

**Maersk Oil Kurdistan A/S**

**CVR-No. 33870434**

**Annual Report 2017**

Approved at the General Assembly: 11 May 2018  
Chairman of the meeting: Majbritt Perotti Carlson

Amerika Plads 29, st., 2100 Copenhagen Ø

## **Company information**

Maersk Oil Kurdistan A/S  
Amerika Plads 29, st.  
2100 Copenhagen Ø

CVR-No.: 33870434  
Date of incorporation: 17 August 2011  
Registered office: Copenhagen  
Financial year: 01 January 2017 - 31 December 2017

## **Board of Directors**

Olivier Zoltan Marius Heurtin (Chairman)  
Martin Rune Pedersen (Vice Chairman)  
Troels Albrechtsen

## **Executive Board**

Richard Alistair Doidge

## **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
2900 Hellerup

## **Branch**

375 English Village  
Erbil  
Kurdistan  
Iraq

## **Directors' Report**

### **Activities**

The Company is a wholly owned subsidiary of Mærsk Oil og Gas A/S (name changed to Total E&P Danmark A/S, as per May 1<sup>st</sup> 2018), and holds an 18% non-operated equity interest in the Sarsang Production Sharing Contract (PSC) in the Kurdistan Region of Iraq. The PSC is operated by HKN Energy Ltd.

Significant developments during 2017 included bringing the ST-4 and EST-1 wells on production, debottlenecking the Pad A facility (ST-2/ST-4) and drilling a sidetrack to the ST-1 well to eliminate water production. The latter encountered a higher than expected gas rate, resulting in a decision to shut-in the well pending finding a technically and commercially viable solution to handle the increased associated gas.

By the end of 2017, the total production from the Sarsang PSC had reached approx. 19,000 bopd. Average gross production for the year was ca. 11,000 bopd, with a corresponding Maersk Oil mean, annual entitlement production of some 1,240 bopd.

During 2017, the Ministry of Natural Resources informed the Sarsang partnership that, together with a third party, it was proceeding with a gas handling solution for Sarsang in order to monetize the associated sour gas and ultimately eliminate flaring, in accordance with terms of the 2015 Field Development Plan approval.

Following Kurdistan's independence referendum in September 2017, a number of punitive measures were taken by the Iraqi Federal Government, including the closure of Kurdistan's airspace to international flights. As a result, the Operator HKN Energy has been conducting crew changes overland through Turkey. Production operations have largely been unaffected.

### **Financial review**

#### Financial performance for the year

The result for 2017 is a loss of USD 14 million, compared to a loss of USD 37 million in 2016.

#### Guidance for 2018

The result for 2018 is expected to be a small profit.

## **Change of parent company owner**

The share capital in Mærsk Olie og Gas A/S was acquired by Total S.A. from A.P. Møller – Mærsk A/S with effective date 8<sup>th</sup> March 2018. This does not affect the going concern of the Company.

As of the effective date the Company is no longer part of the A.P. Moller – Maersk Group joint taxation and is instead jointly taxed with the previous Maersk Oil Group companies and Danish registered Total Group companies. Joint liability for previous periods still exists.

## **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 2017.

The annual report for 2017 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 2017 and of the results of the Company's operations for the financial year 2017.

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, 11 May 2018

Executive Board:

\_\_\_\_\_  
Richard Alistair Doidge

Board of Directors:

\_\_\_\_\_  
Olivier Zoltan Marius Heurtin  
(Chairman)

\_\_\_\_\_  
Martin Rune Pedersen  
(Vice Chairman)

\_\_\_\_\_  
Troels Albrechtsen

## **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 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 Oil Kurdistan A/S for the financial year 1 January - 31 December 2017, 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.

## **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

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, 11 May 2017

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Mads Melgaard

State Authorised Public Accountant  
mne34354



## **Accounting Policies**

The Annual Report for 2017 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 with options from higher reporting classes.

The accounting estimates for recognition of "underlift" have been changed with no effect on the Financial Statements of the year. The comparison period has not been changed due to insignificance.

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 6.2067 at 31 December 2017 (2016: DKK 7.0550).

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 market 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.

**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.

Depreciation periods and residual values for property, plant and equipment are re-evaluated annually.

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**, which comprise spare parts etc., are measured at cost following the FIFO principle, less write-down for obsolescence. Underlift is measured at 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.

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 2017**

Note	USD 1,000	
	<b>2017</b>	<b>2016</b>
Revenue	20,689	7,130
Production expenses	9,142	4,431
Gross profit	11,547	2,699
1. Administrative expenses	11,871	13,532
Exploration expenses	75	4,853
2, 3. Depreciation and amortisation	7,969	10,916
Result before financial items and tax	(8,369)	(26,602)
4. Financial income	266	46
5. Financial expenses	166	215
Result before tax	(8,269)	(26,771)
6. Tax for the year	6,000	10,498
<b>RESULT FOR THE YEAR</b>	<b>(14,269)</b>	<b>(37,269)</b>
Proposed distribution of net result		
Retained earnings	(14,269)	(37,269)
	(14,269)	(37,269)

**MAERSK OIL KURDISTAN A/S**  
**BALANCE SHEET AT 31.12.2017**

Note	USD 1,000	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS		
2.	Intangible fixed assets	
	Oil rights	
	78,036	85,511
	78,036	85,511
3.	Property, plant and equipment	
	Production facilities	
	11,853	0
	Assets under construction	
	0	6,212
	11,853	6,212
	89,889	91,723
TOTAL NON-CURRENT ASSETS		
CURRENT ASSETS		
	Inventories	
	0	114
	Receivables	
	Receivables from sale of oil	
	6,945	3,873
	Receivables Group companies	
	19,858	7,525
	Other receivables	
	69	65
7.	Prepayments	
	532	1
	27,404	11,464
	25	0
	27,429	11,578
TOTAL CURRENT ASSETS		
	<b>117,318</b>	<b>103,301</b>
<b>TOTAL ASSETS</b>		

**MAERSK OIL KURDISTAN A/S**  
**BALANCE SHEET AT 31.12.2017**

Note	USD 1,000	
	<b>2017</b>	<b>2016</b>
<b>LIABILITIES AND EQUITY</b>		
8. EQUITY		
Share capital	966	806
Retained earnings	111,786	90,086
	112,752	90,892
NON-CURRENT LIABILITIES		
9. Other provisions	2,925	10,500
	2,925	10,500
CURRENT LIABILITIES		
Trade payables	39	35
Payables to group companies	1,601	1,352
Other payables	1	522
	1,641	1,909
TOTAL LIABILITIES	4,566	12,409
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>117,318</b>	<b>103,301</b>
10. Contingencies etc.		
11. Related parties		

## MAERSK OIL KURDISTAN A/S

Notes as at 31.12.2017

(USD 1,000)

### Note 1, Staff costs

The Company has no employees, as all those engaged are employed in other group companies.

### Note 2, Intangible assets

USD 1,000	2017 Oil Rights
Cost at 01.01	245,947
Cost price 31.12	245,947
Amortisations and write-downs at 01.01	160,436
Amortisations for the year	7,475
Amortisations and write-downs at 31.12	167,911
Carrying amount 31.12	78,036

### Note 3, Property, plant and equipment

USD 1,000	2017 Production Facilities, etc.	2017 Asset under construction
Cost at 01.01	0	6,212
Additions during the year	2,925	3,210
Transferred	9,422	(9,422)
Cost price 31.12	12,347	0
Depreciations at 01.01	0	0
Depreciations for the year	494	0
Depreciations at 31.12	494	0
Carrying amount 31.12	11,853	0

USD 1,000

	<u>2017</u>	<u>2016</u>
<b>Note 4, Financial income</b>		
Interest received from group companies	76	46
Exchange rate adjustments etc.	190	0
	<u>266</u>	<u>46</u>
 <b>Note 5, Financial expenses</b>		
Exchange rate adjustments etc.	166	215
	<u>166</u>	<u>215</u>

#### **Note 6, Corporate tax**

Tax expense on profit for the year is USD 6 million (2016: tax income of 10 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.



## Note 8, Equity

USD 1,000

	<b>2017</b>	<b>2016</b>
<b>Share capital</b>		
Share capital at 01.01	806	806
Additions in the period	160	0
Share capital at 31.12	<u>966</u>	<u>806</u>
<b>Retained earnings</b>		
Retained earnings at 01.01	90,086	127,355
Capital increase, surplus premium	35,969	0
Transferred from profit for the year	(14,269)	(37,269)
Retained earnings at 31.12	<u>111,786</u>	<u>90,086</u>
<b>Total equity</b>	<u>112,752</u>	<u>90,892</u>

Share capital consists of the following shares:

Number	Nominal, DKK
5,500	1,000
Total nominal value in DKK	<u>5,500,000</u>

Share capital, changes:

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
Increase of capital 21 September 2017	500,000
Increase of capital 22 November 2017	500,000

The costs related to the capital increases in 2017 amounted to USD 0.

## 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, lawsuits and abandonment. 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.

As of 31 December 2017, 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 at arm's length.

### **Parties exercising control**

The Company is 100% owned by Mærskolie og Gas A/S. The consolidated Maersk Oil Financial Statements are available at the Company's address, Amerika Plads 29, st., 2100 Copenhagen Ø, Denmark.

As of 31 December 2017, 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.