

Maersk Drilling A/S

Lyngby Hovedgade 85

2800 Kgs. Lyngby

Company Reg. No. 32673821

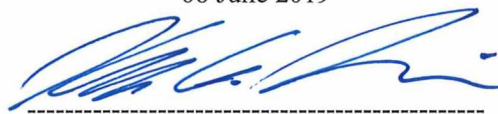
Annual Report 2018

01 January 2018 - 31 December 2018

(Financial year No. 9)

As adopted by the Company at the Annual General Meeting

06 June 2019



Klaus Greven Kristensen

Content Page

Statement of the Board of Directors and Management.....	1
Independent Auditors' Report.....	2
Management's Review.....	5
Accounting Policies.....	10
Income Statement.....	14
Balance Sheet.....	15
Equity Statement.....	17
Notes.....	18

Statement of the Board of Directors and Management

The Board of Directors and the Management have today discussed and approved the annual report for Maersk Drilling A/S for the period 01 January 2018 – 31 December 2018.

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 at 31 December 2018 and of the results of the Company operations for the period of 01 January 2018 to 31 December 2018.

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

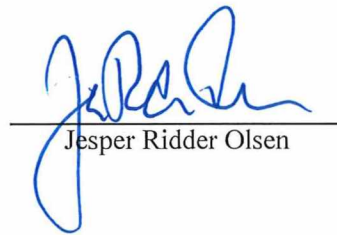
We recommend that the annual report be approved at the Annual General Meeting.

Lyngby, 06 June 2019

Management:



Jørn Madsen



Jesper Ridder Olsen

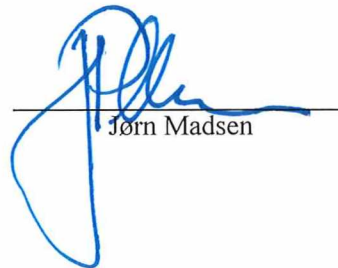
Board of Directors:



Klaus Greven Kristensen
(Chairman)



Morten Kelstrup



Jørn Madsen

Independent Auditors' Report

To the shareholders 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 2018, and of the results of the Company's operations for the financial period 01 January 2018 - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Drilling A/S for the financial period 01 January 2018 - 31 December 2018 which comprise income statement, balance sheet, equity statement and notes, including a summary of significant accounting policies ("financial statements").

Basis of 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 rules and requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management 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.

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.

Independent Auditors' Report (Continued)

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 scepticism 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 by the Liquidator and the reasonableness of accounting estimates and related disclosures made by the Liquidator.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures in the notes, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent Auditors' Report (Continued)

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, 06 June 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33771231



Thomas Wraae Holm
State Authorised Public Accountant
mne30141



Kim Danstrup
State Authorised Public Accountant
mne32201

Management's Review

Company details

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

Company Reg. No.: 32673821
Date of incorporation: 01 December 2009
Registered office: Lyngby
Financial period: 01 January 2018 - 31 December 2018

Board of Directors

Klaus Greven Kristensen (Chairman)
Morten Kelstrup
Jørn Madsen

Management

Jørn Madsen
Jesper Ridder Olsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Annual General Meeting

General Meeting will be held 06 June 2019.

Management's Review (Continued)

Financial Highlights and Key Figures

USD(000)	2018	2017	2016*	2015	2014
Financial Highlights					
Revenue	303,629	296,913	374,214	454,811	386,617
Gross result	46,936	65,385	72,976	77,296	67,760
Result before financial items	966,095	(1,388,896)	(896,519)	435,879	309,798
Financial items, net	(34,816)	(47,287)	(44,384)	(49,705)	(7,225)
Result before tax	931,280	(1,436,183)	(940,903)	386,174	302,573
Result for the year	942,040	(1,440,591)	(954,906)	389,725	290,168
Key Figures					
Total assets	6,238,450	6,875,636	8,192,407	7,954,147	5,334,640
Investing activities	(1,588,393)	(1,473,815)	(1,457,893)	(2,368,576)	(1,657,458)
Total equity (incl. proposed dividend)	4,272,892	5,170,976	6,326,833	6,051,508	3,319,138
Operating margin	310%	(467.8)%	(239.6)%	95.8%	80.1%
Return on invested capital	14.0%	(18.9)%	(11.4)%	6.8%	7.4%
Liquidity ratio	417.8%	731.8%	604.4%	366.8%	128.7%
Equity ratio	68.6%	75.2%	77.2%	76.1%	62.2%
Return on equity	20.0%	(25.1)%	(15.4)%	8.3%	9.1%

* 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 (Continued)

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.

Market and Strategy

The main risks to the Group's performance and strategy execution relate to future employment of rigs and operational performance. While the global offshore rig markets continued to suffer from overcapacity, utilisation levels have risen as a result of positive rig demand- and supply side factors. Leading indicators continued to provide support for future drilling activity, as increased tendering activity translated into more awarded contracts throughout the year. Contracting activity also exhibited an element of direct awards, where operators, either through alliances or directly with selected drilling contractors, bypassed the tendering process.

The Group is a specialist in ultra-harsh and ultra-deepwater environments and operates 23 drilling rigs. Maersk Drilling remains committed to increasing efficiencies for customers and reducing the offshore oil production cost through strategic partnerships and new business models.

The fair value estimates used in impairment testing 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 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.

Development in activities and finances

Results for 2018 are satisfactory and the underlying earnings are in line with expectations. The result from subsidiaries is positively impacted by reversals of prior years' impairment in the amount of USD 780m after tax. The results are furthermore 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.

Particular risks

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 2018 Maersk Drilling A/S had hedged future cash flows of DKK 725m. The Group only has a small concentration of customers but is not considered to have any material credit risks.

Outlook

Expectations for underlying earnings in 2019 are below 2018, primarily due to impact of the increased number of yard stays resulting in reduced contracted days as well as lower day rates for

Management's Review (Continued)

certain rigs primarily in the floater segment coming off historic contracts.

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.

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

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 2018 at <http://maersk-drilling-cms.prod.umw.dk/media/1728/md-sustainabilityreport-2018.pdf> , 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 serious 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.

Management's Review (Continued)

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 2018, there are no women on the Board, however, it remains the ambition to reach the target of 25% female representation on the Board by 2019.

Maersk Drilling A/S adheres to the Policy on Diversity and Inclusion in Maersk Drilling which was adopted at the board meeting of The Drilling Company of 1972 A/S on 2 April 2019. Our industry is statistically dominated by males, especially among our offshore employees. However, Maersk Drilling works actively, to increase the level of women in managerial positions. When assessing employees for promotion, we take into account that the population is diverse in terms of gender.

Foreign branches

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

Accounting Policies

The Financial Statements of Maersk Drilling A/S for 2018 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 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 for Maersk Drilling Holding A/S.

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 Maersk Drilling Holding A/S.

Change of accounting policy

Maersk Drilling A/S has in 2018 changed its accounting policies for spare parts, which has been reclassified from Inventory under current assets to Property, Plant and Equipment under non-current assets to better reflect the substance and utilisation of the assets. The change of accounting policy has no effect on the income statement or equity. 2017 figures have been updated and the reclassified amount was USD 66m which are now included under Equipment.

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.

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 income

Other income comprises of income from activities that are not undertaken in the ordinary course of

Accounting Policies (Continued)

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 (operating lease), 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).

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

Accounting Policies (Continued)

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 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 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.

Impairment losses are reversed if the higher of the estimated value in use and fair value less costs of disposal again exceed the carrying amount of an asset or cash generating unit.

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

Derivate 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

Accounting Policies (Continued)

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 2018 the exchange rate DKK/USD was 652.13 (2017: 620.77).

Segment information

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

Financial highlights

The financial highlights have been defined as follows:

Operating margin	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Revenue}}$
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 and cash equivalents, shares and non-interest bearing debt.

Income Statement

Financial Statements 01 January 2018 - 31 December 2018

Note		2018 USD(000)	2017 USD(000)
1	Revenue	303,629	296,913
	Other income	19,499	3,135
2	Staff costs	(91,779)	(14,609)
	Other external costs	(184,413)	(220,054)
	Gross result	46,936	65,385
7, 8	Depreciation, amortisation and impairment losses	(70,073)	(35,906)
3	Income from investments in subsidiaries	989,233	(1,418,375)
	Result before financial items	966,096	(1,388,896)
4	Financial income	18,417	11,018
5	Financial expenses	(53,233)	(58,305)
	Result before tax	931,280	(1,436,183)
6	Tax on result for the year	10,760	(4,408)
	Result for the year	942,040	(1,440,591)

Balance Sheet

Financial Statements 01 January 2018 - 31 December 2018

Note	Assets	2018 USD(000)	2017 USD(000)
	Non-current assets		
7	Intangible assets		
	IT-software	18,578	32,621
	Development projects under construction	817	1,464
		19,395	34,085
8	Property, plant and equipment		
	Rigs	120,822	138,962
	Equipment	105,626	93,638
	Assets under construction	22,055	41,153
		248,503	273,753
	Financial non-current assets		
9	Investments in subsidiaries	5,493,581	5,290,053
		5,493,581	5,290,053
	Total non-current assets	5,761,479	5,597,891
	Receivables		
	Trade receivables	22,826	18,364
	Current tax receivables	–	6,281
	Receivables from group enterprises	109,249	1,242,048
	Other receivables	11,476	10,500
10	Prepayments, etc.	6,244	378
	Total receivables	149,795	1,277,571
	Cash and bank balance	327,176	174
	Total current assets	476,971	1,277,745
	TOTAL ASSETS	6,238,450	6,875,636

Balance Sheet (Continued)

	2018 USD(000)	2017 USD(000)
Equity and Liabilities		
Equity		
	88,354	88,354
	4,184,538	5,082,622
	<u>4,272,892</u>	<u>5,170,976</u>
Provisions		
11	8,689	27,685
12	22,964	13,700
13	–	96,796
	<u>31,653</u>	<u>138,181</u>
Non-current liabilities		
14	1,819,746	1,382,859
	<u>1,819,746</u>	<u>1,382,859</u>
	<u>1,819,746</u>	<u>1,382,859</u>
Short-term liabilities		
	17,706	27,398
	36,060	42,558
	20,558	88,643
	13,316	–
	26,393	25,017
15	126	4
	<u>114,159</u>	<u>183,620</u>
	<u>1,965,558</u>	<u>1,704,660</u>
	<u>1,965,558</u>	<u>1,704,660</u>
	<u>6,238,450</u>	<u>6,875,636</u>
	<u>6,238,450</u>	<u>6,875,636</u>
16	Appropriation	
17	Commitments and contingent liabilities, etc.	
18	Pledges and Mortgages	
19	Derivatives	
20	Related parties	
21	Shareholders	
22	Consolidation	
23	Events after the balance sheet date	

Equity Statement

Financial Statements 01 January 2018 - 31 December 2018

USD(000)	Share- capital	Retained earnings	Total
Equity 01 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 01 January 2018	88,354	5,082,622	5,170,976
Dividend	–	(1,837,000)	(1,837,000)
Reserve for value adjustments related to cash flow hedges	–	(1,904)	(1,904)
Other equity movements	–	(1,220)	(1,220)
Result of the year	–	942,040	942,040
Equity, 31 December 2018	88,354	4,184,538	4,272,892

The share capital comprises 500,0000 shares of DKK 1,000. No shares hold special rights. There has been no changes to the share capital during the last five years.

Notes

1. Revenue

	2018	2017
	USD(000)	USD(000)
Revenue, Azerbaijan	104,748	103,863
Revenue, Denmark	198,880	193,050
	303,629	296,913

2. Staff costs

	2018	2017
	USD(000)	USD(000)
Wages and salaries	(86,009)	(12,940)
Pensions	(12,179)	(1,458)
Other social security costs	(335)	(501)
Capitalised staff costs	6,744	290
	(91,779)	(14,609)
Average number of full-time employees	795	743

Remuneration of the Company's Executive Board and Board of Directors for 2018 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.

3. Income from investments in subsidiaries

	2018	2017
	USD(000)	USD(000)
Share of earnings in subsidiaries	892,437	(1,321,579)
Negative result in subsidiaries recognized as provision	–	(96,796)
Reversal of provision	96,796	–
	989,233	(1,418,375)

4. Financial income

	2018	2017
	USD(000)	USD(000)
Interest income from group enterprises	16,234	8,646
Exchange gain to group enterprises	2,183	2,372
	18,417	11,018

5. Financial expenses

	2018	2017
	USD(000)	USD(000)
Interest expenses to group enterprises	(52,035)	(53,865)
Exchange loss from group enterprises	(1,198)	(4,440)
	(53,233)	(58,305)

6. Tax on the result of the year

	2018	2017
	USD(000)	USD(000)
Tax for the year	(12,120)	(7,652)
Change in deferred tax	17,218	(801)
Adjustments to prior years tax for the year	4,433	13,790
Adjustments to prior years change in deferred tax	1,229	(9,745)
	10,760	(4,408)

7. Intangible assets

Intangible assets	IT-software	Development projects under construction	Total
Cost price 01 January 2018	66,539	1,464	68,003
Additions	–	(647)	(647)
Cost price 31 December 2018	66,539	817	67,356
Amortisation and impairment losses			
01 January 2018	(33,917)	–	33,917
Amortisation	(14,043)	–	14,043
Amortisation and impairment losses			
31 December 2018	(47,960)	–	47,960
Carrying amount 31 December 2018	18,578	817	19,395

8. Property, plant and equipment

Property, plant and equipment	Rigs	Equipment	Assets under construction and prepayment	Total
Cost price 01 January 2018	367,198	91,353	6,326	464,877
Reclass inventory	–	102,150	–	102,150
Costprice after reclass	367,198	193,503	6,326	567,027
Additions	–	38,758	15,729	54,487
Disposals	–	(39,455)	–	(39,455)
Cost price 31 December 2018	367,198	192,806	22,055	582,059
Depreciation and impairment losses				
01 January 2018	(228,210)	(28,853)	–	(257,063)
Reclass inventory	–	(36,212)	–	(36,212)
Depreciation after reclass	(228,210)	(65,065)	–	(293,275)
Depreciation related to disposals	–	15,750	–	15,750
Depreciation and impairment	(18,140)	(37,891)	–	(56,031)
Depreciation and impairment losses				
31 December 2018	(246,350)	(87,206)	–	(333,556)
Carrying amount 31 December 2018	120,848	105,600	22,055	248,503

9. Financial non-current assets

USD (000)	Investments in subsidiaries
Cost price 1 January 2018	7,283,469
Addition	247,024
Disposal	(86,929)
Capital reduction	(525,000)
Transfer	(20,224)
Cost price 31 December 2018	6,898,341
Net revaluation 1 January 2018	(1,994,547)
Net share of result for the year	892,437
Other adjustments	(1,220)
Dividend	(408,630)
Disposal	86,978
Transfer	20,224
Net revaluation 31 December 2018	(1,404,758)
Carrying amount 31 December 2018	5,493,581

The net share of result for the year from subsidiaries is positively impacted by reversals of prior years' impairment in the amount of USD 780m after tax.

Company and domicile (directly owned)	Owned share
Maersk Decom A/S	50%
Maersk Drilling A/S BRANCH Azerbaijan	100%
Maersk Drilling A/S BRANCH Norway	100%
Maersk Drilling Americas A/S	100%
Maersk Drilling Australia Pty. Ltd.	100%
Maersk Drilling Brasil Servicos de Perfuracão Marítimos Ltda.	99.9%
Maersk Drilling Deepwater A/S	100%
Maersk Drilling DS A/S	100%
Maersk Drilling Holdings Singapore Pte. Ltd.	100%
Maersk Drilling International A/S	100%
Maersk Drilling Labuan Ltd.	100%
Maersk Drilling Malaysia Sdn. Bhd.	49%

Only significant subsidiaries have been listed. A more comprehensive list of companies is included in the Annual Report for 2018 for Maersk Drilling Holding A/S which is available on <https://www.maerskdrilling.com/financials>.

10. Prepayments

Current assets, prepayments USD 6,244k (2017: USD 378k) 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.

	Assets USD(000)	Liabilities USD(000)
Deferred tax 01 January 2018	–	27,685
Change in deferred tax	–	(18,996)
Deferred tax 31 December 2018	–	8,689

12. Other provisions

Provisions relate to operational costs and claims, pensions 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 December 2018	Install- ment next year	Balance due after 5 years
Loan from group enterprise	1,819,746	17,706	–
Total	1,819,746	17,706	–

15. Deferred income

Deferred income USD 126k (2017: USD 4k) comprises payments received from customers for revenue relating to future financial years.

16. Appropriation

	2018 USD(000)	2017 USD(000)
Extraordinary dividend	1,837,000	–
Retained earnings	(894,962)	(1,440,591)
	<u>942,038</u>	<u>(1,440,591)</u>

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 22m (2017: 32m). The lease contracts duration is up to 33 months and include total nominal remaining payments of USD 56m (2017: USD 87m).

Rental commitments (office building)

The Company has entered into rental contracts with a total rental commitment of USD 20,630k;

	2018 USD(000)	2017 USD(000)
Maturities for rental commitments are expected to be:		
Within 1 year	3,263	2,932
Between 1 and 5 years	13,129	12,229
After 5 years	4,238	7,386
	<u>20,630</u>	<u>22,547</u>

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. Pledges & Mortgages

Jointly with other Maersk Drilling entities, the Company has guaranteed a total of USD 1,900m related to Term and Revolving Facilities Agreements held by another Maersk Drilling Group entity. As of 31 December 2018, USD 400m of the facilities were undrawn.

Property, plant and equipment with carrying amount of USD 249m (the collateral rigs) has been pledged as security for these borrowings. In addition to the collateral rigs, insurance coverage and certain bank accounts related to the collateral rigs are pledged as security. In certain circumstances, earnings in respect of drilling contracts for the collateral rigs may be assigned in favour of the lenders under the loan agreements.

Shares in subsidiaries being owners of collateral rigs or parties to material drilling contracts are pledged as security.

19. Derivatives

The Company enters into derivatives 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:

Million	2018		2017	
	Foreign currency	USD	Foreign currency	USD
DKK/USD	725	–	442	2

20. 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 is the ultimate owner.

Other related parties with a controlling interest:

- A.P. Møller Holding A/S, Esplanaden 50, 1263 Copenhagen K (ultimate parent company that prepares consolidated financial statements).
- A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen K.
- Maersk Drilling Holding A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby (first parent company that prepares consolidated financial statements).

Other related parties:

The Board of Directors and the Executive Management of the entities listed above having a controlling interest in Maersk Drilling A/S including their close relatives and undertakings under their significant influence are also considered related parties. This includes subsidiaries of and affiliates to A.P. Møller Holding A/S and subsidiaries of and affiliates to A.P. Møller – Mærsk A/S.

Transactions with related parties:

Transactions with related parties are carried out on an arm's length basis and are therefore not separately disclosed pursuant to section 98 C (7) of the Danish Financial Act.

21. 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.

22. Consolidation

The consolidated financial statements of Maersk Drilling Holding A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby can be obtained by contacting this company or at www.maerskdirilling.com/financials. The consolidated financial statements of A.P. Møller Holding A/S can be obtained by contacting this company.

23. Events after the balance sheet

In April 2019, the Maersk Drilling Holding A/S and its subsidiaries were separated from the A.P. Møller - Maersk Group via a demerger of A.P. Møller – Mærsk A/S and a separate listing on Nasdaq Copenhagen. As a consequence, A.P. Møller - Mærsk A/S is no longer having a controlling interest but is still considered a related party as under the common control of A.P. Møller Holding A/S.

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