Odfjell Drilling Ltd.

Report for the 4th quarter of 2013
and preliminary results for 2013

This interim report 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 2013	Q4 2012	FY 2013	FY 2012
Operating revenue…………………………………	289	288	1 174	1 094
EBITDA………………………………………………	88	92	393	331
EBIT…………………………………………………	52	54	248	184
Net profit……………………………………………	25	36	69	117
EBITDA margin……………………………………	30 %	32 %	33 %	30 %
Total assets…………………………………………			2 736	2 804
Net interest bearing debt………………………			1 071	1 151
Equity…………………………………………………			1 130	1 154
Equity ratio…………………………………………			41 %	41 %

Highlights Q4 2013

- Operating revenue at USD 289 million, same level as in Q4 2012.
- EBITDA of USD 88 million compared to USD 92 million in Q4 2012.
- EBITDA margin of 30 % compared to 32 % in Q4 2012.
- The Group’s contract backlog at year end 2013 was USD 5.1 billion including priced optional periods.
- The Board has declared a cash dividend of USD 0.05 per share for 2013.

Mobile Offshore Drilling Units segment (MODU)

- Successful execution of “Deepsea Bergen” client funded yard stay in October 2013.
- Water ingress incident at yard for “Deepsea Aberdeen” in December 2013.
- BOP challenges resulting in low financial utilization for Deepsea Metro II in Q4 2013.
- Operating revenue of USD 190 million compared to USD 183 million in Q4 2012.
- EBITDA of USD 80 million, same level as in Q4 2012.
- EBITDA margin of 42 % compared to 44 % in Q4 2012.

Drilling & Technology segment

- Operating revenue of USD 87 million compared to USD 91 million in Q4 2012.
- EBITDA of USD 6 million compared to USD 10 million in Q4 2012.
- EBITDA margin of 7 % compared to 11 % in Q4 2012.

Well Services segment

- Operating revenue of USD 54 million compared to USD 59 million in Q4 2012.
- EBITDA of USD 26 million compared to USD 29 million in Q4 2012.
- EBITDA margin of 47 % compared to 49% in Q4 2012.

Financial review – operations

(Comparable figures for last year in brackets)

Consolidated group financials

Profit & loss Q4 2013 & FY 2013

Operating revenue for Q4 2013 was USD 289 million (USD 288 million). The revenue from crewing and management services increased in the period, but this was partly offset by reduced engineering activity and Well Services activity due to the sale of the Mooring business line.

EBITDA in Q4 2013 was USD 88 million (USD 92 million), a decrease of USD 4 million, or 5 %. The decrease in EBITDA was primarily due to the divested mooring business line in 2013 compared with 2012, partly offset by an increase in share of profit from joint ventures. EBITDA margin for Q4 2013 was 30 % compared to 32 % in Q4 2012. The decrease in EBITDA margin was primarily attributable to the same reasons as the change in EBITDA.

EBIT in Q4 2013 was USD 52 million (USD 54 million), a decrease of USD 2 million, or 4 %. The decrease in EBIT was primarily attributable to the same reasons as the decrease in EBITDA.

Operating revenue for FY 2013 was USD 1,174 million (USD 1,094 million), an increase of USD 80 million, or 7 %. The increase was primarily attributable to increased average financial utilisation for mobile drilling units, new platform drilling contract with Statoil, increased engineering activity on MODU projects, as well as a stronger market in general for well services in FY 2013 compared with FY 2012.

Other gains and losses for FY 2013 were USD 22 million (USD 3 million), an increase of USD 19 million. The increase was primarily attributable to the disposal of the Mooring business unit.

EBITDA for FY 2013 was USD 393 million (USD 331 million), an increase of USD 62 million, or 19 %. The increase in EBITDA was primarily attributable to the gain from sale of the Mooring business unit, increased average financial utilisation for mobile drilling units, increased period of management services for Deep Sea Metro, in addition to increased activity from well services in 2013 compared with 2012. EBITDA margin for FY 2013 was 33 % compared to 30 % FY 2012. The increase in EBITDA margin was primarily attributable to the gain from sale of the Mooring business unit, increased average financial utilisation for mobile drilling units and increase in share of profit from joint ventures in FY 2013 compared to FY 2012.

EBIT for FY 2013 was USD 248 million (USD 184 million), an increase of USD 64 million, or 35 %. The increase in EBIT was primarily attributable to the same reasons as the increase in EBITDA.

Net financial items FY 2013 include USD 14 million in expenses related to the process of listing Odfjell Drilling Ltd. on the Oslo Stock Exchange.

Net profit FY 2013 was USD 69 million (USD 117 million), a reduction of USD 48 million. In 2013, USD 68 million was expensed for the period from 2009 to 2013 as a result of the verdict of the district court in July 2013 in the tax court case regarding Odfjell Rig Ltd.

Balance sheet

Total assets as per 31 December 2013 amounted to USD 2,736 million compared with USD 2,804 million at year end 2012, a decrease of USD 68 million, or 2 %.

Equity as per 31 December 2013 amounted to USD 1,130 million, compared with USD 1,154 million at year end 2012, a decrease of USD 24 million, or 2 %. Equity ratio as per 31 December 2013 was the same as at year end 2012; 41 %. In 2013, the equity was reduced by USD 64 million due to the acquisition of non-controlling interests in the semi-submersible rig, Deepsea Bergen.

Net interest bearing debt as per 31 December 2013 amounted to USD 1,071 million, compared to USD 1,151 million at year end 2012, a decrease of USD 80 million, or 7 %. The change relates to a net repayment of interest bearing debt during the period.

Cash flow

Net cash flow from operating activities in Q4 2013 was positive with USD 54 million (positive cash flow USD 83 million), a decrease of USD 29 million, or 40 %. The decrease primarily relates to changes in working capital.

Net cash flow from investing activities in Q4 2013 was negative with USD 51 million (negative cash flow of USD 55 million), an increase of USD 4 million.

Net cash flow from financing activities in Q4 2013 was negative with USD 52 million (negative cash flow of USD 36 million), a decrease of USD 16 million. The change is mainly caused by a total repayment of interest bearing debt in Q4 2013 of USD 52 million, compared with repayments of USD 31 million in Q4 2012.

Net cash flow from operating activities for FY 2013 was positive with USD 245 million (positive cash flow of USD 267 million), a decrease of USD 22 million, or 8 %.

Net cash flow from investing activities for FY 2013 was negative with USD 81 million (negative net cash flow of USD 306 million), an increase of USD 225 million. The increase was primarily attributable to reduced purchase of property, plant and equipment in FY 2013 compared to FY 2012. The increase in proceeds from sale of property, plant and equipment are primarily due to the sale of the Mooring business unit in 2013. In addition, the Group increased the shareholder loan to Deep Sea Metro Ltd with USD 27 million in 2013.

Net cash flow from financing activities for FY 2013 was negative with USD 165 million (negative cash flow of USD 61 million), a decrease of USD 104 million. The decrease was primarily attributable to refinancing of loan facilities following the acquisition of non-controlling interests in Deepsea Bergen and dividends paid in 2013. In January 2013, the Group acquired all minority shares in Deepsea Bergen for a total of USD 64 million. For the purpose of completing the Group's acquisition of the non-controlling interests, the Group secured a new loan agreement of USD 270 million, repaid two loan facilities and paid instalments on existing loan facilities. Total dividends paid in the twelve months period ended 31 December 2013 were USD 15 million.

Segments

Mobile Offshore Drilling Units (MODU)

All figures in USD million

Key figures MODU segment	Q4 2013	Q4 2012	FY 2013	FY 2012
Operating revenue……………………………	190	183	762	693
EBITDA………………………………………………	80	80	338	285
EBIT…………………………………………………	46	46	205	162
EBITDA margin………………………………	42 %	44 %	44 %	41 %

Operating revenue for the MODU segment in Q4 2013 was USD 190 million (USD 183 million), an increase of USD 7 million, or 4 %. The increase was primarily attributable to the management agreement with Island Innovator and increased day rate for Deepsea Metro I. The growth in revenue for the MODU segment was also partly offset by a decrease in the financial utilisation of Deepsea Metro II due to BOP challenges and a decrease in the financial utilisation for Deepsea Bergen during the client funded yard stay in October.

EBITDA for the MODU segment in Q4 2013 was USD 80 million (USD 80 million). Increased day rate for Deepsea Metro I and an increased margin for Deepsea Atlantic had a positive effect on EBITDA, but were offset by the challenges faced by Deepsea Metro II and the decreased utilisation for Deepsea Bergen. The EBITDA margin for Q4 2013 was 42 % compared to 44 % for Q4 2012.

EBIT for the MODU segment in Q4 2013 was USD 46 million (USD 46 million). The increase in EBIT for Deepsea Metro I and Deepsea Atlantic was neutralized by the BOP challenges faced by Deepsea Metro II and reduced financial utilization of the Deepsea Bergen caused by the yard stay.

Operating revenue for the MODU segment for FY 2013 was USD 762 million (USD 693 million), an increase of USD 69 million, or 10 %. The increase was primarily attributable to the management agreement with Island Innovator and increase in the financial utilisation for Deepsea Stavanger and Deepsea Atlantic. Revenue from Deep Sea Metro operations increased due to Deepsea Metro II being in operations from 1 January to 31 December 2013 compared to operations from 17 May to 31 December 2012, and due to Deepsea Metro I entering into a new contract with an increased day rate with effect from 7 June 2013. The growth in revenue for the MODU segment was also partly offset by the expiration of the Songa Trym and Songa Delta management agreements in August 2012.

EBITDA for the MODU segment for FY 2013 was USD 338 million (USD 285 million), an increase of USD 53 million, or 19 %. The increase in EBITDA was primarily caused by increased financial utilisation for Deepsea Stavanger and Deepsea Atlantic, increased period of operation for Deep Sea Metro II and increased day rate for Deepsea Metro I. EBITDA margin for FY 2013 was 44 % compared to 41 % for FY 2012.

EBIT for the MODU segment for FY 2013 was USD 205 million (USD 162 million), an increase of USD 43 million or 26 %. The increase in EBIT was mainly attributable to the same reasons as the increase in EBITDA but was partly offset by higher depreciation.

MODU - Financial utilisation

The financial utilisation in the fourth quarter and full year for each of the Group's wholly or partly owned mobile offshore drilling units for 2013 was as follows:

Financial Utilization - MODU	Q4 2013	Q4 2012	FY 2013	FY 2012
Deepsea Stavanger	84.5%	88.5%	87.1%	79.0%
Deepsea Atlantic	96.9%	99.5%	98.7%	98.0%
Deepsea Bergen	93.0%	98.4%	97.9%	97.0%
Deepsea Metro I	100.0%	99.9%	98.7%	97.5%
Deepsea Metro II	53.2%	96.1%	78.7%	72.4%

Note: Deepsea Metro II commenced its operations for Petrobras on 17 May 2012. Financial utilization is calculated as from commencement of the units' applicable drilling contracts.

Deepsea Stavanger had a two week period at zero day rate in November 2013 and Deepsea Metro II had a two week period at zero day rate in November 2013 followed by a period of four weeks at zero day rate in December 2013. The periods at zero day rate were caused by BOP challenges.

Deepsea Bergen – rig modification at yard Deepsea Bergen

The semi-submersible rig, Deepsea Bergen, underwent a successful client funded yard stay for most of October and was back in operation for Statoil on its long-term contract on 29 October 2013.

Deepsea Aberdeen (newbuild project) - water ingress incident at yard in December 2013

On 28 December 2013 an incident occurred with water ingress in the pontoon of the Deepsea Aberdeen, resulting in partly submerging of the hull while docked alongside the quay at the DSME yard in South Korea.

Events after the reporting period

Deepsea Aberdeen (newbuild project) – new scheduled delivery from yard

Following the water ingress incident at the DSME yard on 28 December 2013, Deepsea Aberdeen has been recovered.

Based on available information a revised time schedule for recovery and project finalisation has been established. According to the revised time schedule, Odfjell Drilling will take delivery of the rig in October / November 2014 with the objective to commence drilling operations during Q1 2015. As a result, the project cost is estimated to increase by USD 10 million. This estimate includes additional costs for project management, preparations for operation, finance cost and net liquidated damages.

Deepsea Metro II – 4 weeks at zero rate in January/February

The BOP challenges causing 4 weeks at zero day rate in December 2013 continued for one week into January 2014. In addition, Deepsea Metro II faced new challenges with the BOP in February 2014, causing another 3 weeks at zero day rate. The unit is back in operation.

Deepsea Atlantic – class survey yard stay to commence in March

The 5-year class survey yard stay of Deepsea Atlantic is planned to commence in March 2014 at the AF Decom's site in Vats, Norway. During the yard stay there will also be projects done to improve the rig's reliability and compliance with regulations. The rig is estimated to be out of operation for approximately one month in connection with this yard stay with a total project budget estimated at USD 55 million.

Drilling & Technology segment

All figures in USD million

Key figures Drilling & Technology segment	Q4 2013	Q4 2012	FY 2013	FY 2012
Operating revenue……………………………………………	87	91	352	316
EBITDA……………………………………………………………	6	10	25	25
EBIT………………………………………………………………	5	9	20	19
EBITDA margin………………………………………………	7 %	11 %	7 %	8 %

Operating revenue for the Drilling & Technology segment for Q4 2013 was USD 87 million (USD 91 million), a decrease of USD 4 million, or 5 %. The decrease was primarily attributable to lowered activity on engineering services for MODU projects, while in other areas the activity remained on the same level as for FY 2012.

EBITDA for the Drilling & Technology business segment for Q4 2013 was USD 6 million (USD 10 million), a decrease of USD 4 million, or 36%. The decrease in EBITDA is mainly due to lower activity on engineering services in addition to increased personnel cost compared to Q4 2012. The EBITDA margin for Q4 2013 was 7 % compared to 11 % for Q4 2012.

EBIT for the Drilling & Technology business segment for Q4 2013 was 5 million (USD 9 million), a decrease of USD 4 million, or 40%. This was caused by the same elements as for the EBITDA result.

Operating revenue for the Drilling & Technology segment for FY 2013 was USD 352 million (USD 316 million), an increase of USD 36 million, or 11%. The increase was primarily attributable to an increase in activity related to the new Statoil/Wintershall platform drilling contract in Norway (two new platforms in 2013; Brage and Njord), and increased activity on the UK Continental Shelf in the period. The activity has also increased within engineering services related to yard stays and new builds.

EBITDA for the Drilling & Technology business segment for FY 2013 was USD 25 million same as for FY 2012. This was caused by the same elements as for increased operating revenue. EBITDA margin for FY 2013 was 7 % compared to 8 % for FY 2012.

EBIT for the Drilling & Technology business segment for FY 2013 was 20 million (USD 19 million), an increase of USD 1 million, or 6%. This was caused by the same elements as for increased revenue.

Events after the reporting period

In February 2014, BP declared two 2-years options thereby extending the present Platform Drilling Services contract in the UK for a further 4 years from December 2014. This brings the contract to a renewal date in December 2018. In addition, BP has one remaining 2-year option. The value of the 4-year extension is estimated to USD 165 million.

Odfjell Drilling currently operates on BP assets Andrew, Bruce, Clair and Magnus in the UK North Sea. A new platform Clair Ridge will be included in the portfolio following handover to operations during 2016.

Well Services segment

All figures in USD million

Key figures Well Services segment	Q4 2013	Q4 2012	FY 2013	FY 2012
Operating revenue……………………………………	54	59	227	208
EBITDA…………………………………………………	26	29	105	95
EBIT……………………………………………………	17	18	67	53
EBITDA margin…………………………………………	47 %	49 %	46 %	46 %

Operating revenue for the Well Services segment in Q4 2013 was USD 54 million (USD 59 million), a decrease of USD 5 million, or 8 %. The divested mooring business line contributed revenue of USD 9 million in Q4 2012, but had no contribution in Q4 2013. The increase in revenue for the Well Services segment, excluding the mooring business line, was primarily caused by increased demand across all geographic areas, with the highest contribution to the change in operating revenue coming from new contracts in the Middle East and the South East Asia region.

EBITDA for the Well Services segment in Q4 2013 was USD 26 million (USD 29 million), a decrease of USD 3 million, or 12 %. The divested mooring business line contributed an EBITDA of USD 7 million in Q4 2012, but had no contribution in Q4 2013. The increase in EBITDA for the Well Services segment, excluding the mooring business line, was due to a general increase in activity as explained above. EBITDA margin for Well Services segment in Q4 2013 was 47 % compared to 49 % for Q4 2012.

EBIT for the Well Services segment in Q4 2013 was USD 17 million (USD 18 million), a decrease of USD 1 million, or 5 %.

Operating revenue for the Well Services segment for FY 2013 was USD 227 million (USD 208 million), an increase of USD 19 million, or 9 %. The increase was primarily attributable to increased demand in general. This growth in operating revenue has been achieved despite the divestment of the Mooring business unit, which in FY 2013 contributed revenue of USD 11 million in the Well Services segment only for the period 1 January 2013 to 30 April 2013.

EBITDA for the Well Services segment for FY 2013 was USD 105 million (USD 95 million), an increase of USD 10 million, or 10 %. EBITDA margin for FY 2013 was 46 %, the same as for FY 2012.

EBIT for the Well Services segment for FY 2013 was USD 67 million (USD 53 million), an increase of USD 14 million, or 27 %.

The changes in EBITDA and EBIT noted above were primarily attributable to the same reasons as for the increases in the operating revenue.

Dividend for 2013

The Board of Directors has declared a cash dividend of USD 0.05 per share for 2013. The ex-dividend date is set to be 18 March 2014, record date is 20 March 2014 and payment date is on or about 8 April 2014. Dividends will be distributed in NOK.

The dividend for 2013 represents 15 % of the Odfjell Drilling Group's preliminary profits for 2013.

The Company maintains it target for a long-term dividend representing approximately 30 – 40% of its net profit on a consolidated basis. When deciding whether to declare and pay an annual dividend, the Board of Directors will take into consideration market outlook, potential growth opportunities, contract backlog, cash flow generation, capital expenditure plans and funding requirements whilst maintaining adequate financial flexibility. The Board of Directors may revisit the dividend policy from time to time.

The proposal in any year to pay any dividend is further subject to limitations in financing agreements and sufficiency in distributable reserves.

Outlook

Demand for the Group's services is satisfactory in all our markets but market conditions are expected to be somewhat softer in the near term. In the medium- to long-term, we are of the opinion that the oil industry's demand for drilling services will continue to be supported by the need for reserves replacement and by continued spending on exploration and field-development in the main offshore regions.

For the MODU segment we see a somewhat softer near term deep- and ultra deepwater market evidenced by shorter lead-times and lack of new long-term tenders. This is caused by a slowdown of oil companies' growth in E&P spending and the increase in UDW rig supply, putting pressure on near term day rates. This will mainly have an effect on the lower spec deepwater units and midwater units. Odfjell Drilling has a UDW fleet of high spec 6th generation units, and as such should be less impacted by the market fluctuations.

The harsh environment market, especially in the North Sea, will remain in better balance than the UDW market near term.

We expect that the Well Services segment will continue its long-term growth in its selected market regions.

The slowdown in oil companies' E&P growth will result in a more volatile market for the Group's engineering services near- to medium term due to potential postponement of projects.

Principal risks and uncertainties

Factors that, in the Group's view, could cause actual results to differ materially from the outlook contained in this report are the following: volatile oil and gas prices, competition within the oil and gas services industry, changes in client's spending budgets and within the Company, a successful outcome of the challenges from the tax authorities.

Quality, health, security & environment (QHSE)

Key figures QHSE	FY 2013	FY 2012
Lost time incident frequency (as per 1 million working hours)………………	0.8	1.4
Total recordable incident frequency (as per 1 million working hours)…..	2.5	3.8
Sick leave (percentage)……………………………………………………………………	3.0	3.2
Dropped objects frequency (as per 1 million working hours)…………………	8.4	6.5
Number of employees*……………………………………………………………………	3 297	2 918

*) Including employees in the Deep Sea Metro structure

The positive trends from 2012 have continued in 2013 within most of Odfjell Drilling's QHSE key performance indicators. The Company has obtained the best results in its history within lost time incident frequency, total recordable incident frequency and sick leave. The company encountered a negative development within the dropped object frequency and has implemented measures to reduce this trend going forward.

Hamilton, Bermuda
27 February 2014

Board of Directors of Odfjell Drilling Ltd.

Carl-Erik Haavaldsen, Chairman Helene Odfjell, Director Kirk L. Davis, Director

Bengt Lie Hansen, Director Henry H. Hamilton III, Director

Odfjell Drilling Ltd.

Q4 2013

Consolidated financial statements

Condensed Consolidated Income Statement

USD thousands	Note	Q4 2013	Q4 2012	FY 2013	FY 2012
Operating revenue	3	288 849	288 452	1 173 605	1 093 754
		-			
Other gains and losses		886	1 433	22 288	3 438
Share of profit from joint ventures		669	(1 754)	436	(13 399)
Personnel expenses		(136 871)	(127 967)	(547 039)	(486 182)
Other operating expenses		(65 521)	(67 908)	(256 338)	(266 609)
EBITDA		88 012	92 255	392 953	331 000
Depreciation and impairment	4	(36 282)	(38 642)	(145 180)	(147 318)
Operating profit (EBIT)		51 730	53 613	247 773	183 682
Net financial items	13	(13 129)	(6 720)	(76 801)	(35 650)
Profit/(loss) before tax		38 601	46 893	170 972	148 032
Income taxes	10	(13 633)	(11 195)	(102 323)	(31 176)
Profit/(loss) for the period		24 968	35 699	68 649	116 858

Condensed Consolidated Statement of Comprehensive Income:

USD thousands	Note	Q4 2013	Q4 2012	FY 2013	FY 2012
Profit/(loss) for the period		24 968	35 699	68 649	116 858
Items that will not be reclassified to profit or loss:					
Actuarial loss on post employment benefit obligations		(9 444)	4 224	(9 444)	15 726
Total		(9 444)	4 224	(9 444)	15 726
Items that are or may be reclassified to profit or loss:					
Cash flow hedges		177	(1 079)	4 137	(1 707)
Currency translation differences		(3 407)	3 038	(14 475)	7 234
Total		(3 230)	1 960	(10 338)	5 528
Total other comprehensive income, net of tax		(12 674)	6 184	(19 782)	21 254
Comprehensive income for the period		12 293	41 883	48 867	138 112
Profit or loss for the period attributable to					
Non-controlling interests		-	3 892	1 360	14 309
Owners of Odfjell Drilling Ltd.		24 968	31 807	67 289	102 549
Comprehensive income for the period attributable to					
Non-controlling interests		-	4 086	984	14 750
Owners of Odfjell Drilling Ltd.		12 293	37 798	47 883	123 362
Earnings per share (USD)					
Basic earnings per share	7	0,12	0,16	0,34	0,51
Diluted earnings per share	7	0,12	0,16	0,34	0,51

(All amounts are in USD thousands unless otherwise stated)

Condensed Consolidated Statement of Financial Position

	Note	31.12.2013	31.12.2012
Assets			
Intangible assets		26 618	29 926
Property, plant and equipment	4	1 779 724	1 871 897
Financial fixed assets	2,8	433 042	421 622
Total non-current assets		**2 239 384**	**2 323 445**
Trade receivables		247 793	242 055
Other current assets		48 086	38 249
Cash and cash equivalents		200 902	200 636
Total current assets		**496 781**	**480 940**
Total assets		**2 736 165**	**2 804 385**
Equity and liabilities			
Total paid-in capital	12	337 173	331 809
Other equity	6	793 177	793 714
Non-controlling interests		-	28 779
Total equity		**1 130 350**	**1 154 303**
Borrowings	9	1 092 170	1 140 544
Post-employment benefits		67 447	62 148
Deferred tax liability	10	17 911	-
Other non-current liabilities	2	16 833	30 996
Total non-current liabilities		**1 194 361**	**1 233 688**
Borrowings	9	180 178	211 270
Trade payables		33 492	36 033
Other current liabilities		197 784	169 091
Total current liabilities		**411 454**	**416 394**
Total liabilities		**1 605 815**	**1 650 082**
Total equity and liabilities		**2 736 165**	**2 804 385**

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent						
USD thousands	Share capital	Other contributed capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	14	339 095	-35 982	706 978	**1 010 104**	22 727	**1 032 831**
Profit/(loss) for the period	-	-	-	102 549	**102 549**	14 309	**116 858**
Other comprehensive income for the year	1	-7 301	5 087	23 026	**20 813**	441	**21 254**
Total comprehensive income for the year	1	-7 301	5 087	125 574	**123 362**	14 750	**138 112**
Equity contribution from owners							
Dividends paid	-	-	-	-7 943	**-7 943**	-8 698	**-16 640**
Transactions with owners	-	-	-	-7 943	**-7 943**	-8 698	**-16 640**
Balance at 31 December 2012	**15**	**331 794**	**-30 896**	**824 610**	**1 125 524**	**28 779**	**1 154 303**
Profit/(loss) for the period	-	-	-	67 289	**67 289**	1 360	**68 649**
Other comprehensive income for the period	-	-	-9 962	-9 444	**-19 407**	-376	**-19 782**
Total comprehensive income for the period	-	-	-9 962	57 845	**47 883**	984	**48 867**
Acquisition minority shares	-	-	-34 496	-	**-34 496**	-29 764	**-64 259**
Dividends paid	-	-	-	-8 561	**-8 561**	-	**-8 561**
Share capital increase	1 985	-1 985	-	-	**-**	-	
Transactions with owners	1 985	-1 985	-34 496	-8 561	**-43 057**	-29 764	**-72 820**
Balance at 31 December 2013	**2 000**	**329 809**	**-75 354**	**873 894**	**1 130 350**	**-**	**1 130 350**

Reference is made to Note 9 regarding financing of the acquisition of minority shares in Deepsea Bergen.

(All amounts are in USD thousands unless otherwise stated)

Condensed Consolidated Statement of Cash Flows

	Q4 13	Q4 12	FY 13	FY 12
Cash flows from operating activities:				
Profit before income tax	38 601	46 894	170 972	148 033
Adjustments for:				
Depreciation and impairment	36 282	38 642	145 180	147 318
Unrealised (gain)/loss on interest rate swaps	-1 565	-2 782	-9 063	(1 616)
Interest expense - net	11 040	12 137	46 699	50 271
Borrowing cost	1 693	345	8 991	4 588
Share of (profit)/loss from joint ventures	-669	1 753	-436	13 399
Net (gain)/loss on sale of shares	133	-	-2 457	-
Net (gain)/loss on sale of tangible fixed assets	-1 020	-623	-19 831	(2 629)
Post-employment benefit expenses less post-employment benefit payments	5 125	-3 124	4 076	(6 518)
Foreign exchange losses/(gains) on operating activities	3 141	-10 574	1 741	(21 907)
Profit earned during period by disposed subsidiary	-2	-	79	-
Impairment of investments in shares	18	893	18	893
Changes in working capital (excluding the effect of acquisition and exchange differences on consolidation):				
Spare parts	1 354	800	-706	710
Trade receivables	-26 104	-26 239	-5 738	8 373
Trade payables	-1 366	10 882	-2 540	1 672
Other accruals	20 709	40 473	1 750	(5 230)
Cash generated from operations	**87 370**	**109 478**	**338 734**	**337 357**
Interest paid	-14 113	-16 746	-56 140	(55 672)
Income tax paid	-18 823	-10 183	-37 457	(14 476)
Net cash generated from operating activities	**54 435**	**82 546**	**245 138**	**267 207**
Cash flows from investing activities:				
Purchase of property, plant and equipment	-51 598	-40 607	-119 853	(210 867)
Proceeds from sale of property, plant and equipment	3 162	4 044	66 702	6 081
Loans granted to employees	-21	-1	39	118
Subordinated loan to related parties	-14 667	-	-26 667	(80 000)
Other long term receivables	13 937	-18 875	1 699	(21 244)
Purchase of shares incl. joint ventures	-1 588	-	-8 228	-
Proceeds from sale of shares and bonds	-52	-	4 924	-
Net cash used in investing activities	**-50 826**	**-55 438**	**-81 383**	**(305 911)**
Cash flows from financing activities:				
Proceeds from debt to financial institutions	-	-592	347 764	49 408
Repayments of debt to financial institutions	-51 666	-31 178	-433 333	(99 928)
Acquisition of shares from non-controlling interests	-	-	-64 259	-
Dividends paid to owners of the parent	-	-1 765	-14 847	(1 765)
Dividends paid to non-controlling interests	-	-2 739	-	(8 698)
Net cash from financing activities	**-51 666**	**-36 274**	**-164 675**	**(60 983)**
Net change in cash and cash equivalents	**-48 057**	**-9 166**	**-920**	**(99 688)**
Cash and cash equivalents at beginning of the period	250 054	214 178	200 636	303 137
Exchange gains/(losses) on cash and cash equivalents	-1 096	-4 375	1 186	(2 813)
Cash and cash equivalents at period end	**200 901**	**200 636**	**200 902**	**200 636**

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 engineering services, in Norway and around the world.

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

12 December 2013, the Group transferred the mobile drilling units Deepsea Atlantic and Deepsea Stavanger to two new wholly owned subsidiaries in Singapore jurisdiction. There have not been any other significant changes in the Group structure since 30 September 2013.

These condensed interim financial statements were approved by the Board of Directors for issue on 27 February 2014 and have not been audited.

Basis for preparation
These condensed interim financial statements for the three and twelve month periods ended 31 December 2013 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRS.

Going concern
The Group has adopted the going concern basis in preparing its interim financial statements. When using this assumption, management has assessed all available information about the future. This comprises information about net cash flows from existing contracts, debt service and obligations under existing new building contracts. Forecasts also take into consideration expected future net income from assets under construction. After making such assessments, management has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

Accounting principles
The accounting policies adopted are consistent with those of the previous financial year except that income tax expense is recognised in each interim period using the expected weighted average annual income tax rate for the full financial year. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.
The following new standards have been adopted from 1 January 2013:

- IFRS 13 "Fair value measurement" are applicable for the December 2013 year end. The adoption of IFRS 13 did not have an material impact on the Groups results. The Group has included the disclosures required by IAS 34 para 16A(j). See Note 2.

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 uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012, except for income taxes and post-employment benefits.

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.

When accounting for uncertain tax positions, the company applies the general measurement principles in IAS 12. Under IAS 12, uncertain tax positions (whether assets or liabilities) are reflected at the amount expected to be recovered from or paid to the taxation authorities. The amount expected to be paid, is calculated by using the single best estimate of the most likely outcome. A change in estimate is recognized in the period when new information occurs. Where an entity has paid more than the amount it believes is payable under the relevant tax legislation, it will estimate the recovery of a tax asset.

Present value of defined benefit obligations and the fair value of plan assets at the end of each interim reporting period is estimated by extrapolation of the latest actuarial valuation, while in the annual financial statements this estimate is based on an updated actuarial valuation.

(All amounts are in USD thousands unless otherwise stated)

Note 2 | 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 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 2012. There are no material changes compared to the description in the year-end financial statements.

Calculation of the Group's sensitivity to interest rate fluctuations showed that the effect of an increase in interest rates by one percentage point (e.g. from 4.0% to 5.0%) was approx. USD 6.0 million for FY 2013, including interest rate swaps. There is no material change in the Group's interest rate sensitivity compared to year-end.

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

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

The Group had the following financial instruments that are measured at fair value as at 31 December 2013:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	-	-	3	3
Derivatives used for hedging	-	3 221	-	3 221
Total assets	**-**	**3 221**	**3**	**3 225**
Liabilities				
Derivatives held at fair value through profit or loss	-	15 483	-	15 483
Derivatives used for hedging	-	901	-	901
Total liabilities	**-**	**16 383**	**-**	**16 383**

During the quarter there have been no transfers between levels of the fair value hierarchy.

The Group had the following financial instruments that are measured at fair value as at 31 December 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	-	-	22	22
Derivatives used for hedging	-	-	-	-
Total assets	**-**	**-**	**22**	**22**
Liabilities				
Derivatives held at fair value through profit or loss	-	24 574	-	24 574
Derivatives used for hedging	-	1 817	-	1 817
Total liabilities	**-**	**26 390**	**-**	**26 390**

(All amounts are in USD thousands unless otherwise stated)

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. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

Fair value of financial assets and liabilities measured at amortised cost
The fair value of borrowings are as follows:

	31.12.2013	31.12.2012
Non-current	1 092 170	1 140 544
Current	180 178	211 270
Total	**1 272 348**	**1 351 814**

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

(All amounts are in USD thousands unless otherwise stated)

Note 3 | Segment summary

The Group provides drilling and related services to the offshore oil and gas industry, and has three main business areas; the operation of mobile drilling units, drilling & technology and well services.

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

In accordance with the internal financial reporting, the Group's 40% interest in Deep Sea Metro Ltd Group has been presented in the MODU segment using the line-by-line proportionate method. See more information regarding this joint venture arrangement in note 8.

- **Mobile Offshore Drilling Units (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.

- **Platform Drilling & Engineering (OD&T):** Within the Drilling & Technology 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.

- Well Services (OWS): The Well Services segment provides casing and tubular running services as well as drilling tool and tubular rental services both for exploration wells and for production purposes.

The Group's internal reporting is prepared according to Norwegian GAAP. This gives nature 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.

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	Q4 13	Q4 12	Q4 13	Q4 12	Q4 13	Q4 12	Q4 13	Q4 12	Q4 13	Q4 12
External segment revenue	152 686	146 442	72 030	50 950	47 209	47 853	16 924	43 207	288 849	288 452
Inter segment revenue	2 215	2 031	14 655	40 455	6 987	10 791	-23 858	-53 276	-	-
Deep Sea Metro Ltd Group revenue	35 060	34 402	-	-	-	-	-35 060	-34 402	-	-
Total revenue	189 962	182 874	86 685	91 404	54 196	58 643	-41 995	-44 470	288 849	288 452
EBITDA	**80 493**	**79 677**	**6 223**	**9 774**	**25 553**	**28 951**	**-24 257**	**-26 147**	**88 012**	**92 255**
Depreciation and impairment	-34 360	-33 492	-1 069	-1 245	-8 493	-11 067	7 640	7 163	-36 282	-38 642
EBIT	**46 133**	**46 185**	**5 154**	**8 528**	**17 061**	**17 884**	**-16 617**	**-18 985**	**51 730**	**53 613**

	Mobile Offshore Drilling Units		Drilling & Technology		Well Services		Corporate / Eliminations		Consolidated	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
External segment revenue	610 162	588 918	309 810	234 790	191 696	178 319	61 937	91 728	1 173 605	1 093 754
Inter segment revenue	8 029	5 921	41 768	81 259	35 298	29 840	(85 096)	(117 020)	-	-
Deep Sea Metro Ltd Group revenue	143 483	98 551	-	-	-	-	(143 483)	(98 551)	-	-
Total revenue	761 675	693 390	351 579	316 049	226 995	208 159	(166 643)	(123 843)	1 173 605	1 093 754
EBITDA	**338 361**	**284 987**	**25 435**	**24 885**	**105 133**	**95 320**	**(75 976)**	**(74 190)**	**392 953**	**331 001**
Depreciation and impairment	(133 512)	(122 741)	(5 373)	(5 874)	(38 314)	(42 610)	32 019	23 907	(145 180)	(147 318)
EBIT	**204 849**	**162 246**	**20 062**	**19 010**	**66 820**	**52 709**	**(43 958)**	**(50 283)**	**247 773**	**183 683**

Reconciliations:	Q4 13	Q4 12	FY 13	FY 12
Total EBIT for reportable segments	**68 348**	**72 598**	**291 731**	**233 966**
Corporate / Eliminations	(4 415)	(7 900)	(19 254)	(23 258)
Gain from sale of Mooring business unit	(1 095)	-	19 553	-
40% share of EBIT DSM Ltd	(11 745)	(10 640)	(46 197)	(23 528)
Share of profit from JV	669	(1 754)	436	(13 399)
Accounting differences	(31)	1 309	1 503	9 902
EBIT Total Group	**51 730**	**53 613**	**247 773**	**183 683**
Net financial items	(13 129)	(6 720)	(76 801)	(35 650)
Profit before tax Group	**38 601**	**46 894**	**170 972**	**148 032**

Note 4 | Tangible fixed assets

USD thousands	Mobile drilling units	Periodic maintenance	Construction in progress	Well Services equipment	Machinery & equipment	Total fixed assets
Twelve months ended 31 December 2013						
Opening net book amount as at 1 January 2013	1 484 995	57 682	109 119	176 023	44 079	1 871 897
Additions	44 733	15 981	24 151	59 139	7 779	151 784
Disposals	2			(6 461)	(32 046)	(38 504)
Disposal - sale of Mooring division				(41 522)		(41 522)
Depreciation and amortisation	(77 421)	(24 779)		(37 766)	(5 215)	(145 180)
Currency translation differences	(2 221)	-		(13 870)	(2 660)	(18 752)
Closing net book amount as at 31 December 2013	**1 450 088**	**48 885**	**133 270**	**135 544**	**11 937**	**1 779 724**
Twelve months ended 31 December 2012						
Opening net book amount as at 1 January 2012	1 537 499	73 735	-	140 194	43 367	1 794 795
Additions	18 922	6 081	109 119	69 267	41 673	245 062
Disposals	1 375	30	-	(2 889)	(36 127)	(37 611)
Depreciation and amortisation	(75 000)	(22 163)	-	(42 225)	(7 930)	(147 318)
Currency translation differences	2 200	-	-	11 676	3 095	16 971
Closing net book amount as at 31 December 2012	**1 484 995**	**57 682**	**109 119**	**176 023**	**44 079**	**1 871 897**

Useful lifetime	5 - 35 years	5 years		5 - 10 years	3 - 10 years	
Depreciation schedule	Straight line	Straight line		Straight line	Straight line	

On 30 November 2013, there were entered an agreement for the sale of "Shaffer BOP" from Odfjell Partners Invest Ltd. to Odfjell invest II Ltd., for the price of NOK 184,850,000. The transfer of "Shaffer BOP" affects the disposal in "Machinery & Equipment" and acquisitions in "Mobile drilling units." The asset was transferred at book value.

Note 5 | Commitments

The Group has signed a contract with Daewoo Shipbuilding & Marine Engineering (DSME) to build a new semi-submersible drilling rig named Deepsea Aberdeen, for use in the UK's West of Shetland region under contract with BP.
The commitments related to the new building programme are summarised in the table below:

	31.12.2013	31.12.2012
Due in year 1	604 400	53 047
Due in year 2	-	598 000
Total	**604 400**	**651 047**

Capital expenditure other than new buildings contracted for at the end of the reporting period but not yet incurred was as follows:

USD thousands	31.12.2013	31.12.2012
Global Standard - New ERP solution	5 359	-
Rig investments 1)	35 043	-
Rental and casing equipment, due in 1 year	20 023	15 989
Total	**60 425**	**15 989**

1) Rig investments are mainly related to a five year classification of Deepsea Atlantic in Q1 2014.

Note 6 | Paid dividends

The Group has paid out dividends of USD 14.8 million in FY 2013, of which USD 6.3 million was resolved in FY 2012 and distributed in FY 2013.

Note 7 | Earnings per share

Earnings per share is based on the issued number of shares in Odfjell Drilling Ltd., which were 200 000 000 shares as per 31December 2013. Comparative figures (EPS) are presented retrospectively based on number of issued shares as at 31December 2013.

(All amounts are in USD thousands unless otherwise stated)

Note 8 | Financial fixed assets

	31.12.2013	31.12.2012
Investment in joint ventures	338 480	331 144
Subordinated loan to joint venture	79 273	52 069
Long-term receivables from related parties	-	15 902
Investment in financial instruments	3 221	-
Other long term receivables	12 065	22 485
Investments in shares	3	22
Total financial fixed assets	**433 042**	**421 622**

The Group has maintained its ownership interests in joint ventures during the interim period.

	31.12.2013	31.12.2012
Opening net book amount as at beginning of the period	331 144	313 253
Investments/ Acquisitions during the year	8 223	30 421
Share of profits	520	(13 329)
Share of OCI result	416	(114)
Depreciation of excess value	(84)	(70)
Other changes	-	(547)
Currency translation differences	(1 740)	1 530
Closing net book amount as at end of period	**338 480**	**331 144**

Deep Sea Metro Ltd.

The Group's most significant joint venture investment is in the Deep Sea Metro Ltd. Group, which is owned 40% by Odfjell Offshore Ltd. and 60% by Metro Exploration. The investment is accounted for using the equity method of accounting, while in the segment figures as reported in note 3 the Group's share of revenue, EBITDA, depreciation and EBIT from Deep Sea Metro are included in the MODU business segment using the line-by-line method. The Group's share of profit and loss using the line-by-line method is as follows:

	Q4 13	Q4 12	FY 13	FY 12
Share of total income	35 060	34 402	143 483	98 551
Share of operating expenses	(23 315)	(23 762)	(97 286)	(75 022)
Share of net financial items	(9 067)	(10 006)	(37 157)	(33 407)
Share of profit/(loss) before tax	**2 679**	**634**	**9 041**	**(9 879)**
	-	-		
Share of taxes	(3 833)	(3 381)	(11 726)	(7 702)
Share of profit/(loss) for the year	**(1 154)**	**(2 748)**	**(2 685)**	**(17 581)**

The Group's share of assets and liabilities in Deep Sea Metro Ltd. using the line-by-line method are as follows:

	31.12.2013	31.12.2012
Share of non-current assets	644 535	658 405
Share of cash	33 165	46 275
Share of current assets	22 939	23 578
Total assets	**700 639**	**728 257**
Share of equity 01.01	306 920	296 226
Share of profit/(loss) for the period	-2 685	(17 581)
Capital contribution	2 809	28 397
Currency deviation	-78	(123)
Share of equity 31.12	**306 965**	**306 920**
Share of non-current liabilities	230 197	389 950
Share of current liabilities	163 477	31 387
Total liabilities	**393 674**	**421 338**
Total equity and liabilities	**700 639**	**728 257**

Following operational issues on Deepsea Metro II, mainly related to subsea equipment during 2013, and consequently reduced EBITDA, a waiver of the EBITDA-related covenants under the USD 400 million senior credit facility was granted in 2013 for the period until and including the measurement date 31 December 2013. Due to the waiver period not ending at least 12 months after the reporting date, all loan liabilities are presented as short term liabilities per 31 December 2013. Deepsea Metro II is owned by Chloe Marine Corporation Ltd., a subsidiary of Deep Sea Metro Ltd.

(All amounts are in USD thousands unless otherwise stated)

Note 9 | Borrowings

	31.12.13	31.12.12
Non-current	1 092 170	1 140 544
Current	180 178	211 270
Total	**1 272 348**	**1 351 814**

Movements in non current borrowings are analysed as follows:

Twelve months ended 31 December 2013	
Opening amount as at 1 January 2013	1 140 544
New bank loan raised	350 000
Repayment bank loan	(232 500)
Reclassified to current portion of non current borrowings	(173 333)
Change in transaction cost, unamortised	7 459
Closing amount as at 31 December 2013	**1 092 170**

Twelve months ended 31 December 2012	
Opening amount as at 1 January 2012	1 289 995
New bank loan raised	50 000
Repayment bank loan	(112 500)
Reclassified to current portion of non current borrowings	(91 667)
Change in transaction cost, unamortised	4 716
Closing amount as at 31 December 2012	**1 140 544**

The Group has the following undrawn borrowing facilities:

	31.12.13	31.12.12
Floating rate:	530 000	-
- expiring beyond one year		

The undrawn borrowing facility of USD 530 million will be available at the time of delivery of the mobile drilling unit, Deepsea Aberdeen, in 2014.

Covenants group level
For the financial year ended 31 December 2013, the Group has not been in violation of any covenants related to borrowing agreements.

New and repaid bank loans in 2013
For the purpose of completing the Group's acquisition of the minority shares, Odfjell Offshore Ltd. entered into a short-term facility agreement of USD 80 million with DNB Bank ASA on 24 January 2013. The facility was repaid on 20 February 2013 together with Odfjell Rig Ltd.'s USD 132.5 million loan balance and Deep Sea Drilling Company II KS' USD 57.5 million loan balance. These repayments were effected after the drawdown of a new long-term senior secured loan agreement of USD 270 million entered into by Odfjell Rig II Ltd. as borrower, Odfjell Drilling Ltd. and Odfjell Offshore Ltd. as guarantors and DNB Bank ASA, ABN AMRO Bank N.V., SpareBank 1 SR-Bank ASA and Swedbank AB (publ) as mandated lead arrangers on 15 February 2013. The facility shall be repaid by August 2018, latest.

Covenants for USD 270,000,000 Senior Secured Term Loan Facility
The Odfjell Drilling Group has agreed to maintain, at all times, a minimum liquidity (cash and cash equivalents) requirement of USD 50 million and a minimum 5 per cent of interest bearing debt (on consolidated basis) (if the Odfjell Drilling Group 12 months prior to delivery of any investment in excess of USD 100 million has any unfinanced capital expenditure related to such investment, the minimum liquidity requirement will increase to USD 100 million in addition to 5 per cent of interest bearing debt). Further, the Odfjell Drilling Group has agreed to maintain an equity ratio (equity to total assets) of a minimum 35 per cent at all times, to maintain a leverage ratio (interest bearing debt to EBITDA) not exceeding 5.00:1.00 and likewise to ensure that the ratio of current assets to current liabilities at all times being not less then 1.00:1.00. From the date that Odfjell Drilling Ltd. is released as guarantor under the facility agreement, the above mentioned financial covenants shall no longer apply to the Odfjell Drilling Group, but shall instead apply equally to the Odfjell Offshore Ltd. Group.

(All amounts are in USD thousands unless otherwise stated)

Note 10 | Income taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to date 31 December 2013 is 20 %, excluding disputed tax payable from current and previous years.

	Q4 13	Q4 12	FY 13	FY 12
Withholding tax, ordinary taxation	(2 640)	(3 160)	(8 024)	(7 453)
Payable tax, ordinary taxation	(11 687)	(9 576)	(34 349)	(26 075)
Change in deferred tax, ordinary taxation	5 811	1 221	8 615	2 033
Total tax expense current year items	**(8 517)**	**(11 516)**	**(33 758)**	**(31 496)**
Estimated average tax rate	22 %	25 %	20 %	21 %
Tax payable prior years, disputed	(187)	320	(25 902)	320
Tax payable current year, disputed	(13 908)	-	(13 908)	-
Change in deferred tax, disputed	8 979	-	(28 755)	-
Total tax expense	**(13 633)**	**(11 196)**	**(102 323)**	**(31 176)**
Tax rate for the period	35 %	24 %	60 %	21 %

Tax payable prior years, disputed, is tax paid by Odfjell Rig Ltd. for it's participation in Deep Sea Drilling Company II KS for the years 2009, 2010 and 2011. Due to negative outcome of trial between Odfjell Rig Ltd. and the Norwegian Tax Authorities, the Group has changed their estimate regarding the expected amount to be paid in this case. It is now assessed that the most likely outcome will be to pay the full amount that is disputed, and as a result the tax receivable booked at 31.12.2012 is expensed. Odfjell Rig Ltd. still dispute the Norwegian Tax Authorities view that Odfjell Rig Ltd. is taxable for its participation in Deep Sea Drilling Company II KS. The case has been appealed through the court system.

Change in deferred tax, disputed, is recognised as tax expense due to the outcome of the trial between Odfjell Rig Ltd, and the Norwegian Tax Authorities mentioned above. The change in deferred tax expense relates to Odfjell Rig Ltd.'s ownership in Deep Sea Drilling Company II KS, and the remaining gain and loss account generated from the sale of the drilling unit Deepsea Bergen by Deep Sea Drilling Company II KS to Odfjell Rig II Ltd. in January 2013. The increased tax expense in Q4 2013 for OR Ltd., relates to deferred tax liability not recognised as liability as per 31.12.2012, as the deferred tax liability at year end 2012 was only recognised for legal entities within the Norwegian tax jurisdiction.

TAX COURT CASE

Odfjell Rig Ltd. is a company incorporated in Bermuda, and the sole shareholder is Odfjell Drilling Ltd. During the years 2009 – 2011 Odfjell Rig Ltd. was the owner (limited partner) of 52.913 % of Deep Sea Drilling Company II KS (DSDCII), which in turn was the owner of the rig Deepsea Bergen. The general partner of DSDCII was Deep Sea Drilling Company II AS, and additionally there were two other limited partners. The rig Deepsea Bergen has operated on the Norwegian Continental Shelf since spring 2006 under a bareboat charter with Deep Sea Drilling Company KS. All main decisions pertaining to the rig (purchase, sale, financing etc) are made by partnership meeting of DSDCII. The company Odfjell Drilling AS – resident in Norway – has been contracted to carry out the day-to-day operations/management of the bareboat charter.
The dispute between Odfjell Rig Ltd. and the Norwegian tax authorities is whether Odfjell Rig Ltd. has a limited tax liability to Norway as a result of its ownership in DSDCII. The tax authorities made their decision for the years 2009 – 2010 on 29 June 2012, and later also for 2011. The case for 2009 – 2011 was brought before the Norwegian courts by Odfjell Rig Ltd. pursuant to a writ of summons on 20 December 2012, and the district court made its decision on 12 July 2013. For all three income years, the disputed amount (before-tax income) is approximately NOK 387,000,000.

The district court concluded that the bareboat charter business of DSDCII was carried out from Norway, and thus a limited tax liability exists for the owner Odfjell Rig Ltd. on the basis of the Norwegian Tax Act section 2-3 para. 1, letter b. The district court came to this conclusion inter alia on the basis that the day-to-day management of the bareboat charter by Odfjell Drilling AS in Bergen involves considerable activity in Norway on behalf of DSDCII, and also that the rig Deepsea Bergen had been deployed within Norwegian jurisdiction (i.e. on the Norwegian Continental Shelf). Furthermore, the district court concluded that a tax exemption in the Norwegian Tax Act section 2-34 was not applicable as this only relates to “international business” which in the court’s opinion is not the case as long as the rig is operated on the Norwegian Continental Shelf.

TAX AUDIT CASE

Odfjell Invest I Ltd. (Odfjell Invest I), a wholly-owned subsidiary of the Group incorporated in Bermuda, is the owner of the rig Deepsea Atlantic, which has been leased to Odfjell Invest AS under a bareboat charter at a fixed day rate. Odfjell Invest AS has in turn entered into a drilling contract with Statoil for the provision of drilling services to Statoil on the Norwegian Continental Shelf. Soon after commencement of drilling services under the drilling contract, Statoil stopped paying the operating rate based on the contention that Odfjell Invest AS was not able to provide the drilling services as contemplated by the drilling contract. Odfjell Invest AS challenged Statoil’s decision to stop payment of the operating rate and instigated legal proceedings to recover lost income. Odfjell Invest AS lost the court case in the first instance. As part of a settlement with Statoil, Odfjell Invest AS decided not to appeal the decision. Odfjell Invest AS has taken the position that it had no legal basis for stopping payment of bareboat hire to Odfjell Invest I under the bareboat charter during the period of non-payment of the operating rate by Statoil under the drilling contract.

The tax authorities have notified that they do not consider Odfjell Invest AS as entitled to a tax deduction under the Norwegian Tax Act section 6-1, resulting in an increase of the taxable income for 2009 with NOK 103,305,720 and for 2010 with NOK 520,607,220. Following the tax audit (report dated 5 July 2013) the notice of reassessment also relates to the omission of taking a payment of hire from Statoil as income, resulting in an increase of the income for 2010 with NOK 6,552,467. Furthermore, the tax authorities have notified that they do not consider the bareboat charter between Odfjell Invest AS and Odfjell Invest I to be in accordance with the arm's length principle. This results in a reduction of bareboat hire for the years 2009 – 2012 with in total NOK 209,434,800. Note that the above notifications from the tax authorities have not yet resulted in any decision of reassessment.

The potential tax exposure amounts to USD 41.0 million excluding interest cost. Odfjell Invest AS will dispute any assessment based on the notification, and hence no tax expense is recognised in the financial statements pr 31.12.2013, as the Company's best estimate of the amount it will ultimately pay is zero.

(All amounts are in USD thousands unless otherwise stated)

Note 11 | Contingencies

Contingencies related to income tax are disclosed in note 10 Tax.

Odfjell Drilling and all other offshore contractors beeing members of the Norwegian Shipowners' Association have been called to court in Stavanger District Court in March 2014 for the ruling of pension right related to night shift compensation for offshore workers. It is currently not possible to estimate the impact of the claim.

There are no other contingencies to be disclosed as per 31 December 2013.

Note 12 | Equity & shareholder information

On 5 July 2013, it was resolved by the general meeting that share capital of Odfjell Drilling Ltd. to be increased from USD 18,000
to USD 2,000,000. The general meeting further resolved that 1,376,687,078 shares of USD 0.00001 par value
issued as fully paid shares, to be converted to 200,000,000 shares of par value USD 0.01 each, partly paid.
As per 31 December 2013 Odfjell Drilling Ltd. has paid in share capital of USD 2,000,000.
The number of shares issued in Odfjell Drilling Ltd. as per 31 December 2013 is 200,000,000 with par value of USD 0.01.

Largest shareholders at 31 December 2013

Name	Holding	% of total
ODFJELL PARTNERS LTD.	142 000 000	71,00 %
DEUTSCHE BANK AG	7 148 441	3,57 %
FIDELITY SELECT PORTFOLIOS: ENERGY	3 275 481	1,64 %
STATE STREET BANK & TRUST COMPANY	2 403 037	1,20 %
VARMA MUTUAL PENSION INSURANCE	1 900 000	0,95 %
GOLDMAN SACHS & CO EQUITY SEGREGAT	1 697 481	0,85 %
BNP PARIBAS SEC. SERVICES S.C.A	1 618 186	0,81 %
LAZARD FRERES BANQUE	1 558 665	0,78 %
SKANDINAVISKA ENSKILDA BANKEN AB	1 497 169	0,75 %
JP MORGAN CLEARING CORP.	1 412 196	*0,71 %*
VERDIPAPIRFONDET DNB NORGE SELEKTI	1 387 028	0,69 %
RBC INVESTOR SERVICES TRUST	1 319 540	0,66 %
RBC INVESTOR SERVICES BANK S. A	1 192 794	0,60 %
J.P. MORGAN CHASE BANK N.A. LONDON	1 041 638	0,52 %
MORGAN STANLEY & CO LLC	1 023 391	0,51 %
LIEUNGH SIMEN	952 381	0,48 %
STATE STREET BANK AND TRUST CO.	860 371	0,43 %
VERDIPAPIRFONDET DNB NORGE (IV)	860 235	0,43 %
SKANDINAVISKA ENSKILDA BANKEN AB	825 392	0,41 %
MORGAN STANLEY & CO INTERNAT. PLC	819 317	0,41 %
TOTAL 20 LARGEST SHAREHOLDERS	**174 792 743**	**87,40 %**
OTHER SHAREHOLDERS	25 207 257	12,60
TOTAL	**200 000 000**	**100,00**

(All amounts are in USD thousands unless otherwise stated)

Note 13 | Net financial items

	Q4 13	Q4 12	FY 13	FY 12
Interest income	283	115	2 490	2 171
Interest income from related parties	2 096	1 805	7 334	5 198
Interest expense	(13 420)	(14 056)	(56 522)	(57 639)
Other borrowing expenses	(1 693)	(2 072)	(8 991)	(6 315)
Gain/(loss) on interest rate swaps	1 700	2 782	9 063	1 616
Currency gains	1 494	-2 401	35 649	43 201
Currency losses	(2 773)	8 310	(50 046)	(20 449)
Other financial items	(817)	(1 202)	(15 778)	(3 433)
Net financial items	**(13 129)**	**(6 719)**	**(76 801)**	**(35 650)**

(All amounts are in USD thousands unless otherwise stated)

Note 14 | Related-parties transactions

The Group had the following material transactions with related parties:

	Q4 13	Q4 12	FY 13	FY 12
Sales of services:				
- Associates	31 694	43 693	81 192	93 191
Total	**31 694**	**43 693**	**81 192**	**93 191**
Operating expenses:				
- Associates	2 908	3 594	5 384	14 068
Interest income				
- Associates	2 096	1 805	7 334	5 198

Note 15 - Important events occurring after the reporting period

There have not been any important events after the end of the fourth quarter 2013 which affects the financial statements for the fourth quarter 2013.