 years	263,816	-
Maturity between 4 and 5 years	332,262	-
Maturity beyond 5 years	-	-
Total contractual amounts	**1,399,709**	**1,094,200**

Refer to *Note 5 Financial risk management* for further information regarding liquidity risk.

Note 12 | Interest-bearing borrowings - cont

Debt financing of Deepsea Nordkapp

The Odfjell Rig V Ltd. facility of USD 325 million was fully drawn on 3 January 2019 in relation to the delivery of Deepsea Nordkapp that took place on 7 January 2019. At the same day, the seller's credit of USD 43.25 million from Samsung Heavy Industries was made effective.

Refinancing

The Group has on 28 June 2019 entered into agreements for a refinancing related to its 2019 debt maturities, as further described below.

Deepsea Atlantic and Deepsea Stavanger USD 425 million senior bank facility and USD 100 million junior bank facility (Odfjell Invest facility)

The previous facility covering Deepsea Atlantic and Deepsea Stavanger, with USD 400 million outstanding at refinancing date, was replaced by a new senior facility of USD 425 million. In addition, a junior facility of USD 100 million was entered into.

The senior facility will be repaid by quarterly instalments of USD 12.5 million, first time December 2019. The junior facility has no fixed instalments, but shall on certain conditions be partly repaid annually from Q3 2021 by free and available liquidity of the Odfjell Drilling Group above USD 175 million, however so that any such repayment shall be limited to 50% of the previous year’s net result and adjusted for any identified liquidity requirements. Dividends and other distributions on the common shares of Odfjell Drilling are subject to lender’s prior written consent for as long as the junior facility is outstanding.

Interest is payable at LIBOR plus an overall margin depending on the level of net debt to EBITDA for the Odfjell Drilling group, resulting in an estimated combined average margin of around 400 bps over LIBOR during the tenor of the facilities.

The financial covenants applicable for the facilities will be materially the same as those already in place for the Odfjell Drilling group in other loan agreements.

The senior facility of USD 425 million was drawn on signing 28 June 2019. USD 40 million of the junior facility was drawn on signing, while USD 35 million was drawn in December 2019. The remaining USD 25 million is available for additional drawing until 31 March 2020. The tenor of both facilities is 5 years.

This refinancing was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability in accordance with IFRS 9.

Drilling Services USD 250 million bank facility

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

The financial covenants applicable for the facility will be the same as those already in place at Odfjell Drilling Ltd group level in other loan agreements. The debt service coverage ratio measured on Odfjell Drilling Services group level will be replaced by an interest coverage ratio that will gradually increase from 1.5x to 2.0x measured based on consolidated EBITDA to net finance charges for the Odfjell Drilling Services group.

This refinancing was accounted for as a modification of the original financial liability and the carrying amount was recalculated in accordance with IFRS 9, resulting in a modification loss being recognised as finance cost in Q2 2019.

Available drawing facilities

The group has USD 25 million in undrawn facilities as at 31 December 2019, as decribed above. The group has no other available undrawn facilities as per 31 December 2019.

Covenants

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

Note 13 | Contingencies

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

Warrant liabilities are measured at fair value, see note 5.

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

Note 14 | Equity & shareholder information

Listed shares	No.of shares	Nominal value	Share capital USD thousands
Common shares issued as at 31 December 2019	236,783,202	USD 0.01	2,368
Preference shares			
Total issued preference shares as at 31 December 2019	16,123,125	USD 0.01	161

At 30 June 2019 and at 31 December 2019 preferred payment in kind dividend in a total of USD 3.9 million was capitalised, increasing the accrued preference capital balance to USD 81.1 million.
There are no other changes in issued shares, preference shares or warrants in 2019.

Largest common shareholders at 31 December 2019	Holding	% of shares
Odfjell Partners Ltd.	142,476,191	60.17 %
Morgan Stanley & Co. Int. Plc.	7,642,337	3.23 %
J.P.Morgan Securities PLC	5,634,131	2.38 %
J.P.Morgan Chase Bank N.A. London	4,675,361	1.97 %
J.P.Morgan Chase Bank N.A. London	4,608,776	1.95 %
J.P.Morgan Bank Luxembourg S.A.	3,308,253	1.40 %
Goldman Sachs & Co. LLC	3,042,616	1.28 %
The Bank of New York Mellon SA/NV	2,550,229	1.08 %
State Street Bank and Trust Co.	2,425,163	1.02 %
Schroder International Selection	2,401,249	1.01 %
The Bank of New York Mellon SA/NV	2,214,327	0.94 %
State Street Bank and Trust Co.	2,198,092	0.93 %
Citybank, N.A.	2,048,292	0.87 %
J.P.Morgan Securities LLC	1,953,132	0.82 %
Fidelity Select Portfolios: Energy	1,842,482	0.78 %
Verdipapirfondet DNB Norge Selektiv	1,654,123	0.70 %
BNP Paribas Securities Services	1,223,605	0.52 %
Cape Invest AS	1,217,459	0.51 %
Verdipapirfondet Nordea Kapital	1,196,806	0.51 %
Goldman Sachs International	1,195,891	0.51 %
Total 20 largest common shareholders	**195,508,515**	**82.57 %**
Other common shareholders	41,274,687	17.43 %
Total common shareholders	**236,783,202**	**100.00 %**

Note 15 | Net financial items

USD thousands	Note	Q4 19	Q4 18	FY 19	FY 18
Interest income		803	660	2,661	2,060
Interest expense lease liabilities	8	(583)	-	(2,515)	-
Other interest expenses		(20,632)	(17,339)	(85,702)	(68,368)
Other borrowing expenses (*)		(1,325)	(1,499)	(11,456)	(5,997)
Capitalised borrowing costs		-	-	7,914	-
Change in fair value of derivatives (**)		(2,779)	(358)	(9,757)	180
Dividend / gain other financial investments		(1)	9,739	967	9,739
Net currency gain/(loss)		(5,767)	2,000	(3,712)	(3,017)
Other financial items		(365)	(164)	(1,161)	(1,973)
Net financial items		**(30,649)**	**(6,961)**	**(102,762)**	**(67,377)**

(*) YTD 19 includes recognised modification loss related to the extension and amendment to the Drilling Services USD 250 million bank facility, as a result of recalculating amortised cost according to IFRS 9.

(**) Including change in fair value of warrant liabilities.

Note 16 | Related-party transactions

Odfjell Drilling Ltd., is controlled by Odfjell Partners Ltd., which owns 60.17% of the common shares. Chairman of the Board, Helene Odfjell, controls Odfjell Partners Ltd.

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

Simen Lieungh (CEO, Odfjell Drilling AS) controls 476,190 (0.20%) of the common shares in the company as per 31 December 2019.

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

The Group have lease agreements with the related party Kokstad Holding AS Group (related to main shareholder). Following the implementation of IFRS 16 *Leases,* refer to note 2 and 8, reported lease liability to Kokstad Holding AS Group as at 31 December 2019 is USD 38 million, while payments in Q4 2019 and YTD 2019 amounts to USD 0.3 million and USD 5.4 million respectively.

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

Note 17 - Important events occurring after the reporting period

Equinor awarded more work to Deepsea Atlantic

On 26 February 2020, Equinor exercised two optional wells for Deepsea Atlantic under the Master Frame Agreement. The wells have been awarded under the Continued Optionality mechanism in the Contract entered into between the parties in May 2018.

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