Maersk Drilling International A/S

Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no. 34 08 11 82

Annual report 2019

The annual report was presented and approved at the Company's annual general meeting on

17 June 2020

Klaus Greven Kristensen
chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Maersk Drilling International A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Lyngby, 17 June 2020

Executive Board:

Morten Kelstrup

Board of Directors:

Jesper Ridder Olsen Chairman	Nikolaj Barsøe Svane	Klaus Greven Kristensen

Independent auditor's report

To the Shareholder 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 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Drilling International A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the Management's Review

Management is responsible for the Management's Review.

Our opinion on the financial statements does not cover the 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 the 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'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.

Independent auditor's report

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 judgement 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.
- 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.

Independent auditor's report

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, 17 June 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Thomas Wraae Holm
State Authorised
Public Accountant
mne30141

Management's review

Company details

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

CVR no.:	34 08 11 82
Established:	12 December 2011
Registered office:	Lyngby
Financial year:	1 January – 31 December

Board of Directors

Jesper Ridder Olsen, Chairman
Nikolaj Barsøe Svane
Klaus Greven Kristensen

Executive Board

Morten Kelstrup

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's review

Operating review

Principal activities

The Company's principal activity is to lease the drilling rig Mærsk Deliverer. In 2019 the Company has leased out the semisubmersible drilling rig for operations in Timor-Leste.

Development in activities and financial position

The Company's income statement for 2019 shows a loss of USD 30,665 thousand (2018: profit of USD 27,684 thousand impacted by reversal of impairments), and at 31 December 2019, equity stood at USD 164,986 thousand (31 December 2018: USD 195,651 thousand). The underlying earnings are unsatisfactory and lower than expected. During 2019, a long-term contract of three years plus two one-year options with Inpex Australia were secured for Mærsk Deliverer.

Outlook

As set out in the note disclosure around events after the balance sheet date, the oil price has dropped substantially subsequent to year-end which may lead the oil and gas companies to cancel or defer projects and exert pressure for lower rates, more contract flexibility and low cost solutions, which could negatively impact the Company’s future profitability.

In addition, the Company’s operations may be impacted by COVID-19 either directly or through the restrictions imposed by governments in response to COVID-19.

The Company is yet unable to estimate the potential impact of these factors, and the Company’s expectations towards 2020 are therefore subject to increased uncertainty.

Prior to the outbreak of COVID-19 and the increased oil price volatility, Management expected results for 2020 to be improved compared to 2019.

The results for 2020 are furthermore subject to risks and uncertainties, as various factors, many of which are beyond the Company’s control, may cause the actual development and results to differ materially from expectations. The results for 2020 are primarily sensitive to the level of contracting of additional days to the current backlog and the day rates thereon.

Uncertainty regarding recognition and measurement

The demand for drilling rigs is impacted by the level of spending by oil and gas companies on exploration, development, production and maintenance as well as decommissioning activities. This level is, to a large extent, a function of project sanctioning, which is based on oil and gas companies’ long-term assessment of oil and gas prices impacting their cash flow generation as well as the economics of the offshore exploration and development projects in their portfolios.

Hence, the future long-term development in the oil price is (indirectly) impacting accounting estimates for the Company through the demand for drilling rigs, which in turn impacts expectations for future utilisation and day rates, which could be impairment indicators and impact value-in-use estimates if impairment testing is done.

Management's review

Operating review

No indicators of additional impairment or reversal of impairment have been identified as of 31 December 2019, as the development in the offshore drilling market with increased activity and improved long-term projections was considered to be in line with the expectations underlying the impairment test conducted in 2018. As set out in the note disclosure around events after the balance sheet date, the oil price has dropped substantially subsequent to year-end. Management considers this to a non-adjusting post balance sheet event. This means that the assessment of indications of impairment of fixed assets is based on the expectations for future profitability, contract coverage, etc. applicable as of 31 December 2019, which may be different from the expectations for future profitability, contract coverage, etc. applicable as of the approval of these financial statements.

Reference is made to note 2, in which the matter is described in further detail.

Events after the balance sheet date

The price of Brent crude oil averaged USD 64 per barrel in 2019, representing a decrease of 11% compared to the average of USD 72 per barrel in 2018. Subsequent to year-end, the oil price has dropped substantially to a level of around USD 25-40 per barrel. Combined with the implications of the global outbreak of COVID-19, the lower oil price environment will have negative implications for the Company’s commercial and operational activities, as oil and gas companies may cancel or defer projects and exert pressure for lower rates, more contract flexibility and low-cost solutions. This is likely to negatively impact the Company’s future profitability.

The contract for Mærsk Deliverer with Inpex Australia commenced in March 2020. Subsequently, the Company agreed with Inpex Australia to suspend the contract with effect from 30 April 2020. Re-commencement of the contract is expected to be in October 2020 and the Company will receive a suspension rate during this period. The expected end-date of the firm contract period is now in August 2023.

Financial statements 1 January – 31 December

Income statement

USD'000	Note	2019	2018
Gross profit/loss		-15,185	-10,307
Depreciation, amortisation and impairments		-23,397	63,470
Operating profit/loss		-38,582	53,163
Financial income	3	73	3,811
Financial expenses	4	-861	-2
Profit/loss before tax		-39,370	56,972
Tax on profit/loss for the year	5	8,705	-29,288
Profit/loss for the year		-30,665	27,684

Proposed profit appropriation/distribution of loss

Extraordinary dividend	0	220,000
Retained earnings	-30,665	-192,316
	-30,665	27,684

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Property, plant and equipment			
Rigs		195,432	211,995
Assets under construction		33,163	1,400
		228,595	213,395
Total fixed assets		228,595	213,395
Current assets			
Inventories			
Bunker and lube oil		1,025	0
Receivables			
Trade receivables		4,662	0
Receivables from group entities		1,053	188
Other receivables		197	0
Corporation tax		3,877	0
Prepayments		3,307	650
		13,096	838
Cash at bank and in hand		1,372	0
Total current assets		15,493	838
TOTAL ASSETS		244,088	214,233

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Balance sheet

USD'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	6	9,576	9,576
Retained earnings		155,410	186,075
Total equity		164,986	195,651
Provisions			
Provisions for deferred tax		3,603	9,877
Total provisions		3,603	9,877
Liabilities other than provisions			
Current liabilities other than provisions			
Trade payables		16,164	203
Payables to group entities		54,256	4,804
Corporation tax		0	3,698
Other payables		34	0
Deferred income		5,045	0
		75,499	8,705
Total liabilities other than provisions		75,499	8,705
TOTAL EQUITY AND LIABILITIES		244,088	214,233

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	9,576	378,391	387,967
Transferred over the profit appropriation	0	27,684	27,684
Extraordinary dividends paid	0	-220,000	-220,000
Equity at 1 January 2019	9,576	186,075	195,651
Transferred over the distribution of loss	0	-30,665	-30,665
Equity at 31 December 2019	9,576	155,410	164,986

Financial statements 1 January – 31 December

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1 Accounting policies

The annual report of Maersk Drilling International A/S for 2019 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in from higher reporting classes.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Fixed assets acquired in foreign currencies are measured at the exchange rates at the transaction day.

USD is used as functional currency and as presentation currency because the majority of transactions are in USD. At 31 December 2019, the exchange rate DKK/USD was 667.33 (2018: 652.13).

Income statement

Revenue

Income from drilling activities, which are typically carried out under long-term agreements with fixed day rates, is recognised under revenue for the operating period related to the financial year.

Other external costs

Other external costs comprise costs incurred during the year for 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 profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity 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 for tax losses).

Financial statements 1 January – 31 December

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1 **Accounting policies (continued)**

Balance sheet

Property, plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Rigs	25 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Assets under construction is recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Cost of yard stays for rigs are recognised when incurred in the value of the rigs, etc. and depreciated over the period until the next yard stay.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less write-down for bad debts. Write-down for bad debts is determined on the basis of an individual assessment of each receivable.

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1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are measured at amortised cost, which essentially corresponds to nominal value.

2 Uncertainty regarding recognition and measurement

In line with our expectations, operator demand for offshore drilling rigs continued to rise during 2019, with demand for jack-up rigs growing slightly higher than the demand for floaters. Drilling contractors also continued to reduce offshore drilling rig supply. 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. In line with analysts who cover the market, Management continued to expect a gradual move towards more economically sustainable rates in the long-term.

No indicators of additional impairment or reversal of impairment have been identified as of 31 December 2019, as the development in the offshore drilling market with increased activity and improved long-term projections was considered to be in line with the expectations underlying the impairment test conducted in 2018. In 2018, part of the prior year impairment losses were reversed.

The fair value estimates using the market approach are highly uncertain due to the character of the assets and a very limited number of transactions between willing buyers and sellers. The value in use calculations for the individual cash generating units carried out in 2018 were sensitive to the day rates and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin after the budget period were critical variables.

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The cash flow projections were based on financial budgets and business plans approved by Management. In nature, these projections were subject to judgement and estimates that are uncertain, though based on experience and external sources where available. The discount rates applied reflected the time value of money as well as the specific risks related to the underlying cash flows, i.e. project and/or country specific risk premium. Further, any uncertainties reflecting past performance and possible variations in the amount or timing of the projected cash flows were generally reflected in the discount rates.

As set out in the note disclosure around events after the balance sheet date, the oil price has dropped substantially subsequent to year-end, which may lead the oil and gas companies to cancel or defer projects and exert pressure for lower rates, more contract flexibility and low-cost solutions, which could negatively impact the Company's future profitability.

Management considers this to a non-adjusting post balance sheet event. This means that the assessment of indications of impairment of fixedt assets is based on the expectations for future profitability, contract coverage, etc applicable as of 31 December 2019, which may be different from the expectations for future profitability, contract coverage, etc applicable as of the approval of these financial statements as set out in the Outlook section of the Management's review. As a result, the Company may face impairment of assets in future reporting periods if the current situation continues.

USD'000	2019	2018

3 Financial income

Interest income from group entities	0	3,793
Other financial income	73	0
Exchange gains from group entities	0	18
	73	3,811

4 Financial expenses

Interest expense to group entities	624	0
Other financial costs	237	2
	861	2

5 Tax on profit/loss for the year

Current tax for the year	-2,431	0
Deferred tax for the year	-3,644	14,461
Adjustment of tax concerning previous years	0	8,063
Adjustment of deferred tax concerning previous years	-2,630	6,764
	-8,705	29,288

6 Contributed capital

The contributed capital consists of 9,576 shares of a nominal value of DKK 1,000 each.

All shares rank equally. There have been no changes to the contributed capital during the last five years.

Financial statements 1 January – 31 December

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7 Contractual obligations, contingencies, 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 Maersk Drilling entities, the Company has guaranteed a total of USD 332 million related to a Term Loan Facility Agreement held by The Drilling Company of 1972 A/S.

Property, plant and equipment with carrying amount of USD 229 million (the collateral rigs) has been pledged as security for the credit facilities set out above. In addition to the collateral rigs, insurance coverage and certain bank accounts related to the collateral rigs and certain intra-group charterers in respect of the collateral rigs are provided as collateral. In certain circumstances, earnings from drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreement.

9 Related party disclosures

The A.P. Moller 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, DK-1263 Copenhagen K (ultimate parent company preparing consolidated financial statements)
- APMH Invest A/S, Esplanaden 50, DK-1263 Copenhagen K
- The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby (initial parent company preparing consolidated financial statements)
- Maersk Drilling Holding A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby
- 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 with a controlling interest in Maersk Drilling International A/S including their close relatives and undertakings under their significant influence, are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including A.P. Møller - Mærsk A/S and its subsidiaries and affiliates and Danske Bank A/S.

Related party transactions

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 Statements Act.

Consolidated financial statements

The consolidated financial statements of The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby can be obtained by contacting this company or at investor.maerskdrilling.com/financial-reports-presentations.

Financial statements 1 January – 31 December

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The consolidated financial statements of A.P. Møller Holding A/S can be obtained by contacting this company or at its website www.apmoller.com.

10 Events after balance sheet date

The price of Brent crude oil averaged USD 64 per barrel in 2019, representing a decrease of 11% compared to the average of USD 72 per barrel in 2018. Subsequent to year-end, the oil price has dropped substantially to a level of around USD 25-40 per barrel. Combined with the implications of the global outbreak of COVID-19, the lower oil price environment will have negative implications for the Company's commercial and operational activities, as oil and gas companies may cancel or defer projects and exert pressure for lower rates, more contract flexibility and low-cost solutions. This is likely to negatively impact the Company's future profitability.

The contract for Mærsk Deliverer with Inpex Australia commenced in March 2020. Subsequently, the Company agreed with Inpex Australia to suspend the contract with effect from 30 April 2020. Re-commencement of the contract is expected to be in October 2020 and Maersk Drilling will receive a suspension rate during this period. The expected end-date of the firm contract period is now in August 2023.