

Maersk Drilling International A/S

**Lyngby Hovedgade 85
2800 Kgs. Lyngby**

Company Reg. No. 34081182

Annual Report 2018

01 January 2018 - 31 December 2018

(Financial year No. 7)

As adopted by the Company at the Annual General Meeting

06 June 2019



Klaus Greven Kristensen

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Statement of the Board of Directors and Management

The Board of Directors and the Management have today discussed and approved the annual report for Maersk Drilling International 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.

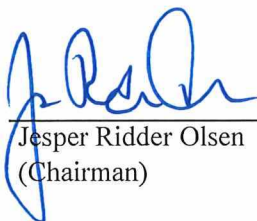
Lyngby, 06 June 2019

Management:

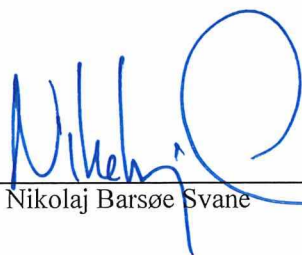


Angela Durkin

Board of Directors:



Jesper Ridder Olsen
(Chairman)



Nikolaj Barsøe Svane



Klaus Greven Kristensen

Independent Auditors' Report

To the shareholders of Maersk Drilling International 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 International A/S for the financial period 01 January 2018 - 31 December 2018 which comprise income statement, balance sheet, statement of changes in equity 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.

Independent Auditors' Report (Continued)

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 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 and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditors' Report (Continued)

- 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 in the notes, 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, 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 International A/S
Lyngby Hovedgade 85
2800 Kgs. Lyngby

Company Reg. No.: 34081182
Date of incorporation: 12 December 2011
Registered office: Lyngby
Financial period: 01 January 2018 - 31 December 2018

Board of Directors

Jesper Ridder Olsen (Chairman)
Nikolaj Barsøe Svane
Klaus Greven Kristensen

Management

Angela Durkin

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Annual General Meeting

General Meeting will be held 06 June 2019.

Management's Review (Continued)

The Company's main activities

The Company's main activity is lease of the drilling rig Maersk Deliverer.

Development in activities and finances

In Q1 2018 the Maersk Deliverer was drilling in Malaysia. For the remainder of 2018 the rig has been idle. Following the improved market outlook for offshore drilling with increased activity and improved long-term projections, USD 74m of the prior year impairment losses were reversed in 2018. Including the reversal of impairment losses, the result for the year amounts to USD 27,684k (2017: USD (125,128k)). The underlying earnings are unsatisfactory and lower than expected. For 2019 management expects underlying earnings in line with 2018.

Particular risks

Market risks

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 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.

Financial exposure

The Company's revenue is mainly denominated in USD, while costs are in USD and other currencies. The currency exposure is not considered to be significant. The Company has a small concentration of customers, but is not considered to have any credit risks.

Safety

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

Management's Review (Continued)

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 minimizing the environmental impact of our operations. We work with our customers, local communities and internationally recognized bodies to ensure that environmental factors are integrated into our business principles and into operational practices.

Accounting Policies

The Financial Statements of Maersk Drilling International A/S for 2018 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

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.

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

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).

Accounting Policies (Continued)

Balance sheet

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 recognized 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 recognized when incurred in the value of the rigs, etc. and depreciated over the period until the next yard stay.

Impairment of non-current assets

The carrying amount of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation. If so, the asset is written down to its lower recoverable amount.

Inventory

Inventories mainly consist of bunker and other consumables. Inventories are measured at cost, primarily according to the FIFO method.

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.

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

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.

Accounting Policies (Continued)

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.

Financial debt

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

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 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.

Income Statement

Financial Statements 01 January 2018 - 31 December 2018

Note	2018 \$'000	2017 \$'000	
1	Revenue	2,525	2,190
	Other external costs	(12,832)	(22,803)
	Gross result	(10,307)	(20,613)
2	Depreciation, amortisation and impairments	63,470	(112,100)
	Result before financial items	53,163	(132,713)
3	Financial income	3,811	2,537
	Financial expenses	(2)	(6)
	Result before tax	56,972	(130,182)
4	Tax on result for the year	(29,288)	5,054
	Result for the year	27,684	(125,128)
	Appropriation		
	Extraordinary dividend	220,000	–
	Retained earnings	(192,316)	(125,128)
		27,684	(125,128)

Balance Sheet

Financial Statements 01 January 2018 - 31 December 2018

Note	Assets	2018 \$'000	2017 \$'000
2	Property, plant and equipment		
	Rigs	211,995	156,807
	Assets under construction	1,400	3,257
		213,395	160,064
	Total non-current assets	213,395	160,064
	Current assets		
	Inventories	–	1,049
		–	1,049
	Receivables		
	Current tax receivables	–	4,383
	Receivables from group enterprises	188	232,182
5	Deferred tax assets	–	11,348
6	Prepayments	650	–
		838	247,913
	Total current assets	838	248,962
	TOTAL ASSETS	214,233	409,026

Balance Sheet (Continued)

	2018	2017
	\$'000	\$'000
Equity and Liabilities		
Equity		
Share capital	9,576	9,576
Retained earnings	186,075	378,391
Total equity	195,651	387,967
Short-term liabilities		
Trade payables	203	16,171
Payables to group enterprises	4,804	4,146
Tax payables	3,698	–
5 Deferred tax liabilities	9,877	–
Other payables	–	742
Total short-term liabilities other than provisions	18,582	21,059
Total liabilities and equity	214,233	409,026
7 Commitments and contingent liabilities, etc.		
8 Pledges and guarantees		
9 Employee remuneration		
10 Related parties		
11 Consolidation		
12 Events after the balance sheet date		

Equity Statement

Financial Statements 01 January 2018 - 31 December 2018

\$'000	Share- capital	Retained earnings	Total
Equity 01 January 2017	9,576	503,519	513,095
Result for the year	–	(125,128)	(125,128)
Equity 01 January 2018	9,576	378,391	387,967
Extraordinary dividend	–	(220,000)	(220,000)
Result of the year	–	27,684	27,684
Equity, 31 December 2018	9,576	186,075	195,651

The share capital comprises 55,000 shares of DKK 1,000. No shares hold special rights. There has been no changes to the share capital during in the last five years.

Notes

1. Revenue

	2018	2017
	\$'000	\$'000
Revenue, Malaysia	2,525	2,190
	2,525	2,190

2. Property, plant and equipment

Tangible assets	Rigs	Assets under construction	Total
Cost price 01 January 2018	566,275	3,257	569,532
Transfer	1,415	(1,415)	–
Disposals	(11,373)	(442)	(11,815)
Cost price 31 December 2018	556,317	1,400	557,717
Depreciation and impairments 01 January 2018	(409,468)	–	(409,468)
Depreciation	(10,900)	–	(10,900)
Impairment reversals	74,370	–	74,370
Disposals	1,676	–	1,676
Depreciation and impairments 31 December 2018	(344,322)	–	(344,322)
Carrying amount 31 December 2018	211,995	1,400	213,395

Following the improved market outlook for offshore drilling with increased activity and improved long-term projections, USD 74m of the prior year impairment losses were reversed in 2018.

3. Financial income

	2018	2017
	\$'000	\$'000
Interest income from group enterprises	3,793	2,520
Exchange gain from group enterprises	18	17
	3,811	2,537

4. Tax on the result of the year

Tax for the year	–	1,989
Change in deferred tax	(14,461)	24,530
Adjustments to prior years tax for the year	(8,063)	(4,348)
Adjustments to prior years change in deferred tax	(6,764)	(17,117)
	(29,288)	5,054

Notes

5. Deferred tax

Deferred tax relates to deferred tax on property, plant and equipment.

<u>\$'000</u>	<u>Asset</u>	<u>Liabilities</u>
Deffered tax 01 January 2018	11,348	–
Change in deferred tax	(11,348)	9,877
Deferred tax 31 December 2018	–	9,877

6. Prepayments

Current assets, prepayments USD 650k (2017: USD nilk) include advance payments for next year for drilling equipment.

7. Commitments and contingent liabilities, etc.

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.

8. Pledges and guarantees

Jointly with other group entities, the Company has guaranteed a total of USD 1,550m related to a Term and Revolving Facilities Agreement held by another Maersk Drilling Group entity. As at 31 December 2018, USD 400m of the facility was undrawn.

Property, plant and equipment with carrying amount of USD 213,395k (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 agreement.

9. Employee remuneration

Mærsk International A/S has not had employees in 2018 and 2017. Personnel are hired from affiliates in the Maersk Drilling Holding Group. The Board of Directors has not been remunerated.

10. Related parties

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

The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal, Copenhagen, Denmark is the ultimate owner.

Notes

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)
- Maersk Drilling A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby (immediate parent company)

Other related parties

The Board of Directors and the Executive Management of the entities listed above having a controlling interest in Maersk Drilling Maersk Drilling International 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.

11. 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 its website <https://www.maerskdrilling.com/financials> . The consolidated financial statements of A.P. Møller - Holding A/S can be obtained by contacting this company.

12. 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.