Maersk Oil Kurdistan A/S

CVR-No. 33870434

Annual Report 2016

Approved at the General Assembly: 30 May 2017
Chairman of the meeting: Majbritt Perotti Carlson

Esplanaden 50, 1263 Copenhagen K

Company information

Maersk Oil Kurdistan A/S
Esplanaden 50
1263 Copenhagen K

CVR-No.:	33870434
Date of incorporation:	17 August 2011
Registered office:	Copenhagen
Financial year:	01 January 2016 - 31 December 2016

Board of Directors

Gretchen H. Watkins (Chairman)
Carsten Sonne-Schmidt (Vice Chairman)
Samir Abboud

Executive Board

Richard Alistair Doidge

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Branch

375 English Village
Erbil
Kurdistan
Iraq

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Directors' Report

Activities

The Company is a wholly owned subsidiary of Mærsk Olie og Gas A/S, and holds an 18% non-operated equity interest in the Sarsang Production Sharing Contract (PSC) in the Kurdistan Region of Iraq. The licence is operated by HKN Energy Ltd.

The Sarsang Field Development Plan (FDP) for the Swara Tika oil discovery was approved by the Government in October 2015, and an amendment to the Sarsang FDP for the East Swara Tika oil discovery was approved on 27 April 2016.

In January 2016, a new oil sales contract was signed with the Government to enable to sale and export of all production from the Sarsang PSC, replacing the previous arrangement of local oil sales.

On 30 January 2016, a fire at the Swara Tika ST-1 well production facility, operated by HKN Energy, resulted in a fatality and a seriously injured person, both working for a sub-contractor to the operator. As a result, the ST-1 well production facility was shut-in until October 2016, while investigation of the incident and facility remediation was ongoing.

In November 2016, a deviated side-track of the Swara Tika ST-4 development well was successfully completed as a new oil producer. Tie-back operations to the ST-2 production facility were ongoing during December 2016.

By the end of 2016, the total production from the Sarsang PSC had reached approx. 11,000 bopd. Average gross production for the year was 4,900 bopd, with a corresponding Maersk Oil mean, annual entitlement production of some 400 bopd.

Financial review

Financial performance for the year

The result for 2016 is a loss of USD 37 million, compared to a loss of USD 161 million in 2015. The 2015 result was impacted by an impairment of USD 145 million due to the low oil price expectations.

Guidance for 2017

The loss for 2017 is expected to be significantly lower.

Management's Statement

The Board of Directors and Executive Board have today discussed and approved the annual report of Maersk Oil Kurdistan A/S for 2016.

The annual report for 2016 of Maersk Oil Kurdistan A/S has been prepared in accordance with Danish Financial Statements Act and in our opinion gives a true and fair view of the Company's assets, liabilities and the financial position at 31 December 2016 and of the results of the Company's operations for the financial year 2016.

In our opinion the Directors' Report includes a fair review of the development in and the result of the Company's operations and financial conditions, the result for the year and financial position.

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

Copenhagen, 30 May 2017

Executive Board:

Richard Alistair Doidge

Board of Directors:

Gretchen H. Watkins
(Chairman)

Carsten Sonne-Schmidt
(Vice Chairman)

Samir Abboud

Independent auditors' report

To the shareholder of Maersk Oil Kurdistan 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 Oil Kurdistan A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, accounting policies and notes ("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 Directors' Report

Management is responsible for Directors' Report.

Our opinion on the Financial Statements does not cover Directors' Report, 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 Directors' Report and, in doing so, consider whether Directors' Report 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 Directors' Report provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Directors' Report 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 Directors' Report.

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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.

- 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

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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.

Hellerup, 30 May 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Mads Melgaard
State Authorised Public Accountant

Kristian Pedersen
State Authorised Public Accountant

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Accounting Policies

The Annual Report for 2016 of Maersk Oil Kurdistan A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act applicable to class B companies.

The accounting policies for the Financial Statements are unchanged from last year.

Presentation, classification and designations in the income statement and balance sheet have been adjusted to the special nature of the Company.

Foreign Currency

The functional currency is USD. The Annual Report is presented in USD, in accordance with provision 16 of the Danish Financial Statements Act. The exchange rate of USD to DKK was 7.0550 at 31 December 2016 (2015: DKK 6.8300).

Monetary assets and liabilities in currencies other than USD are translated at the exchange rate at the balance sheet date. Transactions in currencies other than USD are translated at the exchange rate prevailing at the date of the transaction.

Exchange rate gains and losses are included in the income statement as financial income and expenses.

The Income Statement

Revenue comprises the value of the Company's share of the oil production. If the Company sells more than its share of the produced oil (overlift) this is recognised at sales price in the balance sheet under "Deferred income". If the Company sells less than its share of the produced oil (underlift) this is recognised at cost price under "Inventories".

Production expenses comprise costs incurred in generating the revenue for the year.

Administrative expenses include parent company overhead and other general administrative expenses.

Exploration expenses are capitalised unless the costs do not qualify for capitalisation, and are then recognised in the income statement as incurred. Expenses for initial surveys incurred before acquisition of licence for hydrocarbon extraction are also included in the income statement as they are incurred.

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Financial items comprise interest and currency exchange rate gains and losses from translation of cash, receivables and debt in foreign currencies other than USD.

The Company is jointly taxed with a number of Danish companies in the A.P. Møller - Mærsk Group. **Tax on profit** for the year includes the amount estimated to be paid for the year as well as adjustments regarding previous years and change in deferred tax.

Provision for deferred tax is made on temporary differences between the accounting and tax values of assets and liabilities. Deferred tax on temporary differences which at the time of the transaction does not affect the financial result or the taxable income is not recognised.

Deferred tax assets are only recognised to the extent that it is probable that they can be utilised against future taxable income.

The Balance Sheet

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets.

Intangible assets in connection with acquired oil resources are amortised from commencement of production and over the fields' expected production periods.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost price of production facilities etc. comprises direct and indirect costs for appraisal and production wells and production equipment, etc. for fields considered commercial. Depreciation on production facilities etc. is made over the expected production period/economic life.

Impairment losses are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs to sell.

Inventories including underlift is measured at lower of cost and market price.

Receivables are measured at nominal value which in all material respects corresponds to amortised cost. Write-down is made for anticipated losses on an individual basis.

Prepayments recognised under assets include prepaid expenses.

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Dividend for distribution regarding the financial year is included as part of the **equity**.

Provisions are recognised when the Company has an existing legal or actual obligation and includes deferred tax and provision for unsettled claims and lawsuits. Provisions are recognised on the basis of best estimates and considering discounting when the time element is significant.

Debt to group, suppliers etc. is measured at amortised cost price or lower net realisable value, which in most situations corresponds to the nominal value.

Other payables include balance with operator, related to expenses incurred under the Production Sharing Contract.

MAERSK OIL KURDISTAN A/S

INCOME STATEMENT

FOR 2016

Note		USD 1,000 **2016**	**2015**
	Revenue	7,130	1,864
	Production expenses	4,431	958
	Gross profit	2,699	906
1.	Administrative expenses	13,532	3,759
	Exploration expenses	4,853	14,251
2, 3.	Depreciation, amortisation and impairment loss	10,916	149,520
	Result before financial items and tax	(26,602)	(166,623)
4.	Financial income	46	142
5.	Financial expenses	215	52
	Result before tax	(26,771)	(166,533)
6.	Tax for the year	10,498	(5,127)
	RESULT FOR THE YEAR	**(37,269)**	**(161,406)**
	Proposed distribution of net result		
	Retained earnings	(37,269)	(161,406)
		(37,269)	(161,406)

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MAERSK OIL KURDISTAN A/S

BALANCE SHEET AT 31.12.2016

Note		USD 1,000 **2016**	**2015**
	ASSETS		
	NON-CURRENT ASSETS		
2.	Intangible fixed assets		
	Oil rights	85,511	96,427
		85,511	96,427
3.	Property, plant and equiment		
	Assets under construction	6,212	2,143
		6,212	2,143
	TOTAL NON-CURRENT ASSETS	91,723	98,570
	CURRENT ASSETS		
	Inventories	114	0
	Receivables		
	Receivables from sale of oil	3,873	1,604
	Receivables Group companies	7,525	29,348
	Other receivables	65	2
7.	Prepayments	1	0
		11,464	30,954
	TOTAL CURRENT ASSETS	11,578	30,954
	TOTAL ASSETS	**103,301**	**129,524**

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MAERSK OIL KURDISTAN A/S

BALANCE SHEET AT 31.12.2016

Note		USD 1,000 2016	2015
	LIABILITIES AND EQUITY		
8.	EQUITY		
	Share capital	806	806
	Retained earnings	90,086	127,355
		90,892	128,161
	NON-CURRENT LIABILITIES		
9.	Other provisions	10,500	0
		10,500	0
	CURRENT LIABILITIES		
	Trade payables	35	0
	Payables to group companies	1,352	633
	Other payables	522	704
	Deferred income	0	26
		1,909	1,363
	TOTAL LIABILITIES	12,409	1,363
	TOTAL LIABILITIES AND EQUITY	**103,301**	**129,524**

10. Contingencies etc.
11. Related parties

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MAERSK OIL KURDISTAN A/S

Notes as at 31.12.2016

(USD 1,000)

Note 1, Staff costs

The Company has no employees, as all those engaged are employed in Rederiet A.P. Møller A/S.

Note 2, Intangible assets

USD 1,000	**2016** Oil Rights
Cost at 01.01	245,947
Cost price 31.12	245,947
Amortisations and write-downs at 01.01	149,520
Amortisations for the year	10,916
Amortisations and write-downs at 31.12	160,436
Carrying amount 31.12	85,511

Note 3, Property, plant and equipment

USD 1,000	**2016** Asset under construction
Cost at 01.01	2,143
Additions during the year	4,069
Cost price 31.12	6,212
Depreciations at 01.01	-
Depreciations for the year	-
Depreciations at 31.12	-
Carrying amount 31.12	6,212

USD 1,000	2016	2015
Note 4, Financial income		
Interest received	0	56
Interest received from group companies	46	32
Exchange rate adjustments etc.	0	54
	46	142

Note 5, Financial expenses		
Exchange rate adjustments etc.	215	52
	215	52

Note 6, Corporate tax

Tax expense on profit for the year is USD 10 million (2015: tax income of 5 million) due to an adjustment related to prior years.

This Company is part of a joint taxation scheme with the A.P. Møller - Mærsk Group. The tax is divided between the members of the joint taxation scheme by use of the full allocation method.

Note 7, Prepayment

Prepayments include prepaid expenses.

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Note 8, Equity

USD 1,000	2016	2015
Share capital		
Share capital at 01.01	806	806
Share capital at 31.12	806	806
Retained earnings		
Retained earnings at 01.01	127,355	288,761
Transferred from profit for the year	(37,269)	(161,406)
Retained earnings at 31.12	90,086	127,355
Total equity	90,892	128,161

Share capital consists of the following shares:	Number	Nominal, DKK
	4,500	1,000
	Total nominal value in DKK	4,500,000

Share capital, changes:	
Increase of capital 20 April 2012	500,000
Increase of capital 25 April 2012	500,000
Increase of capital 8 October 2012	500,000
Increase of capital 10 January 2013	1,000,000
Increase of capital 5 September 2013	1,000,000
Increase of capital 25 March 2014	500,000

Note 9, Provisions

Provisions are recognised when the Company has an existing legal or actual obligation and includes deferred tax and provision for unsettled claims and lawsuits. Provisions are recognised on the basis of best estimates and take discounting into consideration when the time element is significant.

Note 10, Contingencies

For development activities in Kurdistan the Company is liable jointly and severally with the other partners for development commitment and obligations in connection with field developments.

The Company is jointly taxed with Danish companies within the A.P. Møller - Mærsk Group. This entails unlimited joint liability for Danish corporation taxes and withholding taxes on dividends, interests and royalties within the jointly taxed companies. A similar obligation exists for joint registration of VAT.

Note 11, Related parties

Companies in the A.P. Møller - Mærsk Group and the Executive board and board members of the Company are related parties. All transactions with related parties are carried out on arm's length.

Parties exercising control

The Company is 100% owned by Mærsk Olie og Gas A/S. The consolidated Maersk Oil Financial Statements are available at the Company's address, Esplanaden 50, 1263 Copenhagen K, Denmark.

The ultimate parent company is A.P. Møller Holding A/S. The consolidated Financial Statements of A.P. Møller Holding A/S are available at the Company's address, Esplanaden 50, 1098 Copenhagen K, Denmark.

The Company is included in both consolidated Financial Statements as a subsidiary.

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