



Odfjell Drilling Ltd.

Report for the 3rd quarter of 2019

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

Key figures for the Group

All figures in USD million

Key figures Odfjell Drilling Ltd. Group	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Operating revenue.....	215	181	602	531	698
EBITDA.....	94	69	239	191	259
EBIT.....	47	29	105	71	99
Net profit (loss).....	20	8	30	9	27
EBITDA margin.....	44%	38%	40%	36%	37 %
Total assets.....			2,650	2,299	2,276
Net interest bearing debt.....			1,278	971	920
Equity.....			1,040	1,015	1,024
Equity ratio.....			39%	44%	45 %

Highlights Q3 2019

Odfjell Drilling Ltd. Group

- Operating revenue of USD 215 million compared to USD 181 million in Q3 2018.
- EBITDA of USD 94 million compared to USD 69 million in Q3 2018.
- EBITDA margin of 44% compared to an EBITDA margin of 38% in Q3 2018.
- The Group's contract backlog is USD 2.1 billion, whereof USD 1.1 billion is firm backlog. The comparable figure at the end of Q3 2018 was USD 2.5 billion, whereof USD 1.5 billion was firm backlog.

Mobile Offshore Drilling Units segment

- Operating revenue of USD 155 million compared to USD 119 million in Q3 2018.
- EBITDA of USD 81 million compared to USD 59 million in Q3 2018.
- EBITDA margin of 52% compared to an EBITDA margin of 49% in Q3 2018.

Drilling & Technology segment

- Operating revenue of USD 38 million compared to USD 40 million in Q3 2018.
- EBITDA of USD 6 million compared to USD 7 million in Q3 2018.
- EBITDA margin of 15% compared to an EBITDA margin of 17% in Q3 2018.

Well Services segment

- Operating revenue of USD 29 million compared to USD 27 million in Q3 2018.
- EBITDA of USD 8 million compared to USD 7 million in Q3 2018.
- EBITDA margin of 29% compared to an EBITDA margin of 27% in Q3 2018.

Deepsea Stavanger secured more work for Total in South Africa

On 11 July 2019 a contract with oil major, Total, was entered into for drilling offshore South Africa with the 6th generation semi-submersible, Deepsea Stavanger.

The contract value including compensation for mobilization and demobilization periods is estimated as being USD 145 - 190 million plus incentives. The company expects the drilling program to take 180-280 days. Mobilization to South Africa is expected to start in Q1 2020.

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 client recently exercised additional two wells of the optional wells package. There are 8 optional wells remaining.

As earlier announced, CIMC Raffles and Odfjell Drilling entered into a 4 year management agreement applicable from 19 March 2019 whereby Odfjell Drilling will manage and operate Deepsea Yantai on behalf of CIMC Raffles based on terms and conditions customary for these type of agreements. The agreement also secures Odfjell Drilling the exclusive right to purchase the unit and a right of first refusal on any offer to purchase the unit following the exclusivity period.

Financial review – operations

(Comparable figures for last comparable period in brackets)

Consolidated group financials

Profit & loss Q3 2019

Operating revenue for Q3 2019 was USD 215 million (USD 181 million), an increase of USD 34 million, mainly due to increased revenue in the MODU segment from Q3 2018 to Q3 2019.

EBITDA in Q3 2019 was USD 94 million (USD 69 million), an increase of USD 25 million, mainly due to increased EBITDA from the MODU segment. Implementation of *IFRS 16 Leases* has affected the Q3 2019 EBITDA positively with USD 2 million.

The EBITDA margin in Q3 2019 was 44% (38%).

EBIT in Q3 2019 was USD 47 million (USD 29 million), an increase of USD 18 million.

Net financial expenses in Q3 2019 amounted to USD 25 million (USD 20 million). The increase included change in fair value of warrant liabilities of approximately USD 5 million. The increase in interest expenses was offset by change in net currency gains and losses.

In Q3 2019, the tax expense was USD 1 million (USD 1 million).

Net profit in Q3 2019 was USD 20 million (net profit USD 18 million).

Profit & loss YTD 2019

Operating revenue YTD 2019 was USD 602 million (USD 531 million), an increase of USD 71 million, mainly due to increased revenue in the MODU segment from YTD 2018 to YTD 2019.

EBITDA YTD 2019 was USD 239 million (USD 191 million), an increase of USD 48 million, mainly due to increased EBITDA from the MODU segment. Implementation of *IFRS 16 Leases* has affected the YTD 2019 EBITDA positively with USD 6 million, while the YTD 2018 EBITDA was positively impacted by a pension adjustment of USD 6 million.

The EBITDA margin YTD 2019 was 40% (36%).

EBIT YTD 2019 was USD 105 million (USD 71 million), an increase of USD 34 million.

Net financial expenses YTD 2019 amounted to USD 72 million (USD 60 million). The increase of USD 12 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. The increased interest expense was offset by change in net currency gain and losses.

YTD 2019 the tax expense was USD 2 million (USD 2 million).

Net profit YTD 2019 was USD 30 million (USD 9 million).

Balance sheet

Total assets as at 30 September 2019 amounted to USD 2,650 million (USD 2,276 million as at 31 December 2018), an increase of USD 374 million, mainly due to the new mobile drilling unit (Deepsea Nordkapp) in addition to right-of-use assets (*IFRS 16 Leases*) amounting to USD 41 million.

Equity as at 30 September 2019 amounted to USD 1,040 million (USD 1,024 million as at 31 December 2018) an increase of USD 16 million.

The equity ratio was 39% as at 30 September 2019 (45% as at 31 December 2018).

Net interest bearing debt as at 30 September 2019 amounted to USD 1,278 million (USD 920 million as at 31 December 2018), an increase of USD 358 million. The increase is mainly due to the financing of Deepsea Nordkapp and refinancing of Deepsea Atlantic and Deepsea Stavanger.

Cash flow Q3 2019

Net cash flow from operating activities in Q3 2019 was positive with USD 27 million. The Group paid USD 19 million in interest related to operating activities.

Net cash outflow from investing activities in Q3 2019 was USD 39 million.

Net cash outflow from financing activities in Q3 2019 was USD 31 million. USD 27 million was used for instalments on credit facilities in Q3 2019 including USD 20 million in voluntary prepayment of the Q4 2019 instalment on the Drilling Services facility.

Cash flow YTD 2019

Net cash flow from operating activities YTD 2019 was positive with USD 123 million. The Group paid USD 56 million in interest related to operating activities.

Net cash outflow from investing activities YTD 2019 was USD 411 million, mainly due to capital expenditures related to the new mobile drilling unit (Deepsea Nordkapp).

Net cash flow from financing activities YTD 2019 was USD 253 million. Net cash flow from the drawn credit facilities amounted to USD 770 million. USD 400 million was used for repayment of the former Odfjell Invest facility, while USD 110 million was used for instalments on existing credit facilities. This includes the USD 20 million in voluntary prepayment of the Q4 2019 instalment on the Drilling Services facility.

At 30 September 2019 cash and cash equivalents amounted to USD 131 million. There has been a total reduction in cash and cash equivalents of USD 43 million since 31 December 2018. The Group has per 30 September 2019 USD 60 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 (MODU)

All figures in USD million

Key figures MODU segment	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Operating revenue.....	155	119	439	358	476
EBITDA.....	81	59	211	166	226
EBIT.....	41	26	101	67	94
EBITDA margin.....	52%	49%	48%	46%	47 %

Operating revenue for the MODU segment in Q3 2019 was USD 155 million (USD 119 million), an increase of USD 36 million, mainly due to the new rig Deepsea Nordkapp commencing operations on 10 May 2019.

EBITDA for the MODU segment in Q3 2019 was USD 81 million (USD 59 million), an increase of USD 22 million. The change in EBITDA is mainly due to the same reason as mentioned above.

EBIT for the MODU segment in Q3 2019 was USD 41 million (USD 26 million), an increase of USD 15 million.

Operating revenue for the MODU segment YTD 2019 was USD 439 million (USD 358 million), an increase of USD 81 million. This change is mainly due to Deepsea Nordkapp commenced operations in Q2 2019 and added revenue for Deepsea Stavanger from the Total South Africa project in Q1 2019.

EBITDA for the MODU segment YTD 2019 was USD 211 million (USD 166 million), an increase of USD 45 million. The change in EBITDA is mainly due to a bonus for the Total South Africa project and the same reasons as mentioned above.

EBIT for the MODU segment YTD 2019 was USD 101 million (USD 67 million), an increase of USD 34 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	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Deepsea Stavanger.....	98.6 %	98.9 %	98.6 %	98.7 %	98.7 %
Deepsea Atlantic.....	98.8 %	98.1 %	98.1 %	98.8 %	98.4 %
Deepsea Bergen.....	99.9 %	96.1 %	99.3 %	98.3 %	98.2 %
Deepsea Aberdeen.....	96.8 %	98.9 %	97.6 %	98.3 %	98.4 %
Deepsea Nordkapp	99.4 %	n/a	99.2 %	n/a	n/a

- Deepsea Stavanger has been operating for Aker BP on the NCS in Q3 2019.
- Deepsea Atlantic has been operating for Equinor on the NCS in Q3 2019.
- Deepsea Bergen has been operating for OMV Norge on the NCS in Q3 2019.

- Deepsea Aberdeen has been operating for BP West of Shetland (UK) in Q3 2019.
- Deepsea Nordkapp has been operating for Aker BP on the NCS in Q3 2019.

Drilling & Technology (D&T)

All figures in USD million

Key figures Drilling & Technology segment	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Operating revenue.....	38	40	109	108	145
EBITDA.....	6	7	12	8	14
EBIT.....	6	7	12	8	13
EBITDA margin.....	15%	17%	11%	8%	9 %

Operating revenue for the D&T segment in Q3 2019 was USD 38 million (USD 40 million), a decrease of USD 2 million compared to Q3 2018. The decrease is primarily attributable to changes in contract portfolio in Platform Drilling.

EBITDA for the D&T segment in Q3 2019 was USD 6 million (USD 7 million), a decrease of USD 1 million. The EBITDA margin for the D&T segment in Q3 2019 was 15% (17%).

EBIT for the D&T segment Q3 2019 was USD 6 million (USD 7 million), a decrease of USD 1 million.

Operating revenue for the D&T segment YTD 2019 was USD 109 million (USD 108 million), an increase of USD 1 million.

EBITDA for the D&T segment YTD 2019 was USD 12 million (USD 8 million), an increase of USD 4 million. The increase is mainly due to increased activity, good operational performance and more profitable projects. The EBITDA margin for the D&T segment YTD 2019 was 11% (8%).

EBIT for the D&T segment YTD 2019 was USD 12 million (USD 8 million), an increase of USD 4 million. The increase relates to the changes explained above.

Well Services (OWS)

All figures in USD million

Key figures Well Services segment	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Operating revenue.....	29	27	81	82	107
EBITDA.....	8	7	20	20	26
EBIT.....	3	1	4	2	2
EBITDA margin.....	29%	27%	25%	25%	24 %

Operating revenue for the OWS segment in Q3 2019 was USD 29 million (USD 27 million). The increase is explained by higher activity in the European markets.

EBITDA for the OWS segment in Q3 2019 was USD 8 million (USD 7 million). The increase is explained by the same reason as mentioned above. The EBITDA margin for the OWS segment in Q3 2019 was 29% (27%).

EBIT for the OWS segment in Q3 2019 was USD 3 million (USD 1 million).

Operating revenue for the OWS segment YTD 2019 was USD 81 million (USD 82 million), a decrease of USD 1 million. The decrease in YTD 2019 revenue is mainly explained by volume decrease in the Norwegian markets (in Q1 2019) partly offset by an increase in revenue in MEAA and European markets.

EBITDA for the OWS segment YTD 2019 was USD 20 million (USD 20 million). The EBITDA margin for the OWS segment YTD 2019 was 25% (25%).

EBIT for the OWS segment YTD 2019 was USD 4 million (USD 2 million).

Environmental, social and governance (ESG)

Od fjell Drilling has over the last few years strongly focused on reduction of greenhouse gas emissions. Currently the initiatives are focused around operational optimization leading to significant fuel reduction which in turn leads to less emissions. The coming step includes further technical optimizations including hybridization which will ensure that our rigs will continue to drill wells with the lowest carbon footprint in the industry for our clients. Od fjell Drilling recognises the increased requirements from authorities, investors and financial institutions with regards to ESG-strategy and reporting. To be able to meet these requirements, the company will start formalising its' strategy and reporting routines.

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 ultradeep water and benign 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. Our market will still be affected by the overall uncertainty in the global economy, but the fundamental conditions indicate 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 close to full utilization and there is limited access to additional units. This is expected to improve dayrates for modern harsh environment drilling units in the medium to long run. Od fjell Drilling is well positioned in this market 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 Q1 2020.

Deepsea Atlantic is currently operating for Equinor under the Master Frame Agreement. The contract is a well based contract and is expected to end in Q2/Q3 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 December 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 is for 2 years with an additional 1+1 year options.

OWS is still facing fierce competition for its services globally. We do however observe an increased tender activity in the European and Middle East markets, which subsequently will increase utilisation of equipment.

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 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	YTD 19	FY 18
Lost time incident frequency (as per 1 million working hours).....	0,8	1,0
Total recordable incident frequency (as per 1 million working hours).....	1,6	1,6
Sick leave (percentage).....	2,7	3,1
Dropped objects frequency (as per 1 million working hours).....	1,5	3,0
Number of employees.....	2 511	2 385

Aberdeen, United Kingdom
27 November 2019

Board of Directors of Odfjell Drilling Ltd.

Helene Odfjell, Chairman

Susanne Munch Thore, Director

Alasdair Shiach, Director

Thomas Marsoner, Director

Appendix 1: Definitions of alternative performance measures

Financial utilisation

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

EBITDA margin

EBITDA/Operating revenue

EBIT margin

EBIT/Operating revenue

Net (loss) profit

Equal to Profit (loss) for the period after taxes

Equity ratio

Total equity/total equity and liabilities

Net interest-bearing debt

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

Contract backlog

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



Odfjell Drilling Ltd.

Condensed Consolidated
Financial Statements

3rd quarter of 2019

Od fjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ending 30 September 2019

Condensed Consolidated Income Statement

USD thousands	Note	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Operating revenue	3,4	214,690	181,189	602,498	530,855	698,476
Other gains and losses		479	406	758	1,586	2,211
Personnel expenses		(85,754)	(81,903)	(238,173)	(241,801)	(303,669)
Other operating expenses		(35,232)	(30,484)	(126,040)	(99,303)	(137,871)
EBITDA		94,183	69,207	239,043	191,337	259,147
Depreciation, amortisation and impairment	6,7,8	(47,427)	(39,986)	(134,268)	(120,554)	(160,630)
Operating profit (EBIT)		46,757	29,221	104,775	70,783	98,517
Net financial items	15	(25,210)	(20,184)	(72,113)	(60,417)	(67,377)
Profit/(loss) before tax		21,546	9,038	32,662	10,366	31,139
Income taxes		(1,068)	(666)	(2,371)	(1,745)	(3,789)
Profit/(loss) for the period		20,478	8,372	30,292	8,621	27,350
Earnings per share (USD)						
Basic earnings per share	11	0.08	0.03	0.10	0.03	0.10
Diluted earnings per share	11	0.08	0.03	0.10	0.03	0.10

Condensed Consolidated Statement of Comprehensive Income

USD thousands	Note	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Profit/(loss) for the period		20,478	8,372	30,292	8,621	27,350
Other comprehensive income:						
Items that will not be reclassified to profit or loss:						
Actuarial gain / (loss) on post employment benefit obligations		(4,124)	555	(4,124)	555	479
Items that are or may be reclassified to profit or loss:						
Cash flow hedges		(471)	63	(820)	178	186
Currency translation differences		(10,704)	917	(7,549)	2,514	(5,597)
Other comprehensive income for the period, net of tax		(15,300)	1,535	(12,494)	3,247	(4,932)
Total comprehensive income for the period		5,179	9,907	17,798	11,868	22,419

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ending 30 September 2019

Condensed Consolidated Statement of Financial Position

USD thousands	Note	30.09.2019	30.09.2018	31.12.2018
Assets				
Deferred tax asset		2,483	2,586	1,271
Intangible assets	6	27,509	32,131	29,811
Property, plant and equipment	7,8	2,297,950	1,919,076	1,928,132
Financial non-current assets	5	116	1,176	769
Total non-current assets		2,328,058	1,954,969	1,959,983
Trade receivables		164,065	133,091	103,056
Contract assets		7,976	-	-
Other current assets	5	18,688	27,330	38,545
Cash and cash equivalents		131,338	183,620	174,761
Total current assets		322,067	344,040	316,363
Total assets		2,650,126	2,299,009	2,276,345
Equity and liabilities				
Total paid-in capital	14	564,959	565,125	564,959
Other equity		474,993	450,084	458,714
Total equity		1,039,952	1,015,210	1,023,673
Non-current interest-bearing borrowings	12	1,204,191	342,451	311,819
Non-current lease liabilities	8	34,362	-	-
Post-employment benefits		12,931	10,796	9,934
Non-current contract liabilities		1,248	1,759	369
Other non-current liabilities	5	6,415	295	-
Total non-current liabilities		1,259,147	355,301	322,122
Current interest-bearing borrowings	12	205,366	812,611	782,980
Current lease liabilities	8	6,690	-	-
Contract liabilities		15,044	22,950	27,584
Trade payables		46,680	33,379	42,047
Other current liabilities	5	77,246	59,559	77,940
Total current liabilities		351,027	928,499	930,550
Total liabilities		1,610,174	1,283,799	1,252,672
Total equity and liabilities		2,650,126	2,299,009	2,276,345

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ending 30 September 2019

Condensed Consolidated Statement of Changes in Equity

USD thousands				Equity attributable to:		
	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	-	8,621	8,621	7,998	623	8,621
Other comprehensive income for the period	-	3,247	3,247	3,247	-	3,247
Total comprehensive income for the period	-	11,868	11,868	11,245	623	11,868
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)
Cost of Share-option plan	166	-	166	166	-	166
Transactions with owners for the period	236,285	-	236,285	161,285	75,000	236,285
Balance at 30 September 2018	565,125	450,084	1,015,210	939,587	75,623	1,015,210
Total comprehensive income for the period Q4	-	10,551	10,551	6,756	3,795	10,551
Transactions with owners for the period Q4	(166)	(1,921)	(2,087)	121	(2,209)	(2,087)
Balance at 31 December 2018	564,959	458,714	1,023,673	946,464	77,209	1,023,673
Profit/(loss) for the period	-	30,292	30,292	24,517	5,775	30,292
Other comprehensive income for the period	-	(12,494)	(12,494)	(12,494)	-	(12,494)
Total comprehensive income for the period	-	17,798	17,798	12,024	5,775	17,798
Dividend to preference share holders	-	(1,914)	(1,914)	-	(1,914)	(1,914)
Cost of Share-option plan	-	395	395	395	-	395
Transactions with owners	-	(1,520)	(1,520)	395	(1,914)	(1,520)
Balance at 30 September 2019	564,959	474,993	1,039,952	958,883	81,069	1,039,952

Unaudited

Odfjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ending 30 September 2019

Condensed Consolidated Statement of Cash Flows

USD thousands	Note	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Cash flows from operating activities:						
Profit/(loss) before tax		21,546	9,038	32,662	10,366	31,139
Adjustment for provisions and other non-cash elements		71,144	58,720	205,165	167,589	212,003
Changes in working capital		(46,663)	(19,380)	(57,264)	(5,663)	44,384
Cash generated from operations		46,027	48,378	180,563	172,292	287,526
Interest paid		(18,603)	(15,795)	(56,292)	(47,639)	(65,805)
Net income tax (paid) / refunded		(616)	(434)	(1,510)	(823)	(1,191)
Net cash flow from operating activities		26,808	32,150	122,761	123,829	220,530
Cash flows from investing activities:						
Purchase of property, plant and equipment	6,7	(36,672)	(15,324)	(405,802)	(256,894)	(305,876)
Capitalised interest paid		(2,459)	-	(7,027)	-	-
Proceeds from sale of property, plant and equipment		496	448	860	1,838	2,590
Other long term receivables		4	1	48	3	56
Proceeds from financial investments incl. joint ventures		(1)	-	968	-	9,739
Net cash flow from investing activities		(38,632)	(14,875)	(410,953)	(255,053)	(293,491)
Cash flows from financing activities:						
Net (payments)/proceeds from borrowings financial institutions	12	(312)	-	770,162	-	-
Repayment of borrowings to financial institutions	12	(27,000)	(15,000)	(510,200)	(85,000)	(145,300)
Repayment of lease liabilities	8	(1,909)	-	(5,250)	-	-
Net proceeds from capital increases		-	185	-	236,118	236,118
Dividends paid to preference share holders		(1,914)	-	(1,914)	-	(2,209)
Net cash flow from financing activities		(31,135)	(14,815)	252,798	151,118	88,609
Effects of exchange rate changes on cash and cash equivalents		(4,575)	39	(8,029)	(2,245)	(6,858)
Net increase (decrease) in cash and cash equivalents		(47,535)	2,499	(43,423)	17,650	8,791
Cash and cash equivalents at beginning of period		178,873	181,121	174,761	165,970	165,970
Cash and cash equivalents at period end		131,338	183,620	131,338	183,620	174,761

Unaudited

Note 1 | Accounting Principles

General information

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

Odfjell Drilling Ltd., is incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. 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 27 November 2019 and have not been audited.

Basis for preparation

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

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

In applying IFRS 16 for the first time, the group will use the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs from the measurement of right-of-use assets as at 1.1.2019
- the use hindsight, such as in determining the lease term if the contract contains options to extend or terminate.

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

USD thousands

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

Note 2 | New accounting standards - cont.

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

Consolidated statement of financial position	30.09.2019			Opening balance		
	IFRS 16	Impact	IAS 17	IFRS 16	Impact	IAS 17
USD thousands	30.09.2019	IFRS 16	30.09.2019	01.01.2019	IFRS 16	31.12.2018
Assets						
Deferred tax asset	2,483	168	2,315	1,271	-	1,271
Property, plant and equipment	2,297,950	41,345	2,256,605	1,974,092	45,960	1,928,132
Other non-current assets	27,625	-	27,625	30,580	-	30,580
Total non-current assets	2,328,058	41,512	2,286,546	2,005,943	45,960	1,959,983
Trade receivables and contract assets	172,041	-	172,041	103,056	-	103,056
Other current assets	18,688	(1,133)	19,821	38,310	(235)	38,545
Cash and cash equivalents	131,338	-	131,338	174,761	-	174,761
Total current assets	322,067	(1,133)	323,201	316,128	(235)	316,363
Total assets	2,650,126	40,379	2,609,746	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	474,993	(673)	475,666	458,714	-	458,714
Total equity	1,039,952	(673)	1,040,625	1,023,673	-	1,023,673
Non-current interest-bearing borrowings	1,204,191	-	1,204,191	311,819	-	311,819
Non-current lease liabilities	34,362	34,362	-	37,814	37,814	-
Other non-current liabilities	20,594	-	20,594	10,303	-	10,303
Total non-current liabilities	1,259,147	34,362	1,224,785	359,936	37,814	322,122
Current interest-bearing borrowings	205,366	-	205,366	782,980	-	782,980
Current lease liabilities	6,690	6,690	-	7,911	7,911	-
Other current liabilities	138,970	-	138,970	147,571	-	147,571
Total current liabilities	351,027	6,690	344,336	938,461	7,911	930,550
Total liabilities	1,610,174	41,053	1,569,121	1,298,397	45,725	1,252,672
Total equity and liabilities	2,650,126	40,379	2,609,746	2,322,070	45,725	2,276,345
Equity ratio	39 %		40 %	44 %		45 %

Odffjell Drilling Ltd.

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Note 2 | New accounting standards - cont.

The following tables show the impacts arising from IFRS16 for the first nine months of 2019.

Consolidated Income Statement	Impact				Impact			
	IFRS 16	IFRS 16	IAS 17	IAS 17	IFRS 16	IFRS 16	IAS 17	IAS 17
	Q3 19	Q3 19	Q3 19	Q3 18	YTD 19	YTD 19	YTD 19	YTD 18
USD thousands								
Operating revenue	214,690	-	214,690	181,189	602,498	-	602,498	530,855
Other gains and losses	479	-	479	406	758	-	758	1,586
Personnel expenses	(85,754)	-	(85,754)	(81,903)	(238,173)	-	(238,173)	(241,801)
Other operating expenses	(35,232)	2,023	(37,255)	(30,484)	(126,040)	6,094	(132,135)	(99,303)
EBITDA	94,183	2,023	92,160	69,207	239,043	6,094	232,949	191,337
Depreciation, amortisation and impairment	(47,427)	(1,716)	(45,711)	(39,986)	(134,268)	(5,036)	(129,232)	(120,554)
Operating profit (EBIT)	46,757	307	46,450	29,221	104,775	1,058	103,717	70,783
Net financial items	(25,210)	(629)	(24,581)	(20,184)	(72,113)	(1,932)	(70,181)	(60,417)
Profit/(loss) before tax	21,546	(322)	21,868	9,038	32,662	(873)	33,536	10,366
Income taxes	(1,068)	59	(1,127)	(666)	(2,371)	175	(2,545)	(1,745)
Profit/(loss) for the period	20,478	(263)	20,741	8,372	30,292	(699)	30,991	8,621

Consolidated Statement of Cash Flows	Impact				Impact			
	IFRS 16	IFRS 16	IAS 17	IAS 17	IFRS 16	IFRS 16	IAS 17	IAS 17
	Q3 19	Q3 19	Q3 19	Q3 18	YTD 19	YTD 19	YTD 19	YTD 18
USD thousands								
Cash flows from operating activities:								
Profit/(loss) before tax	21,546	(322)	21,868	9,038	32,662	(873)	33,536	10,366
Adjustment for provisions and other non-cash elements	71,144	2,345	68,799	58,720	205,165	6,968	198,197	167,589
Changes in working capital	(46,663)	990	(47,653)	(19,380)	(57,264)	947	(58,211)	(5,663)
Cash generated from operations	46,027	3,012	43,015	48,378	180,563	7,041	173,522	172,292
Interest paid	(18,603)	(1,104)	(17,500)	(15,795)	(56,292)	(1,792)	(54,501)	(47,639)
Net income tax (paid) / refunded	(616)	-	(616)	(434)	(1,510)	-	(1,510)	(823)
Net cash flow from operating activities	26,808	1,909	24,899	32,150	122,761	5,250	117,511	123,829
Net cash flow from investing activities	(38,632)	-	(38,632)	(14,875)	(410,953)	-	(410,953)	(255,053)
Net (payments)/proceeds from borrowings financial institutions	(312)	-	(312)	-	770,162	-	770,162	-
Repayment of borrowings to financial institutions	(27,000)	-	(27,000)	(15,000)	(510,200)	-	(510,200)	(85,000)
Repayment of lease liabilities	(1,909)	(1,909)	-	-	(5,250)	(5,250)	-	-
Net cash flow from financing activities	(31,135)	(1,909)	(29,227)	(14,815)	252,798	(5,250)	258,048	151,118

Unaudited

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 Odffjell 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 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18
External segment revenue	154,650	119,227	34,302	38,539	22,591	18,997	3,147	4,426	214,690	181,189
Inter segment revenue	-	-	3,381	1,376	6,642	7,981	(10,023)	(9,356)	-	-
Total revenue	154,650	119,227	37,682	39,915	29,233	26,978	(6,876)	(4,930)	214,690	181,189
EBITDA - segments (NGAAP)	80,685	58,815	5,799	6,807	8,473	7,260	(2,895)	(3,853)	92,062	69,029
Depreciation and impairment	(39,623)	(33,147)	(20)	(18)	(5,186)	(5,920)	(909)	(901)	(45,738)	(39,986)
EBIT - segments (NGAAP)	41,062	25,668	5,779	6,788	3,288	1,340	(3,804)	(4,753)	46,325	29,043
Reconciliation:	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18
Accounting differences affecting EBITDA	132	93	22	24	355	6	1,612	55	2,121	179
EBITDA - IFRS	80,817	58,908	5,821	6,831	8,828	7,266	(1,283)	(3,797)	94,183	69,207
Accounting differences affecting Depreciation and impairment	(75)	-	-	-	(317)	-	(1,296)	-	(1,689)	-
EBIT - Consolidated	41,119	25,761	5,801	6,812	3,325	1,346	(3,489)	(4,698)	46,757	29,221
Share of profit (loss) from joint ventures									-	-
Net financial items									(25,210)	(20,184)
Profit / (loss) before tax - Consolidated Group									21,546	9,038

^(*) 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.

Odjell Drilling Ltd.

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Note 3 | Segment summary - cont.

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18
External segment revenue	438,757	357,760	97,063	101,768	61,487	57,879	5,191	13,448	602,498	530,855
Inter segment revenue	-	-	11,740	5,796	19,162	23,637	(30,902)	(29,433)	-	-
Total revenue	438,757	357,760	108,803	107,564	80,649	81,516	(25,711)	(15,984)	602,498	530,855
EBITDA	210,973	166,122	11,775	8,174	19,799	20,344	(9,950)	(3,920)	232,597	190,720
Depreciation and impairment	(110,257)	(99,383)	(59)	(51)	(16,280)	(18,357)	(2,662)	(2,762)	(129,259)	(120,554)
EBIT	100,715	66,739	11,716	8,122	3,518	1,987	(12,612)	(6,682)	103,338	70,166
Reconciliation:	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18
Accounting differences affecting EBITDA	413	287	81	74	1,050	19	4,902	237	6,446	617
EBITDA - IFRS	211,385	166,409	11,856	8,247	20,849	20,364	(5,048)	(3,682)	239,043	191,337
Accounting differences affecting Depreciation and impairment	(230)	-	-	-	(905)	-	(3,873)	-	(5,008)	-
EBIT - Consolidated	100,898	67,026	11,797	8,196	3,663	2,006	(11,583)	(6,444)	104,775	70,783
Net financial items									(72,113)	(60,417)
Profit / (loss) before tax - Consolidated Group									32,662	10,366

(^{*)} 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.

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

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

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

Odfjell Drilling Ltd.

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Note 4 | Revenue

USD thousands	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Revenue from contracts with customers	205,138	174,711	579,949	510,857	672,246
Other operating revenue	9,552	6,478	22,549	19,999	26,230
Operating revenue	214,690	181,189	602,498	530,855	698,476

Disaggregation of revenue

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Elimination		Consolidated	
USD thousands	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18	Q3 19	Q3 18
Primary geographical markets										
Norway	116,293	77,131	24,287	26,170	13,595	13,725	(5,995)	(4,424)	148,180	112,602
UK	38,358	39,995	13,396	13,744	3,357	2,339	(802)	(675)	54,309	55,404
Europe - other countries	-	-	-	-	5,494	3,961	-	17	5,494	3,978
Asia	-	2,101	-	-	6,507	6,879	(80)	151	6,427	9,131
Africa	-	-	-	-	280	-	-	-	280	-
Other geographical markets	-	-	-	-	0	75	-	-	0	75
Total operating revenue	154,650	119,227	37,682	39,915	29,233	26,978	(6,876)	(4,930)	214,690	181,189

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Elimination		Consolidated	
USD thousands	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18	YTD 19	YTD 18
Primary geographical markets										
Norway	244,444	232,159	69,096	66,414	34,040	43,772	(22,975)	(13,501)	324,605	328,844
UK	125,998	118,840	39,707	41,150	8,067	6,213	(2,947)	(2,701)	170,825	163,502
Europe - other countries	-	-	-	-	17,119	13,755	-	(390)	17,119	13,365
Asia	487	6,761	-	-	20,410	17,525	211	608	21,108	24,894
Africa	67,829	-	-	-	824	-	-	-	68,652	-
Other countries	-	-	-	-	189	251	-	-	189	251
Total operating revenue	438,757	357,760	108,803	107,564	80,649	81,516	(25,711)	(15,984)	602,498	530,855

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

Unaudited

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 39 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 12 million annually including interest rate swaps, an increase of USD 2 million compared to year-end 2018.

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 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	30.09.2019	30.09.2018	31.12.2018
Financial assets at fair value through profit or loss				
Derivatives not designated as hedging instruments				
- Interest rate swaps - Other non-current assets	2	-	957	599
- Interest rate swaps - Other current assets	2	-	-	-
- Foreign exchange forward contracts - Other current assets	2	-	-	-
Derivatives designated as hedging instruments				
- Foreign exchange forward contracts - Other current assets	2	-	-	-
Debt instruments at amortised cost				
- Other non-current receivables	3	116	220	170
- Trade and other current receivables	3	170,870	136,454	106,717
Total financial assets		170,986	137,631	107,486

USD thousands	Level	30.09.2019	30.09.2018	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	89	-	-
- Foreign exchange forward contracts - Other current liabilities	2	784	-	-
Derivatives designated as hedging instruments				
- Interest rate swaps - Other non-current liabilities	2	820	-	-
- Foreign exchange forward contracts - Other current liabilities	2	-	9	-
Warrant liabilities - Other non-current liabilities	3	5,506	-	-
Financial liabilities at amortised cost				
- Other non-current payables		-	295	-
- Non-current lease liabilities	3	34,362	-	-
- Current lease liabilities	3	6,690	-	-
- Trade and other payables	3	122,240	92,693	119,809
- Non-current interest-bearing borrowings	3	1,204,191	342,451	311,819
- Current interest-bearing borrowings	3	205,366	812,611	782,980
Total financial liabilities		1,580,049	1,248,059	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:

	30.09.2019	30.09.2018	31.12.2018
Non-current	1,204,191	342,451	311,819
Current	205,366	812,611	782,980
Total	1,409,557	1,155,062	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	-	1,240	1,240
Amortisation	-	(2,328)	(2,328)
Currency translation differences	(805)	(408)	(1,213)
Closing net book amount as at 30 September 2019	17,833	9,676	27,509
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
Closing net book amount as at 30 September 2018	19,856	12,275	32,131

Impairment tests for goodwill

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

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

These assumptions have been used for the analysis of each CGU within the operating segment. Impairment tests performed for goodwill within respective CGU's do not indicate any impairment requirement as at 30 September 2019.

The key assumptions used for value-in-use calculations as per Q3 2019 are as follows:

	Mobile Offshore Drilling Units	Drilling & Technology	Well Services
EBITDA margin in prognosis period	15 %	5% - 6%	27% - 35%
Growth rate year 6 and forward	0.0%	0.0%	0.0%
Weighted Average Cost of Capital, pre-tax	8.0 %	7.8%	8.2%

Sensitivity analysis for goodwill impairment test

The Group has performed sensitivity analysis for the goodwill impairment test by reducing operating income by one, five and ten percent and EBITDA margin by one, five and ten percentage points respectively for each of the segments. Reducing EBITDA margin by five percentage points indicated an impairment write-down of USD 10 million in the Drilling & Technology segment, while reducing EBITDA margin by ten percentage points indicated an impairment write-down of USD 11 million in the Drilling & Technology segment and USD 2 million in the Mobile Offshore Drilling Units segment. None of the other scenarios indicated any impairment write-down of goodwill as at 30 September 2019.

Odjell Drilling Ltd.

Condensed Consolidated Financial Statements for the interim period ending 30 September 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	36,152	33,541	367,583	16,595	1,855	2,187	457,913
Disposals	-	-	-	(215)	-	-	(215)
Depreciation	(76,788)	(33,448)	-	(16,000)	(668)	(5,036)	(131,940)
Reclassification	579,371	35,000	(614,371)	-	-	-	-
Currency translation differences	-	-	-	(34)	(100)	(1,766)	(1,900)
Net book amount as at 30 September 2019	2,078,687	103,364	0	71,584	2,970	41,345	2,297,950
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
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

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

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

Key assumptions	Deepsea Atlantic 6G Semi	Deepsea Stavanger 6G Semi	Deepsea Aberdeen 6G Semi	Deepsea Nordkapp 6G Semi	Deepsea Bergen 3G semi
Weighted Average Cost of Capital (WACC)	10.0%	10.0%	10.0%	10.0%	8.5%
Firm contract days	288	436	933	587	67
Firm contract day rates (weighted average)	303	389	426	323	187
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	36,000	41,000	-	38,000	-
- WACC increased by	2 pp	69,000	77,000	-	85,000	-
- Day rate level ^(*) decreased by	5 %	51,000	55,000	-	40,000	-
- Day rate level ^(*) decreased by	10 %	103,000	109,000	-	96,000	-
- Normalised opex level increased by	5 %	25,000	26,000	-	11,000	-
- Normalised opex level increased by	10 %	50,000	51,000	-	37,000	-
- Financial utilisation in normalised period decreased by	1 pp	11,000	11,000	-	-	-
- Financial utilisation in normalised period decreased by	2 pp	21,000	22,000	-	9,000	1,000
- Financial utilisation in normalised period decreased by	3 pp	32,000	33,000	-	21,000	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	2,179	8	2,187
Depreciation	(4,726)	(309)	(5,036)
Currency translation differences	(1,735)	(32)	(1,766)
Net book amount as at 30 September 2019	40,876	469	41,345

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	30.09.2019	01.01.2019
Non-current	34,362	37,814
Current	6,690	7,911
Total	41,053	45,725

Movements in non-current lease liabilities are analysed as follows:

	30.09.2019
Carrying amount as at 1 January	37,814
Cash flows:	
Payments for the interest portion of the lease liability	(1,792)
Non-cash flows:	
New lease liabilities recognised in the year	2,187
Interest expense on lease liabilities	1,932
Reclassified to current portion of lease liabilities	(4,304)
Currency exchange differences	(1,475)
Carrying amount as at end of period	34,362

Movements in current lease liabilities are analysed as follows:

	30.09.2019
Carrying amount as at 1 January	7,911
Cash flows:	
Payments for the principal portion of the lease liability	(5,250)
Non-cash flows:	
Reclassified from non-current portion of lease liabilities	4,304
Currency exchange differences	(275)
Carrying amount as at end of period	6,690

Note 9 | Commitments

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

USD thousands	30.09.2019	30.09.2018	31.12.2018
Newbuild in progress	-	290,530	317,936
Rig investments	17,791	7,787	22,727
Rental and casing equipment, due in 1 year	8,682	3,341	1,927
Total	26,473	301,659	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 to the holders of the preference shares in the period ending 30 September 2019.

The Group has not acquired any of its own shares in the interim period ending 30 September 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 diluted number of shares in 2018 or 2019, as the terms of execution have not occurred 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	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Profit/(loss) for the period	20,478	8,372	30,292	8,621	27,350
Adjustment for dividends on preference shares	(1,946)	(1,864)	(5,775)	(2,487)	(4,418)
Profit/(loss) for the period due to holders of common shares	18,532	6,508	24,517	6,134	22,932
Adjustment related to warrants and share option plan	-	-	-	-	-
Diluted profit/(loss) for the period due to the holders of common shares	18,532	6,508	24,517	6,134	22,932
	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Weighted average number of common shares in issue	236,783,202	236,778,114	236,783,202	217,890,394	222,599,942
Effects of dilutive potential common shares:					
Warrants	-	-	-	-	-
Share option plan	-	-	-	-	-
Diluted average number of shares outstanding	236,783,202	236,778,114	236,783,202	217,890,394	222,599,942
	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Basic earnings per share	0.08	0.03	0.10	0.03	0.10
Diluted earnings per share	0.08	0.03	0.10	0.03	0.10

Note 12 | Interest-bearing borrowings

USD thousands	30.09.2019	30.09.2018	31.12.2018
Non-current	1,204,191	342,451	311,819
Current	205,366	812,611	782,980
Total	1,409,557	1,155,062	1,094,798

Movements in non-current borrowings are analysed as follows:	30.09.2019	30.09.2018	31.12.2018
Carrying amount as at 1 January	311,819	1,076,103	1,076,103
Cash flows:			
New bank loan	790,000	-	-
Paid transaction costs related to amendments and new loan	(19,838)	-	-
Non-cash flows:			
Reclassified from / (to) current portion of non current borrowings	70,847	(737,846)	(767,565)
Seller's credit raised	43,250	-	-
Change in transaction cost, unamortised	8,113	4,193	3,280
Carrying amount as at end of period	1,204,191	342,451	311,819

Movements in current borrowings are analysed as follows:	30.09.2019	30.09.2018	31.12.2018
Carrying amount as at 1 January	782,980	157,472	157,472
Cash flows:			
Repayment bank loan	(510,200)	(85,000)	(145,300)
Non-cash flows:			
Reclassified to current portion of non current borrowings	(70,847)	737,846	767,565
Change in transaction cost, unamortised	2,018	305	2,717
Change in accrued interest cost	1,416	1,988	525
Carrying amount as at end of period	205,366	812,611	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	30.09.2019	30.09.2018	31.12.2018
Maturity within 3 months	54,053	62,000	19,500
Maturity between 3 and 6 months	28,053	19,500	65,500
Maturity between 6 and 9 months	74,053	315,500	407,000
Maturity between 9 months and 1 year	39,053	407,000	283,000
Maturity between 1 and 2 years	176,211	87,500	82,200
Maturity between 2 and 3 years	465,211	52,000	237,000
Maturity between 3 and 4 years	84,211	211,000	-
Maturity between 4 and 5 years	497,440	-	-
Maturity beyond 5 years	-	-	-
Total contractual amounts	1,418,282	1,154,500	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 the remaining USD 60 million is available in two additional drawings 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.

In Q3 2019, the group paid USD 20 million in voluntary prepayment of the Q4 2019 instalment on the Drilling Services facility.

Available drawing facilities

The group has USD 60 million in undrawn facilities as at 30 September 2019, as described above. The group has no other available undrawn facilities as per 30 September 2019.

Covenants

The Group is compliant with all financial covenants as at 30 September 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 30 September 2019.

Note 14 | Equity & shareholder information

	No. of shares	Nominal value	Share capital USD thousands
Listed shares			
Common shares issued as at 30 September 2019	236,783,202	USD 0.01	2,368
Preference shares			
Total issued preference shares as at 30 September 2019	16,123,125	USD 0.01	161

As at 30 June 2019 preferred payment in kind dividend of USD 1.9 million was capitalised, increasing the accrued preference capital balance to USD 79.1 million.

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

Largest common shareholders at 30 September 2019	Holding	% of shares
Odffjell Partners Ltd.	142,000,000	59.97 %
Morgan Stanley & Co. Int. Plc.	7,057,677	2.98 %
J.P.Morgan Chase Bank N.A. London	4,907,161	2.07 %
J.P.Morgan Chase Bank N.A. London	4,009,232	1.69 %
J.P.Morgan Securities PLC	3,851,046	1.63 %
J.P.Morgan Bank Luxembourg S.A.	3,011,692	1.27 %
Goldman Sachs & Co. LLC	2,834,380	1.20 %
State Street Bank and Trust Co.	2,292,469	0.97 %
The Bank of New York Mellon SA/NV	2,228,636	0.94 %
Schroder International Selection	2,167,863	0.92 %
Goldman Sachs International	2,043,521	0.86 %
Citybank, N.A.	2,034,145	0.86 %
The Bank of New York Mellon SA/NV	2,032,765	0.86 %
Fidelity Select Portfolios: Energy	2,007,082	0.85 %
Verdipapirfondet DNB Norge Selektiv	1,789,071	0.76 %
J.P.Morgan Securities LLC	1,748,238	0.74 %
J.P.Morgan Securities PLC	1,488,428	0.63 %
State Street Bank and Trust Co.	1,469,014	0.62 %
State Street Bank and Trust Co.	1,262,581	0.53 %
BNP Paribas Securities Services	1,258,359	0.53 %
Total 20 largest common shareholders	191,493,360	80.87 %
Other common shareholders	45,289,842	19.13 %
Total common shareholders	236,783,202	100.00 %

Note 15 | Net financial items

USD thousands	Note	Q3 19	Q3 18	YTD 19	YTD 18	FY 18
Interest income		362	493	1,858	1,399	2,060
Interest expense lease liabilities	8	(629)	-	(1,932)	-	-
Other interest expenses		(21,684)	(17,571)	(65,070)	(51,029)	(68,368)
Other borrowing expenses ^(*)		(1,227)	(1,499)	(10,131)	(4,498)	(5,997)
Capitalised borrowing costs		-	-	7,914	-	-
Change in fair value of derivatives ^(**)		(6,678)	24	(6,978)	538	180
Dividend / gain other financial investments		(1)	-	968	-	9,739
Net currency gain/(loss)		4,824	(1,374)	2,055	(5,017)	(3,017)
Other financial items		(178)	(257)	(797)	(1,810)	(1,973)
Net financial items		(25,210)	(20,184)	(72,113)	(60,417)	(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

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

Susanne Munch Thore (Director) controls 3,000 (0.00%) of the common shares in the company as per 30 September 2019.

Simen Lieungh (CEO, Odffjell Drilling AS) controls 952,381 (0.40%) of the common shares in the company as per 30 September 2019.

There are no changes in the long term share option programme with Simen Lieungh (CEO, Odffjell 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 30 September 2019 is USD 32 million, while payments in Q3 2019 and YTD 2019 amounts to USD 2.3 million and USD 5.1 million respectively.

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

Note 17 - Important events occurring after the reporting period

There have been no events after the balance sheet date with material effect on the quarterly financial statements ended 30 September 2019.