

Maersk Drilling A/S

Esplanaden 50

DK-1263 Copenhagen K

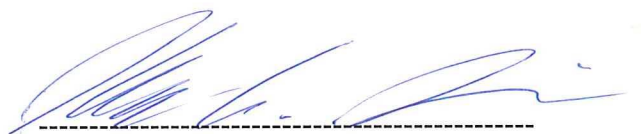
Company Reg. No. 32673821

Annual Report 2016

(Financial year No. 7)

As adopted by the Company at the Annual General Meeting

22 May 2017



Klaus Greven Kristensen

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Statement of the Board of Directors and Management

The Board of Directors and the Management have today discussed and approved the annual report for 2016 of Maersk Drilling A/S.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

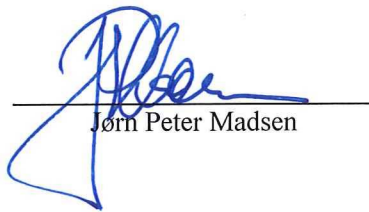
In our opinion, the Financial Statements provide a true and fair view of the Company's assets, liabilities, and financial position 31 December 2016 and of the results of the Company's operations for the financial year 2016.

It is also our opinion that the Management review includes a true and fair view of the development in the Company's operations and financial conditions, the results for the year and financial position.

We recommend that the annual report be approved at the Annual General Meeting.

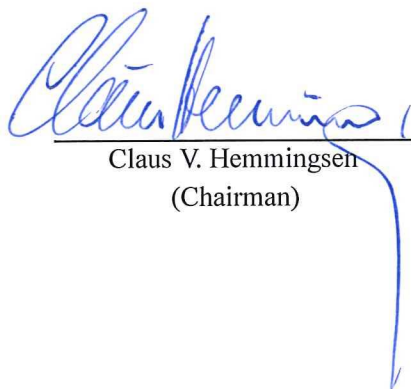
Copenhagen, 19 May 2017

Management:



Jørn Peter Madsen

Board of Directors:



Claus V. Hemmingsen
(Chairman)



Graham Stuart Talbot



Christian Kledal

Independent Auditor's Report

To the shareholder of Maersk Drilling A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016, and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Drilling A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.


Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 19 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33771231



Gert Fisker Tomczyk
State Authorised Public Accountant



Jesper Hansen
State Authorised Public Accountant

Management's Review

Company details

Maersk Drilling A/S
Esplanaden 50
DK-1263 Copenhagen K

Company Reg. No.:	32673821
Date of incorporation:	1 December 2009
Registered office:	Copenhagen
Financial year:	1 January 2016 - 31 December 2016

Board of Directors

Claus V. Hemmingsen (Chairman)
Graham Stuart Talbot
Christian Kledal

Management

Jørn Peter Madsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Financial Highlights and Key Figures

USD ('000)	2016	2015**	2014	2013*	2012
Financial Highlights					
Revenue	374,214	454,811	386,617	305,481	0
Gross result	72,976	77,296	67,760	(19,243)	(3)
Result before financial items	(896,519)	435,879	309,798	301,914	(3)
Financial items, net	(44,384)	(49,705)	(7,225)	573	0
Result before tax	(940,903)	386,174	302,573	302,487	(3)
Result for the year	(954,906)	389,725	290,168	295,791	(2)
Key Figures					
Total assets	8,192,407	7,954,147	5,334,640	3,722,440	87
Investing activities	(1,457,893)	(2,368,576)	(1,657,458)	(304,949)	0
Total equity (incl. proposed dividend)	6,326,833	6,051,508	3,319,138	3,039,530	85
Return on invested capital	(11.4)%	6.8%	7.4%	17.9%	(3.2)%
Liquidity ratio	604.4%	366.8%	128.7%	105.3%	4,365.0%
Equity ratio	77.2%	76.1%	62.2%	81.7%	97.5%
Return on equity	(15.4)%	8.3%	9.1%	19.5%	(2.4)%

*As of 1 January 2013 drilling activities from A.P. Møller - Mærsk A/S, including related subsidiaries, was contributed to Maersk Drilling A/S. The periods after are therefore not comparable to prior financial years.

**The accounting policies were changed in 2016 with retrospective effect for 2015 due to changes in principles for cash-generating units in the subsidiaries of Maersk Drilling A/S. The effect of the accounting policy change is described in the section "Accounting Policies".

The change in accounting policy has no impact prior to 2015.

Management's Review

The Company's main activities

The Company and its subsidiaries (the Group) is a leading global operator of high-technology drilling rigs and provides offshore drilling services to oil and gas companies, with one of the world's youngest and most advanced fleets.

Certain parts of the drilling activity still remains with A.P. Møller – Mærsk A/S. For a full overview of the Maersk Drilling business unit, we refer to the presentation of Maersk Drilling included in the consolidated Financial Statements of A.P. Møller – Mærsk A/S.

Market and Strategy

The Group is a specialist in ultra-harsh and ultra-deepwater environments and operates 23 drilling rigs. The delivery of Maersk Drilling's fourth and final new build ultra-harsh environment jack-up rig, was delayed from Q4 2016 to Q1 2017.

Offshore contract drilling is in the middle of the worst downturn in the history of the industry, and the industry is expected to continue to deteriorate over the near-term with further declines in rig activity levels and offshore capital spending in 2017. Despite significant cost optimisation initiatives, Maersk Drilling is severely impacted by continued large scale cost reductions and project cancellations in the oil industry and the large inflow of new capacity over the last years. Based on the challenging market conditions, significant impairments were recognised in 2016.

At year end 2016 Maersk Drilling business unit had ten rigs being idle or partly idle versus three rigs last year. As the market outlook for the offshore drilling industry remains highly uncertain, Maersk Drilling evaluates stacking on a case-by-case basis to assess the most attractive stacking condition.

Development in activities and finances

The result for the year amounts to USD (955)m (2015: USD 390m). The result before impairments amounts to USD 520m (2015: USD 503m), which is higher than management expectations. The result of subsidiaries is positively impacted by termination fees of approximately USD 150m, high operational uptime and effective cost management for rigs in operations and negatively impacted by post-tax impairments of USD 1,475m. Compared to the Maersk Drilling business unit included in the consolidated financial statements of A.P. Møller - Mærsk Group, the post-tax impairment is higher by USD 38m due to certain parts of the drilling activities still remains with A.P. Møller - Mærsk A/S.

Particular risks

Market risks

The main risks to the Group's performance and strategy execution relate to future employment of rigs and operational performance. The challenging market conditions has resulted in reduced exploration and production budgets and postponement of several drilling programmes, creating a downturn across the offshore market. Maersk Drilling remain positive on the long term, but expect on the short to medium term to face significant headwind with lower day rates and coverage.

Impairment indicators in Maersk Drilling are lower day rates on new contracts and a decline in fair values of rigs and drillships, which in many cases have dropped below carrying amount. The fair value estimates are highly uncertain due to the character of the assets and few transactions. The value in use calculations for the individual cash generating units are sensitive to the day rates expected to apply when contracts expire and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin in the terminal period are critical variables. The day rates in the short to medium term are significantly lower than the rates at which the Group has prior contracted. In line with analysts in the market, management expects a gradual move towards more economically sustainable rates in the long-term.

Financial exposure

The Group's revenue is mainly denominated in USD, while costs are denominated in USD, DKK and other currencies. Maersk Drilling A/S enter into derivative contracts to hedge the currency exposure for DKK against USD. At 31 December 2016 Maersk Drilling A/S had hedged future cash flow of DKK 295m. The unrealised value of the contracts is recognised directly in equity and amounts to unrealised net loss of USD 2m before tax.

The Group only has a small concentration of customers and is considered to have a low credit risk.

Outlook

In 2017 we expect a significantly lower result than in 2016 adjusted for the negative impact from impairment losses. The change is primarily driven by more idle days due to the poor market and lower day rates.

Maersk Drilling remains committed to delivering best-in-class drilling services to its customers. Maersk Drilling will continue to leverage its long-standing history of technical problem solving, focusing on operational excellence and working closely with customers in order to drive higher efficiency levels and joint value creation for both Maersk Drilling and the customer.

In line with the new strategy for A.P. Møller-Mærsk A/S, Maersk Drilling will prepare for separation from the A.P. Møller - Maersk Group.

Statutory statement on Corporate Social Responsibility in accordance with section 99a of the Danish Financial Statements Act

Please refer to the separate Sustainability Report 2016 of the parent company A. P. Møller - Mærsk A/S on the sustainability website at <http://bit.ly/2mX1Api>.

Sustainability

At Maersk Drilling, we firmly believe that by conducting our operations through sustainable practices, we ensure a sound and viable business for the future. We have a responsibility to the people who work for Maersk Drilling, but also to the people and the environment which are affected by our company. Our major focus area is safety, but we also put much effort into the areas of e.g. local content as well as environment and climate. Please refer to our online Sustainability Report 2016 at www.maerskdrilling.com, in which we provide a complete overview of Maersk Drilling's work with sustainability and our sustainability performance.

Safety

It is our belief that fundamentally, safety is an active decision and the result of a serious commitment from all employees in Maersk Drilling, and we have an ambition of reaching zero incidents by 2018. Our people and the environment will only be safe with the right systems, procedures, technology, and a strong safety culture.

Local content

Training and developing the talent of local employees, assigning our third party code of conduct to local suppliers and transferring knowledge to local communities all continue to be a priority for Maersk Drilling. We want to move beyond compliance with local content requirements and to increase shared value by proactively engaging with stakeholders.

Environment & climate

Discharges, air emissions, and how we manage chemicals and waste are our primary focus areas when it comes to minimising the environmental impact of our operations. We work with our customers, local communities and internationally recognised bodies to ensure that environmental factors are integrated into our business principles and into operational practices.

Statutory statement regarding the underrepresented gender in accordance with section 99b of the Danish Financial Statements Act

The Board believes that its members should be elected on the basis of their combined qualifications and at the same time recognises the advantages of a board comprising a wide range of backgrounds such as global experience, style, culture and gender.

On the basis of this ambition, the Board has defined a target to increase the share of the under-represented gender on the Board to account for at least 25% of the shareholder-appointed Board members.

As of 31 December 2016 there are no women on the Board, however, it remains the ambition to reach the target of 25% female representation on the Board by 2018. The shareholders did not consider it necessary to replace the members of the Board in the financial year 1 January - 31 December 2016.

With regard to Maersk Drilling A/S' employees formally employed with Rederiet A.P. Møller A/S, it has been decided to adhere to the group policy which was adopted at the Board Meeting in A.P. Møller - Mærsk A/S on 21 February 2013 with the aim to increase the share of the under-represented gender on the company's other management levels (Link to policy: <http://mrsk.co/174tNiF>). In accordance with this policy, Maersk Drilling A/S has taken steps to look into how the company can attract qualified women to relevant management positions. In addition, this is a focus area when identifying candidates to key positions. For activities and results obtained in the financial year 1 January - 31 December 2016, refer to <http://mrsk.co/174tNiF>.

Foreign branches

The Company is engaged in drilling activities in Azerbaijan through the branch named Maersk Drilling A/S Branch Azerbaijan.

Financial Statements 1 January - 31 December

Accounting policies

The Financial Statements of Maersk Drilling A/S for 2016 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

In accordance with Section 112 of the Danish Financial Statements Act, the Company does not prepare a consolidated report as the Company and its subsidiaries are included in the consolidated report of A.P. Møller - Mærsk A/S.

In accordance with Sections 86(4) and 96(3) of the Danish Financial Statements Act, cash flow statement and note concerning fee to auditors appointed by the Company in the Annual General Meeting are omitted as this information is included in the consolidated Financial Statements for A.P. Møller - Mærsk A/S.

Change in accounting policies for investments in subsidiaries

The Company has changed accounting policies for recognition of investments in subsidiaries. In prior years, cash-generating units were restricted by the individual legal entities. From 2016 Maersk Drilling A/S considers rigs with similar functionality and operating environment as cash-generating units due to largely interdependent cash flows. The changed principle better reflects the management of the underlying business. This change has led to a decrease in the result of USD 227m (2015: increase of 273m). It has a positive impact on investments in subsidiaries and on the equity with USD 46m (2015: positive impact of 273m). The Company's cash flows are not influenced by the change in accounting policies.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, write-downs and provisions and reversals as a result of changes in accounting estimates of amounts previously recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Financial Statements 1 January - 31 December

Accounting policies

Income statement

Revenue

Revenue from drilling activities, which are typically carried out under long-term agreements with fixed day rates, revenue is recognised for the operating time related to the financial year.

Revenue from sale of goods is recognised upon the transfer of risk to the buyer.

Other external cost

Other external costs comprise expenses incurred during the year for bare boat hire of the rigs, repair and maintenance, catering, hired crew and administrative costs.

Income from investments in subsidiaries

“Income from investments in subsidiaries” include share of the profit for the year including goodwill amortisation for subsidiaries accounted for under the equity method and gain on sale of subsidiaries.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on result for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the result for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The Company is part of A.P. Møller Holding A/S' joint taxation. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with refund concerning tax losses).

Financial Statements 1 January - 31 December

Accounting policies

Balance sheet

Intangible assets

Capitalised development costs are amortised from the date of completion on a straight-line basis over the period during which development work is expected to generate economic benefits.

IT software is amortised over a useful life of 3-5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The depreciation base is the cost prices less estimated residual value at the end of useful life, which for rigs (newbuildings) typically constitute 25 years and other equipment, fixtures, etc. typically constitute 5-10 years.

Estimates of useful lives and residual values are reassessed periodically. Impairment losses are recognised when carrying amount of an asset exceeds the highest of the capital value (value in use) and net selling price.

Cost of yard stays for rigs are recognised when incurred in the value of rigs, etc. and depreciated over the period until the next yard stay.

Investments in subsidiaries

Investments in subsidiaries are recognised in the balance sheet at equity value in accordance with the Parent's accounting policies plus value of goodwill calculated according to the purchase method.

The total net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation according to equity method" under equity. Reserve is reduced by dividend payments to the parent company and with certain other changes in equity in subsidiaries.

Subsidiaries with a negative equity value are recognised at USD 0. Any legal or constructive obligation of the parent Company to cover the negative balance of the company is recognised in provisions.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries are reviewed to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If the recoverable amount is lower than the carrying amount, the asset is written down to its lower recoverable amount.

Financial Statements 1 January - 31 December

Accounting policies

Balance sheet

Inventory

Inventories mainly consist of bunker, spare parts not qualifying for property, plant and equipment and other consumables. Inventories are measured at cost, primarily according to the FIFO method, less any write-downs.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by setoff against deferred tax liabilities within the same legal tax entity or within joint taxation.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivables and liabilities

Current tax liabilities and current tax receivables are recognized in the balance sheet as calculated tax on the taxable income adjusted for tax on prior years' taxable income and paid on account taxes.

Provisions

Provisions are recognised when the company has a current legal or constructive obligation, and if the amount can be measured reliably. Provisions are recognised on the basis of best estimates.

Financial debt

Other debts are recognised at amortised cost, which, essentially corresponds to the nominal value.

Financial Statements 1 January - 31 December

Accounting policies

Balance sheet

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as a cash flow hedge.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the date of the transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

USD is used as functional currency and as presentation currency because the majority of transactions are in U.S. dollars. At 31 December 2016 the exchange rate DKK/USD was 705.50 (2015: 683.00).

Segment information

Segmental disclosures are provided on the geographical markets. Segment information is based on the Company's internal financial management.

Financial Statements 1 January - 31 December

Accounting policies

Financial highlights

The financial highlights have been defined as follows:

Return on invested capital	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Average invested capital}^1}$
Liquidity ratio	$\frac{\text{Total current assets} \times 100}{\text{Short-term liabilities}}$
Equity ratio	$\frac{\text{End year equity} \times 100}{\text{End year total assets}}$
Return on equity	$\frac{\text{Ordinary profit/loss after tax} \times 100}{\text{Average equity}}$

¹ Average invested capital is calculated excluding cash, cash equivalents and non-interest bearing debt.

Financial Statements 1 January - 31 December

Income statement

Note	2016 USD ('000)	2015 USD ('000)	
1	Revenue	374,214	454,811
	Other external costs	(301,238)	(377,515)
	Gross result	72,976	77,296
6, 7	Depreciation, amortisation and impairment losses	(35,918)	(33,060)
2	Income from investments in subsidiaries	(933,577)	391,643
	Result before financial items	(896,519)	435,879
3	Financial income	10,320	124
4	Financial expenses	(54,704)	(49,829)
	Result before tax	(940,903)	386,174
5	Tax on result for the year	(14,003)	3,551
	Result for the year	(954,906)	389,725

Appropriation

Retained earnings	(537,055)	342,266
Reserve for net revaluation according to equity method	(417,851)	47,459
	(954,906)	389,725

Financial Statements 1 January - 31 December

Balance sheet

Note	ASSETS	2016 USD ('000)	2015 USD ('000)
	Non-current assets		
	Intangible assets		
6	IT-software	31,136	29,585
	Development projects under construction	14,148	7,137
		45,284	36,722
	Property, plant and equipment		
7	Rigs	157,633	179,113
	Equipment	65,774	60,924
	Assets under construction	5,929	24,419
		229,336	264,456
8	Financial non-current assets		
	Investments in subsidiaries	7,042,250	7,088,116
		7,042,250	7,088,116
	Total non-current assets	7,316,870	7,389,294
	Current assets		
	Inventories	47,872	36,926
		47,872	36,926
	Receivables		
	Trade receivables	43,236	47,830
	Current tax receivables	0	14,263
	Receivables from subsidiaries and group enterprises	774,009	453,525
	Other receivables	2,966	7,331
9	Prepayments, etc.	6,988	4,095
	Total receivables	827,199	527,044
	Cash and bank balances	466	883
	Total current assets	875,537	564,853
	TOTAL ASSETS	8,192,407	7,954,147

Financial Statements 1 January - 31 December

Balance sheet

Note	EQUITY AND LIABILITIES	2016 USD ('000)	2015 USD ('000)
	Equity		
	Share capital	88,354	88,354
	Reserve for net revaluation according to equity method	0	417,851
	Retained earnings	6,238,479	5,545,303
	Total equity	6,326,833	6,051,508
	Provisions		
10	Deferred tax liability	16,254	13,736
11	Other provisions	10,563	41,037
		26,817	54,773
	Non-current liabilities		
12	Payables to group enterprises	1,693,888	1,693,888
		1,693,888	1,693,888
	Total non-current liabilities	1,693,888	1,693,888
	Short-term liabilities		
12	Current share of borrowings from group enterprises	28,175	24,220
	Trade payables	35,036	43,983
	Payables to subsidiaries and group enterprises	36,807	71,606
	Current tax payables	32,027	0
	Other payables	12,819	7,693
13	Deferred income	5	6,476
		144,869	153,978
	Total liabilities	1,865,574	1,902,639
	TOTAL EQUITY AND LIABILITIES	8,192,407	7,954,147
14	Commitments and contingent liabilities, etc.		
15	Employee remuneration		
16	Related parties		
17	Shareholders		
18	Consolidation		
19	Events after the balance sheet date		

Financial Statements 1 January - 31 December

Equity statement

USD ('000)	Share- capital	Reserve for net revaluation according to equity method	Retained earnings	Total
Equity 1 January 2015	88,354	370,392	2,860,392	3,319,138
Capital contribution	0	0	2,340,000	2,340,000
Reserve for value adjustments related to cash flow hedges	0	0	3,751	3,751
Other equity movements	0	0	(1,106)	(1,106)
Result for the year	0	(225,041)	342,266	117,225
Equity 1 January 2016 before change in accounting policies	88,354	145,351	5,545,303	5,779,008
Result for the year, change in accounting policies	0	272,500	0	272,500
Equity 1 January 2016 after change in accounting policies	88,354	417,851	5,545,303	6,051,508
Capital contribution	0	0	1,230,000	1,230,000
Reserve for value adjustments related to cash flow hedges	0	0	(391)	(391)
Other equity movements	0	0	622	622
Result for the year	0	(417,851)	(537,055)	(954,906)
Equity 31 December 2016	88,354	0	6,238,479	6,326,833

The share capital comprises 500,000 shares of DKK 1,000. No shares hold special rights.

At 1 December 2009 the share capital was established with paid in capital of USD 88k, and 1 January 2013 it was changed with a capital increase, contribution in kind, value at assets of USD 88,266k.

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	2016	2015
	<u>USD ('000)</u>	<u>USD ('000)</u>
1 Revenue		
Revenue, Azerbaijan	103,842	137,810
Revenue, Denmark	<u>270,372</u>	<u>317,001</u>
	<u>374,214</u>	<u>454,811</u>
2 Income from investments in subsidiaries		
Share of earnings in subsidiaries	(933,577)	346,881
Gain on sale of investments in subsidiaries	<u>0</u>	<u>44,762</u>
	<u>(933,577)</u>	<u>391,643</u>
Share of earnings in subsidiaries includes post-tax impairment losses of USD 1,475m (2015: USD 113m)		
3 Financial income		
Interest income from group enterprises	1,734	124
Exchange gain from group enterprises	<u>8,586</u>	<u>0</u>
	<u>10,320</u>	<u>124</u>
4 Financial expenses		
Interest expenses to group enterprises	(51,333)	(43,113)
Exchange loss to group enterprises	<u>(3,371)</u>	<u>(6,716)</u>
	<u>(54,704)</u>	<u>(49,829)</u>
5 Tax on the result of the year		
Tax for the year	(1,174)	5,327
Change in deferred tax	(3,280)	(5,735)
Change in deferred tax due to change in tax rate	0	90
Adjustments to prior years tax for the year	(10,312)	2,142
Adjustments to prior years change in deferred tax	<u>762</u>	<u>1,727</u>
	<u>(14,003)</u>	<u>3,551</u>

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6 Intangible assets

USD ('000)	IT-software	Development projects under construction	Total
Cost price 1 January 2016	39,235	7,137	46,372
Additions	0	19,412	19,412
Transfer	12,401	(12,401)	0
Cost price 31 December 2016	51,636	14,148	65,784
Depreciation and impairment losses 1 January 2016	(9,650)	0	(9,650)
Depreciation	(10,850)	0	(10,850)
Depreciation and impairment losses 31 December 2016	(20,500)	0	(20,500)
Carrying amount 31 December 2016	32,136	14,148	45,284

7 Property, plant and equipment

USD ('000)	Rigs	Equipment	Assets under construction and prepayment	Total
Cost price 1 January 2016	367,198	83,055	24,419	474,672
Additions	0	8,438	0	8,438
Disposals	0	0	(18,490)	(18,490)
Transfer	0	0	0	0
Cost price 31 December 2016	367,198	91,493	5,929	464,620
Depreciation and impairment losses 1 January 2016	(188,085)	(22,131)	0	(210,216)
Depreciations related to disposals	0	0	0	0
Depreciation	(21,480)	(3,588)	0	(25,068)
Depreciation and impairment losses 31 December 2016	(209,565)	(25,719)	0	(235,284)
Carrying amount 31 December 2016	157,633	65,774	5,929	229,336

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8 Financial non-current assets

USD ('000)	Investments in subsidiaries
Cost price 1 January 2016	6,666,739
Addition	1,430,043
Disposal	(1,427)
Cost price 31 December 2016	<u>8,095,355</u>
Net revaluation 1 January 2016 before change in accounting policies	145,351
Result for the year, change in accounting policies	272,500
Net revaluation 1 January 2016 after change in accounting policies	<u>417,851</u>
Net share of result for the year	(933,577)
Other adjustments	2,839
Dividend	<u>(540,710)</u>
Net revaluation 31 December 2016	<u>(1,053,597)</u>
Negative equity in subsidiaries transferred to be set off against receivables from subsidiaries	<u>492</u>
Carrying amount 31 December 2016	<u>7,042,250</u>

Company and domicile	Owned share
Maersk Drilling Americas A/S, Denmark	100%
Maersk Drilling Australia Pty Ltd., Australia	100%
Maersk Drilling Deepwater A/S, Denmark	100%
Maersk Drilling DS A/S, Denmark	100%
Maersk Drilling (Malaysia) DSN. BHD., Malaysia	100%
Maersk Drilling Holdings Singapore Pte Ltd., Singapore	100%
Maersk Drillship III Singapore Pte Ltd.	100%
Maersk Drillship IV Singapore Pte Ltd.	100%
Maersk Drilling International A/S, Denmark	100%
Maersk Drilling Services A/S, Denmark	100%
Maersk Drilling Services LLC, Azerbaijan	100%
Maersk Intrepid Norge A/S, Denmark	100%
Maersk Norge AS, Norway	100%
Maersk Offshore Crew Management (Guernsey) Ltd., Guernsey	100%
Maersk Reacher Norge A/S, Denmark	100%
Maersk Volve A/S, Denmark	100%

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Financial non-current assets - continued

Company and domicile (Directly owned)	Owned share
Maersk Interceptor Norge A/S, Denmark	100%
Maersk Integrator Norge A/S, Denmark	100%
Maersk Invincible Norge A/S, Denmark	100%
Mærsk Gallant Norge A/S, Denmark	100%
Mærsk Giant Norge A/S, Denmark	100%
Mærsk Guardian Norge A/S, Denmark	100%
Mærsk Innovator Norge A/S, Denmark	100%
Mærsk Inspirer Norge A/S, Denmark	100%
The Maersk Company Limited, UK	100%
Maersk Highlander UK Ltd, UK	100%

Only significant subsidiaries have been listed. A more comprehensive list of companies is available on: <http://investor.maersk.com/financials.cfm>

9 Prepayments, etc.

Current assets, prepayments USD 6,988k (2015: USD 4,095k) include advance payments for next year for insurance, training and rent etc.

10 Deferred tax

Deferred tax relates to deferred tax on the carrying amount of the rigs, provisions and fair value adjustments of derivatives.

USD ('000)	Assets	Liabilities
Deferred tax 1 January 2016	0	13,736
Change in deferred tax	0	2,518
Deferred tax 31 December 2016	0	16,254

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11 Other provisions

Provisions relate to operational costs and claims etc. for occurred events, but where the costs are subject to uncertainty. Provisions are recognised at Management's best estimate.

12 Borrowings

USD ('000)	Total balance 31/12/16	Install- ment next year	Balance due after 5 years
Loan from group enterprises	1,693,888	28,175	0
	1,693,888	28,175	0

13 Deferred income

Deferred income USD 5k (2015: USD 6,476k) comprises payments received from customers for revenue relating to future financial years.

14 Commitments and contingent liabilities, etc.

Operating lease commitments

The Company has entered into operating lease contracts with an average annual lease of USD 30m (2015: USD 105m). The lease contracts expire after 79 months and include total nominal remaining lease payments of USD 111m (2015: USD 148m).

Rental commitments (office building)

The Company has entered into rental contracts with a total rental commitment of USD 21,965k;

	2016 USD ('000)	2015 USD ('000)
Maturities for rental commitments are expected to be:		
Within 1 year	2,401	2,372
Between 1 and 5 years	10,345	10,013
After 5 years	9,219	11,886
	21,965	24,271

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Commitments and contingent liabilities, etc. - continued

Contingent liabilities

The Company is jointly taxed with all other Danish companies in the A.P. Møller Holding Group. As a fully owned subsidiary, the Company has unlimited and joint liability together with the other companies under joint taxation for Danish company tax, withholding taxes on dividends, interest and royalties within the jointly taxed companies.

The Company and its subsidiaries are involved in a number of legal disputes. The Company and its subsidiaries are also involved in tax disputes in certain countries. Some of these involve significant amounts and are subject to considerable uncertainty.

15 Employee remuneration

Maersk Drilling A/S has not had employees in 2016 and 2015. Personnel are hired from affiliates in the A.P. Møller - Maersk Group. The Board of Directors has not been remunerated.

16 Related parties

The following related parties have a controlling interest in Maersk Drilling A/S;

The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene formaal, Copenhagen, Denmark and A.P. Møller Holding A/S has control over the A.P. Møller - Maersk Group.

Other related parties with dominant influence include;

- A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen K.
- Maersk Drilling Holding A/S, Esplanaden 50, 1098 Copenhagen K. The parent company

Other related parties

Subsidiaries and affiliates to A.P. Møller - Mærsk A/S.

Related parties also include the Board of Directors and leading employees and their family members. Related parties also include companies in which the above persons have significant interests.

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17 Shareholders

The Company has registered the following shareholder holding minimum 5% of the voting share capital or minimum 5% of the nominal share capital:

Maersk Drilling Holding A/S
Esplanaden 50
1098 Copenhagen K

18 Consolidation

The consolidated financial statements of A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen can be obtained by contacting this company or at its website www.maersk.dk. The consolidated financial statements of A.P. Møller - Holding A/S can be obtained by contacting this company.

19 Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.