Maersk Drilling A/S

Lyngby Hovedgade 85

2800 Kgs. Lyngby

Company Reg. No. 32673821

Annual Report 2017

(Financial year No. 8)

As adopted by the Company at the Annual General Meeting

25 May 2018

Klaus Greven Kristensen

Content Page

Statement of the Board of Directors and Management

The Board of Directors and the Management have today discussed and approved the annual report for 2017 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 2017 and of the results of the Company's operations for the financial year 2017.

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.

Lyngby, 25 May 2018

Management:

Jørn Peter Madsen

Board of Directors:

Claus V. Hemmingsen
(Chairman)

Graham Stuart Talbot

Christian Kledal

Mads Dehlsen Winther

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 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 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 2017, 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, 25 May 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33771231

Gert Fisker Tomczyk
State Authorised Public Accountant
mne 9777

Thomas Wraae Holm
State Authorised Public Accountant
mne 30141

Management's Review

Company details

Maersk Drilling A/S
Lyngby Hovedgade 85
2800 Kgs. Lyngby

Company Reg. No.:	32673821
Date of incorporation:	1 December 2009
Registered office:	Lyngby
Financial year:	1 January 2017 - 31 December 2017

Board of Directors

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

Management

Jørn Peter Madsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Financial Highlights and Key Figures

USD ('000)	2017	2016*	2015	2014	2013
Financial Highlights					
Revenue	296,913	374,214	454,811	386,617	305,481
Gross result	65,385	72,976	77,296	67,760	(19,243)
Result before financial items	(1,388,896)	(896,519)	435,879	309,798	301,914
Financial items, net	(47,287)	(44,384)	(49,705)	(7,225)	573
Result before tax	(1,436,183)	(940,903)	386,174	302,573	302,487
Result for the year	**(1,440,591)**	**(954,906)**	**389,725**	**290,168**	**295,791**
Total assets	6,875,636	8,192,407	7,954,147	5,334,640	3,722,440
Investing activities	(1,473,815)	(1,457,893)	(2,368,576)	1,657,458	(304,949)
Total equity (incl. proposed dividend)	**5,170,976**	**6,326,833**	**6,051,508**	**3,319,138**	**3,039,530**
Key Figures					
Return on invested capital	(18.9)%	(11.4)%	6.8%	7.4%	17.9%
Liquidity ratio	731.8%	604.4%	366.8%	128.7%	105.3%
Equity ratio	75.2%	77.2%	76.1%	62.2%	81.7%
Return on equity	(25.1)%	(15.4)%	8.3%	9.1%	19.5%

*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.

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.

At July 14, 2017 A.P. Møller - Mærsk A/S transferred the assets, liabilities and activities related to the four rigs Maersk Gallant, Maersk Giant, Maersk Innovator and Maersk Inspirer to the company Phoenix I A/S (now named Maersk Drilling North Sea A/S) as an equity transaction with effect July 14, 2017 and based on A.P. Møller - Mærsk A/S' accounting values as at July 14, 2017. Subsequently, A.P. Møller - Mærsk A/S at the same date transferred the shares in Maersk Drilling North Sea A/S - as a tax-exempt contribution without payment or issuance of new shares - to Maersk Drilling A/S. The book value of the net assets transferred to Phoenix I A/S amounted to USD 287m.

In October 2017, a legal restructuring was completed regarding The Maersk Company Limited subgroup (TMCL) as part of the carve-out of non-drilling activities. Two drillships owned by TMCL on a finance lease were sold together with related assets and liabilities to other legal entities owned by Maersk Drilling A/S (within the Maersk Drilling activities). Subsequent to the internal sale TMCL includes only non-drilling activities which was sold to A.P. Møller - Mærsk A/S at carrying amount in November 2017. The carrying amounts of drillships will remain unchanged.

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 24 drilling rigs. Maersk Drilling's fourth and final new build ultra-harsh environment jack-up rig, was delivered in Q1 2017.

Despite an increase in the oil price, activity levels in the offshore drilling industry declined for the third year in a row. Maersk Drilling does not expect to see significant improvements in offshore rig demand until the market reaches a stable oil price above USD 60 per barrel or until lifting cost levels adjust to a lower oil price. In conjunction with the weak demand for drilling rigs, the significant excess capacity in global rig supply continues to adversely affect the offshore drilling industry. Capacity reduction in the offshore drilling fleet continues to be negligible and the newbuild order book remains all but unchanged compared to 2016. Without a considerable improvement in offshore rig demand, this confluence of factors is expected to result in total industry utilisation and day rates to remain depressed.

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 and 2017.

Maersk Drilling remains committed to increasing efficiencies for customers and reducing the offshore oil production cost through strategic partnerships and new business models.

In line with this, Maersk Drilling entered into an alliance agreement with Aker BP in November 2017. In the alliance, Maersk Drilling will utilise its high-performance jack-up rigs as a platform to implement digital solutions which will improve drilling efficiency and ultimately shorten the lead time from discovery to first oil.

At year end 2017 Maersk Drilling group had seven rigs being idle or partly idle versus ten 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 and, to date, all rigs have been warm stacked, improving the potential for market re-entry.

Development in activities and finances

The result for the year amounts to USD (1,441)m (2016: USD (955)m). The result before impairments in the company and subsidiaries amounts to USD 224m (2016: USD 520m), which is higher than management expectations. The result from subsidiaries is positively impacted by high operational uptime and effective cost management for rigs in operations and negatively impacted by a number of idle rigs and the expiration of contracts signed at higher day rates as well as by post-tax impairments of USD 1,665m. Compared to the Maersk Drilling business unit included in the consolidated financial statements of A.P. Moller - Maersk Group, the post-tax impairment is lower by USD 85m due to certain parts of the drilling activities which were still with A.P. Møller- Mærsk A/S in 2016 but transferred to Maersk Drilling in 2017 and due to impairment of the investment in the Egyptian Drilling Company Joint Venture which 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 offshore market continues to remain depressed due to weak demand for drilling rigs and significant excess capacity in global rig supply. Leading indicators, however, showed signs of support for future drilling rig activity. Buoyed by an increase in tendering activity, the number of contracts awarded globally has risen approximately 20% compared to 2016, while the average duration of these contracts remained largely unchanged.

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 2017 Maersk Drilling A/S had hedged future cash flows of DKK 442m. The unrealised value of the contracts is recognised directly in equity and amounts to unrealised net gain 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 2018 we expect a lower result than in 2017 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. Moller - 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 2017 of the parent company A. P. Møller - Mærsk A/S on the sustainability website at https://www.maersk.com/-/media/business/sustainability/pdf/reports/apmm_sustainability_report_2017_a4_180221_final.ashx

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 the A.P. Møller - Mærsk A/S online Sustainability Report 2017 at https://www.maersk.com/-/media/business/sustainability/pdf/reports/apmm_sustainability_report_2017_a4_180221_final.ashx

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. 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 2017 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 2017.

As part of the Maersk Group, Maersk Drilling A/S adheres 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: https://maersk.com/-/media/business/sustainability/pdf/programme.ashx). 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.

Foreign branches

The Company is directly 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 2017 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.

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.

The tax-exempt capital contribution and transfer of the four rigs from A.P. Møller - Mærsk A/S to Maersk Drilling North Sea A/S were recognized at book value at the date of transfer, July 14, 2017, due to pooling of interests.

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, 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 income

Other income comprises of income from activities that are not undertaken in the ordinary course of the main drilling business, mainly income from recharges of staff costs to subsidiaries.

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.

Staff costs

Staff costs comprise compensations for employee services, pensions, and other social contributions. Compensations are paid to or on behalf of employees in exchange for active services. Compensations include wages and salaries, overtime payment, bonuses, compensated absence (lieu days, holiday, maternity leave, sick leave etc.), and non-monetary benefits, such as company car, medical care, etc.

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 polices 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 if positive. 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 Statements 1 January - 31 December

Accounting policies

Balance sheet

Financial debt

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

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 2017 the exchange rate DKK/USD was 620.77 (2016: 705.50).

Segment information

Segmental disclosures are provided on the geographical markets. The geographical and operational segments are the same. 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	$\frac{\text{Profit/loss before financial items x 100}}{\text{Average invested capital}^{1}}$
Liquidity ratio	$\frac{\text{Total current assets x 100}}{\text{Short-term liabilities}}$
Equity ratio	$\frac{\text{End year equity x 100}}{\text{End year total assets}}$
Return on equity	$\frac{\text{Ordinary profit/loss after tax x 100}}{\text{Average equity}}$

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

Financial Statements 1 January - 31 December

Income statement

Note		2017 USD ('000)	2016 USD ('000)
1	Revenue	296,913	374,214
	Other income	3,135	–
2	Staff Costs	(14,609)	–
	Other external costs	(220,054)	(301,238)
	Gross result	**65,385**	**72,976**
7, 8	Depreciation, amortisation and impairment losses	(35,906)	(35,918)
3	Income from investments in subsidiaries	(1,418,375)	(933,577)
	Result before financial items	**(1,388,896)**	**(896,519)**
4	Financial income	11,018	10,320
5	Financial expenses	(58,305)	(54,704)
	Result before tax	**(1,436,183)**	**(940,903)**
6	Tax on result for the year	(4,408)	(14,003)
	Result for the year	**(1,440,591)**	**(954,906)**

Financial Statements 1 January - 31 December

Balance sheet

Note	ASSETS	2017 USD ('000)	2016 USD ('000)
	Non-current assets		
	Intangible assets		
7	IT-software	32,621	31,136
	Development projects under construction	1,464	14,148
		34,085	**45,284**
	Property, plant and equipment		
8	Rigs	138,962	157,633
	Equipment	62,502	65,774
	Assets under construction	6,326	5,929
		207,790	**229,336**
9	**Financial non-current assets**		
	Investments in subsidiaries	5,290,053	7,042,250
		5,290,053	**7,042,250**
	Total non-current assets	**5,531,928**	**7,316,870**
	Current assets		
	Inventories	65,963	47,872
		65,963	**47,872**
	Receivables		
	Trade receivables	18,364	43,236
	Current tax receivables	6,281	–
	Receivables from subsidiaries and group enterprises	1,242,048	774,009
	Other receivables	10,500	2,966
10	Prepayments, etc.	378	6,988
	Total receivables	**1,277,571**	**827,199**
	Cash and bank balances	**174**	**466**
	Total current assets	**1,343,708**	**875,537**
	TOTAL ASSETS	**6,875,636**	**8,192,407**

Financial Statements 1 January - 31 December

Balance sheet

Note	EQUITY AND LIABILITIES	2017 USD ('000)	2016 USD ('000)
	Equity		
	Share capital	88,354	88,354
	Retained earnings	5,082,622	6,238,479
	Total equity	**5,170,976**	**6,326,833**
	Provisions		
11	Deferred tax liability	27,685	16,254
12	Other provisions	13,700	10,563
13	Provision for investments in subsidiaries	96,796	–
		138,181	**26,817**
	Non-current liabilities		
14	Payables to group enterprises	1,382,859	1,693,888
		1,382,859	**1,693,888**
	Total non-current liabilities	**1,382,859**	**1,693,888**
	Short-term liabilities		
14	Current share of borrowings from group enterprises	27,398	28,175
	Trade payables	42,558	35,036
	Payables to subsidiaries and group enterprises	88,643	36,807
	Current tax payables	–	32,027
	Other payables	25,017	12,819
15	Deferred income	4	5
		183,620	**144,869**
	Total liabilities	**1,704,660**	**1,865,574**
	TOTAL EQUITY AND LIABILITIES	**6,875,636**	**8,192,407**

16 **Appropriation**
17 **Commitments and contingent liabilities, etc.**
18 **Derivatives**
19 **Related parties**
20 **Shareholders**
21 **Consolidation**
22 **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 2016	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	–	–	(391)	(391)
Other equity movements	–	–	622	622
Result for the year	–	(417,851)	(537,055)	(954,906)
Equity 1 January 2017	**88,354**	**–**	**6,238,479**	**6,326,833**
Capital contribution	–	–	286,630	286,630
Reserve for value adjustments related to cash flow hedges	–	–	3,188	3,188
Other equity movements	–	–	(5,084)	(5,084)
Result for the year	–	–	(1,440,591)	(1,440,591)
Equity 31 December 2017	**88,354**	**–**	**5,082,622**	**5,170,976**

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

At 1 January 2013 the share capital was changed with a capital increase, contribution in kind, value of assets of USD 88,266k.

Financial Statements 1 January - 31 December

Notes

		2017 USD ('000)	2016 USD ('000)
1	**Revenue**		
	Revenue, Azerbaijan	103,863	103,842
	Revenue, Denmark	193,050	270,372
		296,913	**374,214**
2	**Staff Costs**		
	Wages and salaries	(12,940)	–
	Pensions	(1,458)	–
	Other social security costs	(501)	–
	Capitalised staff costs	290	–
		(14,609)	**–**
	Average number of full-time employees	743	–

Remuneration of the Company's Executive Board and Board of Directors for 2017 is not disclosed pursuant to section 98b(3)(ii) of the Danish Financial Statements Act. The Board of Directors has not been remunerated.

Maersk Drilling A/S did not have employees up until 1st of November 2017. Personnel were hired from affiliates in the A.P. Moller - Maersk Group until 1st of November 2017

		2017 USD ('000)	2016 USD ('000)
3	**Income from investments in subsidiaries**		
	Share of earnings in subsidiaries	(1,321,579)	(933,577)
	Negative result in subsidiaries recognized as provision	(96,796)	–
		(1,418,375)	**(933,577)**

Share of earnings in subsidiaries includes post-tax impairment losses of USD 1,665m (2016: USD 1,475m)

		2017 USD ('000)	2016 USD ('000)
4	**Financial income**		
	Interest income from group enterprises	8,646	1,734
	Exchange gain from group enterprises	2,372	8,586
		11,018	**10,320**
5	**Financial expenses**		
	Interest expenses to group enterprises	(53,865)	(51,333)
	Exchange loss to group enterprises	(4,440)	(3,371)
		(58,305)	**(54,704)**

Financial Statements 1 January - 31 December

Notes

		2017 USD ('000)	2016 USD ('000)
6	**Tax on the result of the year**		
	Tax for the year	(7,652)	(1,174)
	Change in deferred tax	(801)	(3,280)
	Change in deferred tax due to change in tax rate	-	–
	Adjustments to prior years tax for the year	13,790	(10,312)
	Adjustments to prior years change in deferred tax	(9,745)	762
		(4,408)	**(14,003)**

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7 Intangible assets

USD ('000)	IT-software	Development projects under construction	Total
Cost price 1 January 2017	51,636	14,148	65,784
Additions	–	2,219	2,219
Transfer	14,903	(14,903)	–
Cost price 31 December 2017	66,539	1,464	68,003
Amortisation and impairment losses 1 January 2017	(20,500)	–	(20,500)
Amortisation	(13,418)	–	(13,418)
Amortisation and impairment losses 31 December 2017	(33,918)	–	(33,918)
Carrying amount 31 December 2017	**32,621**	**1,464**	**34,085**

8 Property, plant and equipment

USD ('000)	Rigs	Equipment	Assets under construction and prepayment	Total
Cost price 1 January 2017	367,198	91,493	5,929	464,620
Additions	–	5,338	534	5,872
Disposals	–	(5,478)	(137)	(5,615)
Transfer	–	–	–	–
Cost price 31 December 2017	367,198	91,353	6,326	464,877
Depreciation and impairment losses 1 January 2017	(209,565)	(25,719)	–	(235,284)
Depreciations related to disposals	–	685	–	685
Depreciation	(18,671)	(3,817)	–	(22,488)
Depreciation and impairment losses 31 December 2017	(228,236)	(28,851)	–	(257,087)
Carrying amount 31 December 2017	**138,962**	**62,502**	**6,326**	**207,790**

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9 Financial non-current assets

USD ('000)	Investments in subsidiaries
Cost price 1 January 2017	8,095,355
Addition	801,158
Disposal*	(1,613,044)
Cost price 31 December 2017	7,283,469
Net revaluation 1 January 2017	(1,053,597)
Net share of result for the year	(1,321,579)
Other adjustments	(2,366)
Dividend	(1,165,527)
Disposal of revaluation*	1,548,522
Net revaluation 31 December 2017	(1,994,547)
Negative equity in subsidiaries transferred to be set off against receivables from subsidiaries	1,131
Carrying amount 31 December 2017	**5,290,053**
Negative equity in subsidiaries to be recognized as provision	96,796

Company and domicile (Directly owned)	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 Drilling 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%

*Disposal of The Maersk Company Limited

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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%
Maersk Drilling Mexico S.A de C.V., Mexico	100%
Maersk Drilling North Sea A/S, Denmark	100%

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

10 **Prepayments, etc.**

Current assets, prepayments USD 378k (2016: USD 6,988k) include advance payments for next year for insurance, training and rent etc.

11 **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 2017	–	16,254
Change in deferred tax	–	11,431
Deferred tax 31 December 2017	–	27,685

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12 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.

13 Provision for investments in subsidiaries
Provision includes negative equity in subsidiaries where the Company has an obligation to cover the negative balance of the subsidiary.

14 Borrowings

USD ('000)	Total balance 31/12/17	Install-ment next year	Balance due after 5 years
Loan from group enterprises	1,382,859	27,398	–
	1,382,859	**27,398**	**–**

15 Deferred income
Deferred income USD 4k (2016: USD 5k) comprises payments received from customers for revenue relating to future financial years.

16 Appropriation

	2017 USD ('000)	**2016** USD ('000)
Retained earnings	(1,440,591)	(537,055)
Reserve for net revaluation according to equity method	–	(417,851)
	(1,440,591)	**(954,906)**

17 Commitments and contingent liabilities, etc.
Operating lease commitments

The Company has entered into operating lease contracts with an annual lease within 1 year of USD 32m (2016: USD 30m). The lease contracts duration is up to 45 months and include total nominal remaining lease payments of USD 87m (2016: USD 111m).

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Commitments and contingent liabilities, etc. - continued

Rental commitments (office building)

The Company has entered into rental contracts with a total rental commitment of USD 22,547k;

	2017	**2016**
	USD ('000)	USD ('000)
Maturities for rental commitments are expected to be:		
Within 1 year	2,932	2,401
Between 1 and 5 years	12,229	10,345
After 5 years	7,386	9,219
	22,547	**21,965**

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.

18 Derivatives

The Company enteres into derivatives with A.P. Møller - Mærsk A/S as part of hedging the currency risk related to other recognised and unrecognised transactions (primarily overhead and administration costs). The notional of currency derivative contracts at December 31 amounts to:

	2017		**2016**	
Million	Foreign currency*	USD	Foreign currency*	USD
DKK/USD	442	2	295	(2)

* Secured future cash flows in foreign currency

All currency derivative contracts hedge future cash outflow, hence the respective foreign currencies is purchased and USD is sold. Hedging instruments comprise currency derivatives. Foreign exchange contracts are used to hedge the currency risk related to recognised and unrecognised transactions, of which the majority are cash flow hedges. Cash flow hedges are realised within one year.

Fair value of the derivative contracts recognised in current receivables USD 2m in 2017 (2016: USD 0m) and in current liabilities USD 0m (2016: USD -2m).

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19 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. Moller - 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, Lyngby Hovedgade 85, 2800 Kgs. Lyngby. The parent company.

Other related parties

Subsidiaries and affiliates to A.P. Møller Holding 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.

All transactions with related parties have been made in accordance with arm's length principles. A transfer of activities relating to drillrigs was made from A.P. Møller - Mærsk A/S at book value of USD 287m.

20 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
Lyngby Hovedgade 85
2800 Kgs. Lyngby

21 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.com. The consolidated financial statements of A.P. Møller - Holding A/S can be obtained by contacting this company.

22 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.