Annual Report 2018

MAERSK DRILLING HOLDING A/S
Lyngby Hovedgade 85,
DK-2800 Kgs. Lyngby

Company reg. no. 34 73 17 21

Annual Report

1 January 2018 – 31 December 2018
Approved at the annual general meeting on 26 February 2019

Klaus Greven Kristensen
Chairman of the annual general meeting

MAERSK DRILLING

Contents

The Annual Report of Maersk Drilling Holding A/S (hereafter referred to as Maersk Drilling as the consolidated group of companies and the company as the parent company) includes consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act, and parent company financial statements prepared in accordance with the Danish Financial Statements Act.

Forward-looking statements

The Annual Report contains forward-looking statements. Such statements are subject to risks and uncertainties as various factors, many of which are beyond Maersk Drilling's control, may cause the actual development and results to differ materially from expectations contained in the Annual Report.

Comparative figures

Unless otherwise stated, all figures in parenthesis refer to the corresponding figures for the previous year.

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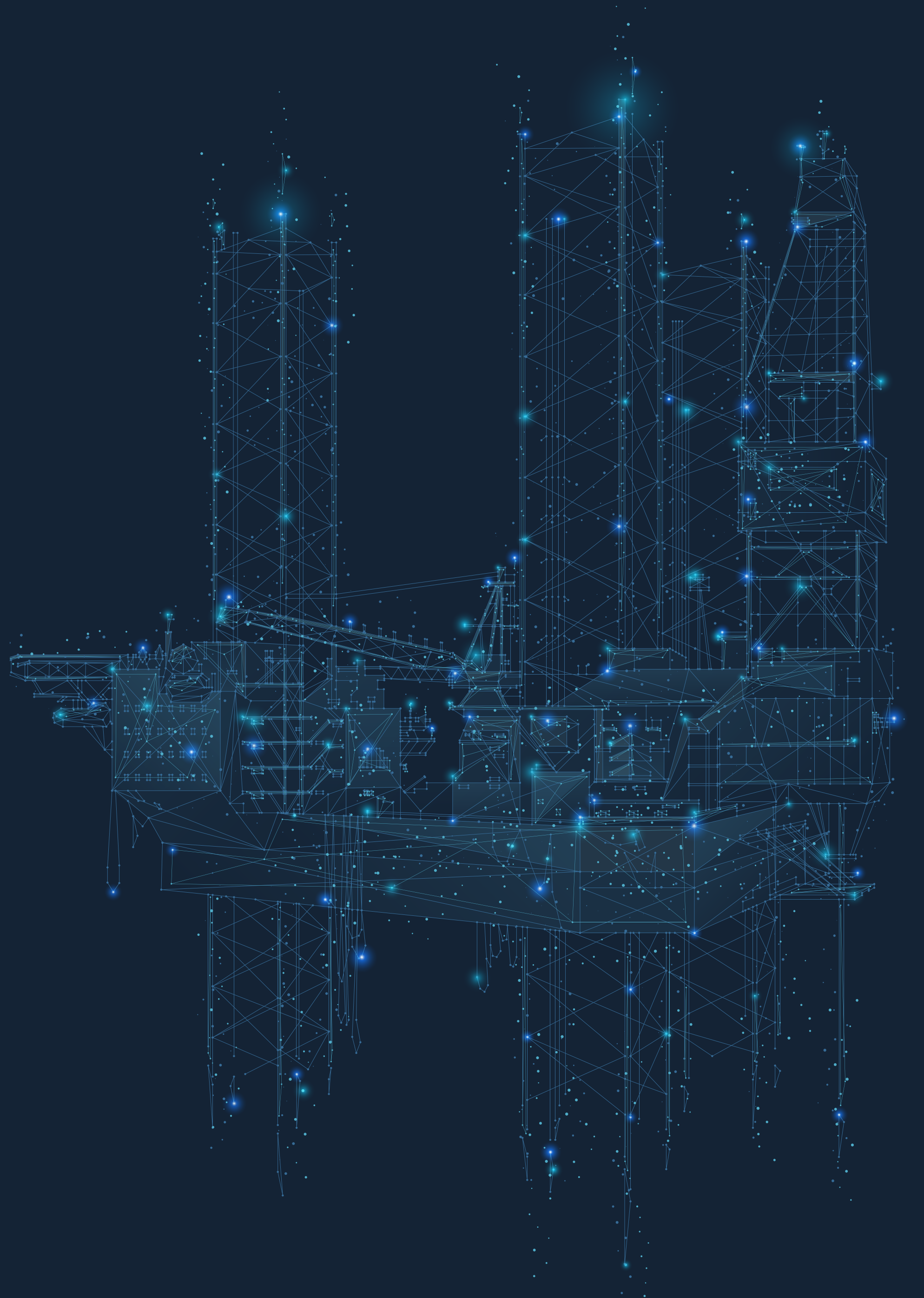
Directors' report



Letter from the Chairman

In 2016, A.P. Moller - Maersk set out to define new structural solutions for the oil and oil related businesses in order to focus and grow the future business of A.P. Moller – Maersk within the container shipping, ports and logistics segments.

In 2018, A.P. Moller - Maersk decided to pursue a demerger via a separate listing of Maersk Drilling on Nasdaq Copenhagen during 2019, whereby the A.P. Moller – Maersk shareholders will receive listed shares in Maersk Drilling. A.P. Moller Holding has confirmed its intention to uphold a significant shareholding in a separately listed Maersk Drilling.

Maersk Drilling owns and operates a fleet of 23 mobile offshore drilling rigs specialising in harsh environment and deepwater operations. With 46 years of experience operating in the most challenging environments Maersk Drilling provides safe, efficient, and reliable drilling services to some of the leading and most innovative oil and gas companies around the world. This has resulted in one of the strongest contract backlogs in the industry, thereby reducing the near-term exposure to the market.

Maersk Drilling is organisationally and financially well-prepared to operate as a standalone company. In December 2018, Maersk Drilling secured debt financing of USD 1.5bn and a revolving facility of USD 400m from a consortium of international banks. The level of debt financing is consistent with a conservative capital structure.

In January 2019, the Board of Directors was strengthened with new members and the establishment of a governance structure set for a separate listed company. Together, Vice Chairman Robert M. Uggla, CEO of A.P. Moller Holding, and I will constitute the Chairmanship of Maersk Drilling. CEO Jørn Madsen and CFO Jesper Ridder Olsen will constitute the Executive Management.

The Board of Directors and the Executive Management together represent multi-year experience within the commercial, operational, technical, financial, regulatory, and safety aspects of the offshore drilling industry.

Maersk Drilling has the people, the assets and the expertise to meet the demanding drilling requirements for a diverse group of oil and gas customers worldwide. A separate listing will ensure that Maersk Drilling can continue to uphold and develop its unique position to the benefit of both its long-term blue-chip customer base and its shareholders.

I would like to take this opportunity to extend my sincere gratitude to the management and all the employees of Maersk Drilling for the passion, efforts and dedication rendered to the development of the company over the last 46 years as well as in 2018 in the preparation for a listing. Loyalty and dedication are what has built our unique position over decades and what has made Maersk Drilling the significant company it is today. It lays a solid foundation for a prosperous future for Maersk Drilling.

Claus V. Hemmingsen
Chairman

Letter from the CEO

2018 was an eventful year for Maersk Drilling. With A.P. Moller – Maersk's decision in August 2018 to pursue a demerger through a separate listing of Maersk Drilling, we reached a historic milestone for our company.

A separate listing presents great opportunities for our customers, employees and shareholders. With A.P. Moller Holding's announced intent to remain a significant shareholder in a separately listed Maersk Drilling, we will continue to operate under the same name guided by the strong values the company was founded on.

As a company, we are both organisationally, financially and operationally ready for a separate listing, and as CEO, I am personally very excited about our future as a standalone listed company.

Safety remains our number one operational priority

A strong safety culture permeates everything we do and stand for. During 2018, we have continued our effort to find ways to prevent serious safety incidents. In 2018, this has led to a change in how we think of safety in Maersk Drilling. Safety is the capacity to stay safe and not only the absence of incidents.

We have had, and will continue to have, an innovative approach to safety in our operations in line with our ambition to lead the industry – not only because safety is the foundation for Maersk Drilling's operational success, but because we will not accept that our employees do not return home safely.

Building our success on a strong market position

Our foundation and track record in the offshore drilling market are second to none. With a strong position in the most attractive markets, a modern fleet of advanced drilling rigs and a well-reputed operational performance, we have for decades built long-term customer relations and partnerships enabling a unique offering of differentiated and value-adding services for oil and gas companies worldwide.

Our position is particularly strong in the Norwegian ultra-harsh environment jack-up market, which is the world's most challenging offshore drilling market segment. Demanding environmental conditions and regulatory frameworks require drilling contractors to have specialised skills and knowledge, which we have developed since our entrance into Norway in 1990. We are by far the most experienced jack-up driller in Norway.

For the broader North Sea market segment for harsh environment jack-up rigs, we are a market leader with an estimated market share of 27%. Harsh environment drilling is characterised by high barriers to entry.

In addition to our market-leading position for jack-up rigs in the North Sea, we own a modern floater fleet, which is deployed globally. The floater market involves deep and complex offshore drilling operations, again requiring a high level of skill and technological capability. With a proven track record of working in complex environments, we are well-positioned to benefit from a recovery in the floater market.

Across all our key market segments, we have obtained best-in-class operational performance with consistently high fincancial uptimes, leading to high customer satisfaction.

Improving market conditions lead to increasing demand for offshore drilling services

For the first time since the oil price downturn in 2014, we started to see increased demand for offshore drilling services in 2018, driven by improving underlying economics in the industry. However, day rates remained challenged due to overcapacity with the Norwegian ultra-harsh environment segment showing the most promising trends.

As a response to the challenging market conditions, the industry has over the last couple of years targeted cost reduction through operational efficiency improvements, integrated alliances and partnerships. We are committed to remaining at the forefront of this development by not only squeezing out costs but also working to bring broad-based structural change to the value chain through a combination of innovative digital technologies and new business models.

Offering smarter drilling with shared upside
In 2018, we launched our new strategic ambition 'Smarter Drilling for Better Value', aiming to combine our leading drilling services with new services and innovative business models. The objective is to drive long-term business opportunities through increased customer collaboration, differentiation and asset utilisation. In that way, we aim to expand our presence in the value chain while simultaneously creating better outcomes for our customers.

The most prominent challenges for our customers are the significant inefficiencies and lack of predictability caused by multiple suppliers and misaligned incentives between the various parties involved in a drilling campaign. To solve these immediate challenges for our customers, we are exploring new business models, including full integration of well services in our offering as an integrated service partner with the objective of removing waste in the system in return for a shared upside.

In this way, Maersk Drilling is at the forefront of change and recognised for our collaborative and innovative business approach which has enabled us to forge strong alliances in the industry. The first example was our alliance with Aker BP, which aims at lowering the cost per barrel and increasing profitability for the partners while giving Maersk Drilling a preferential right to provide jack-up rigs for Aker BP in Norway. In September 2018, Maersk Integrator became the first rig to be contracted fully under such alliance conditions.

In December 2018, we entered into yet another unique alliance with Seapulse Ltd. In this alliance, we will provide fully integrated services, including provision of rigs and related services to remove complexity across the entire value chain, for a global 12-well exploration drilling programme. The programme includes an incentive payment scheme to drive performance and provide potential upside for the parties involved.

USD 0.5bn added to our backlog
Despite facing a still challenged market, we were able to secure 12 new contracts and 13 contract extensions during 2018. This added USD 503m to our backlog, resulting in a total revenue backlog of USD 2.5bn by the end of 2018. Contracts were secured with both new and recurring customers, once again confirming our position as an attractive drilling partner for oil and gas companies.

Financial performance
Financially we reported an industry-leading EBITDA margin of 43% in 2018, supported by continued strong operational performance, increasing utilisation and day rates at acceptable levels in both our jack-up and floater segment. With a cash conversion at 100% and capex of USD 182m we reported a strong free cash flow of USD 457m.

With our new external financing in place we have a solid capital structure which gives us flexibility to manage through the cycliality of the offshore drilling industry.

Impressive team performance
Uncertainty and change can be unsettling for many, yet Maersk Drilling's employees have delivered an exceptional team performance in 2018, demonstrating both resilience and dedication to constantly move the company forward towards new achievements. The level of skill, adaptability and commitment of our employees is the best guarantee that Maersk Drilling will continue to perform at the highest level and remain a market leader following a separate listing.

I would like to extend a heartfelt thank you to all our employees for their contribution to Maersk Drilling's performance and transformation in 2018.

Jørn Madsen
CEO

Maersk Drilling at a glance

Maersk Drilling supports global oil and gas production by providing high-efficiency drilling services to oil and gas companies around the world

23 Rigs
15 Jack-up rigs
8 Floaters

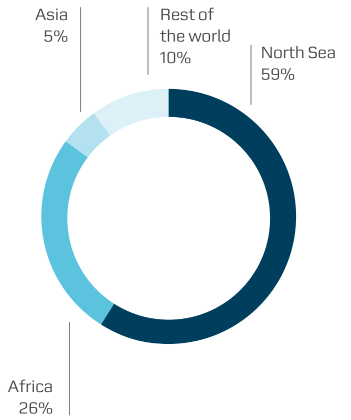
Founded 1972

~10 Years
Median fleet age

~2,850
Employees at year end

Geographical presence

Revenue 2018



1.4 bn
Revenue 2018 (USD)

2.5 bn
Revenue backlog (USD)

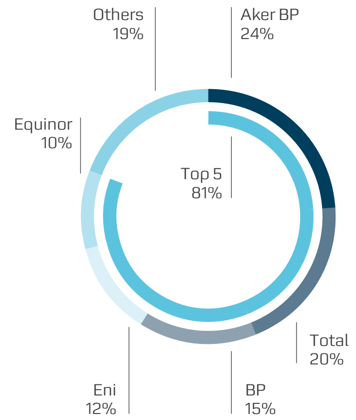
611m
43% margin
EBITDA before special items 2018 (USD)

182m
Capex 2018 (USD)

457m
Free cash flow 2018 (USD)

Customer Base

Revenue 2018



Five-year summary

Amounts in USD million

Income statement	2018	2017	2016	2015[2]	2014[2]
Revenue	**1,429**	**1,439**	**2,297**	**2,518**	**1,998**
Profit before depreciation and amortisation, impairment losses/reversals and special items (EBITDA before special items)	**611**	**683**	**1,381**	**1,393**	**903**
Special items	-16	2	16	10	9
Profit before depreciation and amortisation and impairment losses/reversals (EBITDA)	**595**	**685**	**1,397**	**1,403**	**912**
Depreciation and amortisation	-403	-468	-589	-520	-310
Impairment losses/reversals	810	-1,769	-1,510	-27	-35
Share of results in joint ventures	-1	-	-	-	-
Profit/loss before financial items (EBIT)	**1,001**	**-1,552**	**-702**	**856**	**567**
Financial items, net	-12	-19	-89	-101	42
Profit/loss before tax	**989**	**-1,571**	**-791**	**755**	**609**
Tax	-48	49	1	-154	-141
Profit/loss for the year	**941**	**-1,522**	**-790**	**601**	**468**

Balance sheet					
Total assets	5,714	8,252	11,209	12,028	11,163
Total equity	3,810	6,209	8,757	8,316	5,346
Net debt (receivable)[1]	1,097	-1,809	-2,668	-503	2,165
Investments in non-current assets (Capex)[1]	182	520	307	894	2,398

Cash flow statement					
Cash flow from operating activities	593	652	1,363	1,301	615
Cash flow used for investing activities	-136	-448	-328	-893	-2,235
Adjusted free cash flow[1]	457	653	1,267	1,186	292

Financial ratios[1]	2018	2017	2016	2015[2]	2014[2]
EBITDA margin before special items	43%	47%	60%	55%	45%
Return on equity	19%	-20%	-9%	9%	9%
Cash conversion	100%	95%	98%	93%	67%
Asset turnover	31%	28%	33%	33%	-
Equity ratio	67%	75%	78%	69%	48%
Leverage	1.8	-2.6	-1.9	-0.4	2.4

Performance drivers[1]					
No. of rigs at year end	23	24	23	22	21
Contracted days	6,024	5,553	6,318	7,194	6,393
Available days	8,695	8,460	7,894	7,810	6,411
Utilisation	69%	66%	80%	92%	100%
Average dayrate (USDk)	237	258	361	345	309
Financial uptime	99.1%	98.5%	99.3%	98.6%	98.6%

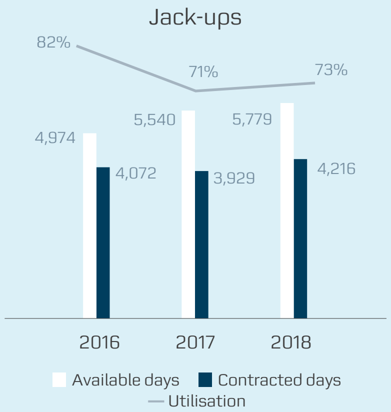
1 See definitions on page 93.
2 The 2014 and 2015 financial figures in this summary are prepared on the basis of separate reporting to the A.P. Moller - Maersk Group adjusted to reflect the activities comparable with those in this Annual Report. Basis for preparation is set out in note 5.1 in the consolidated financial statements.

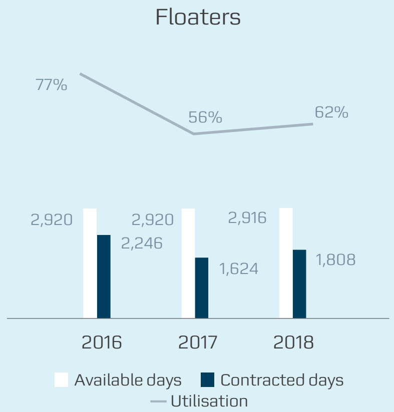
Segment overview and highlights

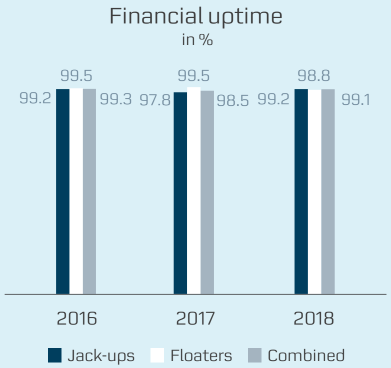
Amounts in USD million

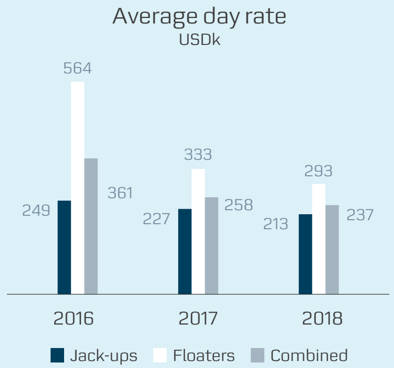
Jack-ups	2018	2017	2016
Revenue	896	890	1,012
EBITDA before special items	459	473	545
EBITDA margin before special items	51%	53%	54%
Non-current assets	2,855	2,620	3,049
Asset turnover	33%	31%	31%
No. of rigs at year end	15	16	15

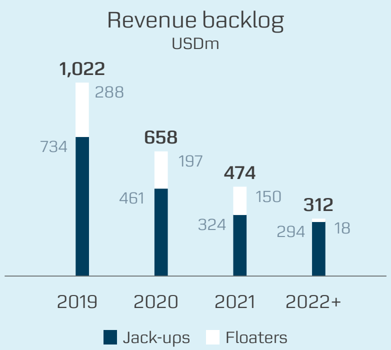
Floaters			
Revenue	530	541	1,266
EBITDA before special items	163	209	832
EBITDA margin before special items	31%	39%	66%
Non-current assets	1,957	1,639	2,932
Asset turnover	29%	24%	35%
No. of rigs at year end	8	8	8

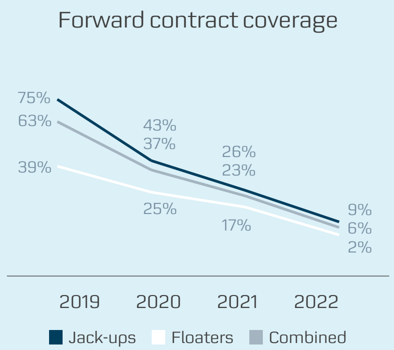




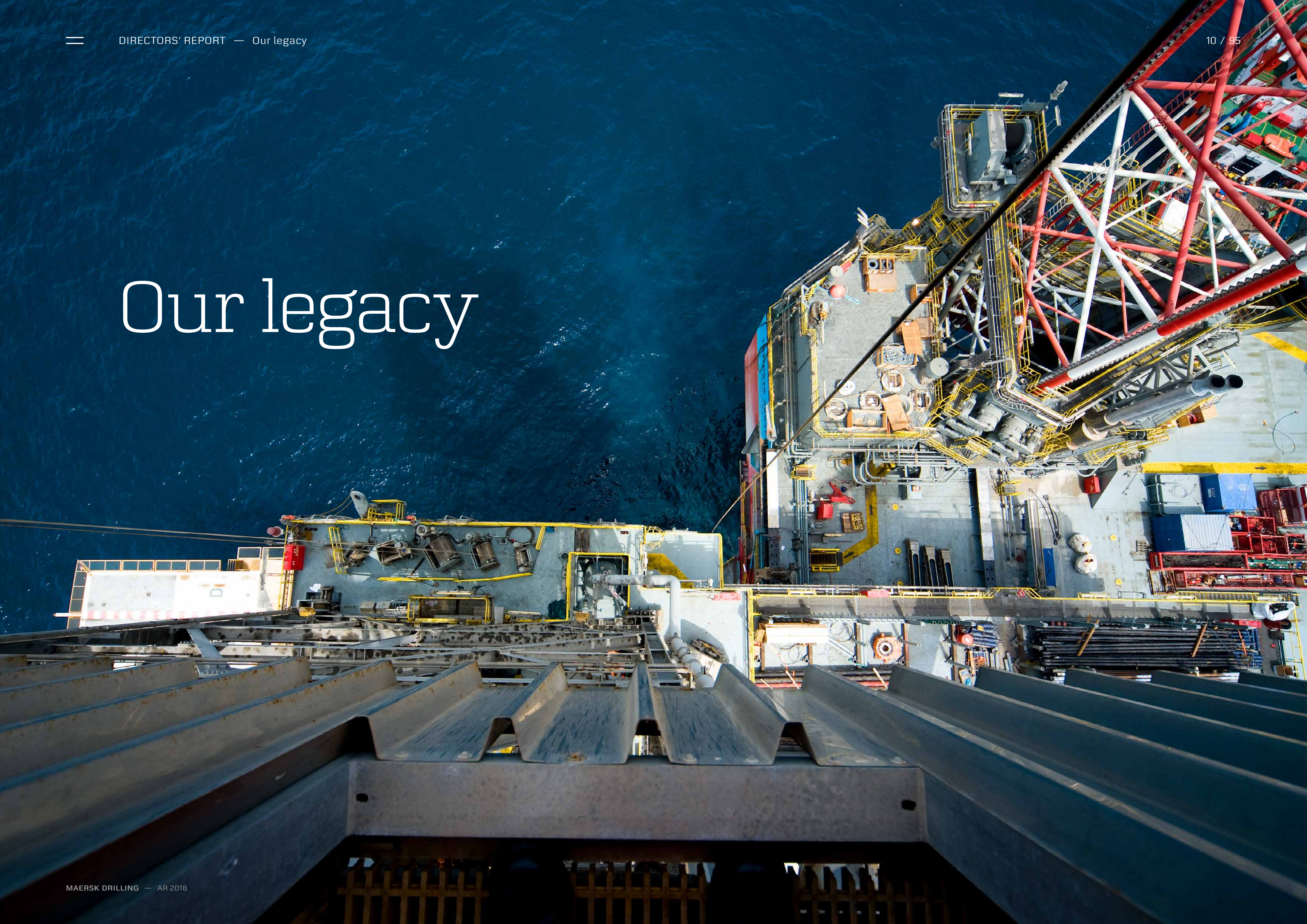








Our legacy



Separation from A.P. Moller – Maersk

On 17 August 2018, A.P. Moller – Maersk announced its intent to pursue a demerger via a separate listing of Maersk Drilling Holding A/S and its affiliated companies (Maersk Drilling) on Nasdaq Copenhagen in 2019. The decision followed the strategic direction laid out in September 2016, focused on integrating and transforming A.P. Moller – Maersk's transport and logistics businesses, while separating the oil and gas related businesses from A.P. Moller – Maersk.

Maersk Drilling is organisationally and financially ready for a listing in 2019.

Claus V. Hemmingsen
Chairman of Maersk Drilling

Having evaluated the different options, A.P. Moller - Maersk in August 2018, concluded that listing Maersk Drilling as a standalone company presented the most optimal and long-term prospects for Maersk Drilling, while offering A.P. Moller – Maersk's shareholders the possibility to participate in the value creation opportunity of a globally leading pure play offshore drilling company with long-term development prospects.

Maersk Drilling is to be separated from A.P. Moller – Maersk via a separate listing. The listed shares in Maersk Drilling will be distributed to A.P. Moller - Maersk shareholders pro-rata, and A.P. Moller Holding has confirmed its intent to uphold a significant shareholding in a separate listed Maersk Drilling.

Following the demerger, Maersk Drilling will operate under the name "Maersk Drilling", on which its global leading market position is built and recognised, using the Maersk seven-pointed star-logo as part of its brand.

Maersk Drilling is ready for separate listing in 2019

Maersk Drilling has a leading position within high-end harsh environment jack-ups and the modern deepwater floater segment and has long-term customer relations counting some of the world's leading and most innovative oil and gas companies.

The company provides superior and safe drilling performance under some of the world's most demanding conditions and with a unique stronghold in the North Sea. Maersk Drilling is recognised for its collaborative and innovative business approach as well as its young fleet, which consists of 23 jack-ups, semi-submersibles and drillships (drilling rigs); 15 jack-ups and 8 floaters. The rigs are amongst the most sophisticated in the industry.

The process to ensure that Maersk Drilling is organisationally and financially ready for a listing in 2019 was initiated in August 2018 with the ambition of being ready to operate as an independent entity in due time before a listing. During the second half 2018, Maersk Drilling made the planned organisational progress with all key management positions relevant for the demerger preparation being filled. This included the new CFO being announced on 24 August and the positions as Head of Treasury and Head of Investor Relations being filled effective from September.

As part of the preparation for the separation, debt financing of USD 1.5bn and a revolving facility of USD 400m were secured in December 2018 from a consortium of international banks. With a net debt of USD 1.1bn, Maersk Drilling has a solid capital structure in place for a separate listing, ensuring that the standalone company is well capitalised to manage through the cyclicality of the offshore drilling industry.

The process to establish an independent Board of Directors for Maersk Drilling, as well as an independent governance structure, progressed further in January 2019 with the announcement of Kathleen McAllister, Robert Routs and Robert M. Uggla as new board members.

Maersk Drilling history

Maersk Drilling was established in 1972 as part of the A.P. Moller – Maersk Group. In its 46 years history, Maersk Drilling has been on the forefront of developing high-end rigs with an operating model supporting some of the world's leading and most innovative oil and gas companies. Several records and awards have been achieved over the years underpinned by a well-reputed operational performance and long-term customer relationships and partnerships.

1975 – Training in the US and Maersk Explorer
Early efforts in studying drilling technology and petroleum geology, including the training of Maersk Drilling employees in the U.S., led to the commissioning of the Maersk Explorer, then the world's largest jack-up rig.

1988 – Thailand and Australia
In 1988, Maersk Drilling further expanded its geographic footprint, commencing operations offshore Thailand, followed by a horizontal drilling campaign offshore Australia in 1991.

1990 – Norway
Maersk Drilling pioneered jack-up drilling in Norway, which until then was explored and developed primarily by semi-submersible rigs and platform rigs. Bringing jack-up rigs into the market proved the ideal solution for many oil and gas projects in the region in terms of both mobility and cost-effectiveness.

2003 – Floater market expansion
Maersk Drilling expanded its operations in the floater market with Maersk Explorer, a semisubmersible mid-water floater built for operation in the Caspian Sea.

1972-89 Inception, building of capabilities, entrance into new geographies and shallow water fleet expansion

1975–76 Fleet expansion
Maersk Drilling ordered five new drilling rigs, including two jack-ups, a semi-submersible floater, a drilling tender and a self-contained platform rig.

1978–86 Further newbuildings
Between 1978 and 1986, Maersk Drilling completed a newbuilding programme, which included Mærsk Giant and Maersk Guardian built for operation in harsh environments in the North Sea. At the time, the world's largest jack-up rigs.

1990-04 Founding of Norwegian market and shallow water fleet expansion

1993 Delivery of Mærsk Gallant
In 1993, the Mærsk Gallant jack-up rig was delivered.

1996 Drilling and production for the Yme field
Mærsk Giant worked as both a drilling rig and a production unit for the Norwegian Yme field, an innovative technique that Maersk Drilling repeated with other rigs in the years to follow.

2003-04 Delivery of larger jack-up rigs
Even larger jack-up rigs were delivered with Mærsk Innovator in 2003 and Mærsk Inspirer in 2004. Increasing size was also accompanied by continuous on-rig innovations.

Entrance into deepwater and introduction of new Service Delivery Model 2005–18

2007-09 Reinforced jack-up market position
Between 2007 and 2009, Maersk Drilling further reinforced its position in the jack-up segment with the addition of six jack-up rigs, four of which were built for operation in harsh environments in the North Sea.

2008-10 Entering deepwater market
In 2008, Maersk Drilling entered the deepwater market with the delivery of Mærsk Developer, the first in a series of three 6G semi-submersibles rigs enabling Maersk Drilling to serve E&P companies in all benign-environment midwater and deepwater regions worldwide.

2013–14 Expanding deepwater fleet
Four newbuild ultra deepwater drillships were delivered in 2013 and 2014, further enhancing Maersk Drilling's deepwater capabilities.

2014–17 XL Enhanced jack-up rigs
From 2014 to 2017, Maersk Drilling took delivery of four newbuild 'XLE' jack-up rigs with enhanced features to improve efficiency, safety and logistics on board, capable of year-round operations in all parts of the North Sea.

2016 Acquisition of Maersk Highlander
In 2016, Maersk Drilling acquired Maersk Highlander, a North Sea jack-up rig which upon delivery commenced a five-year contract with Maersk Oil (now Total).

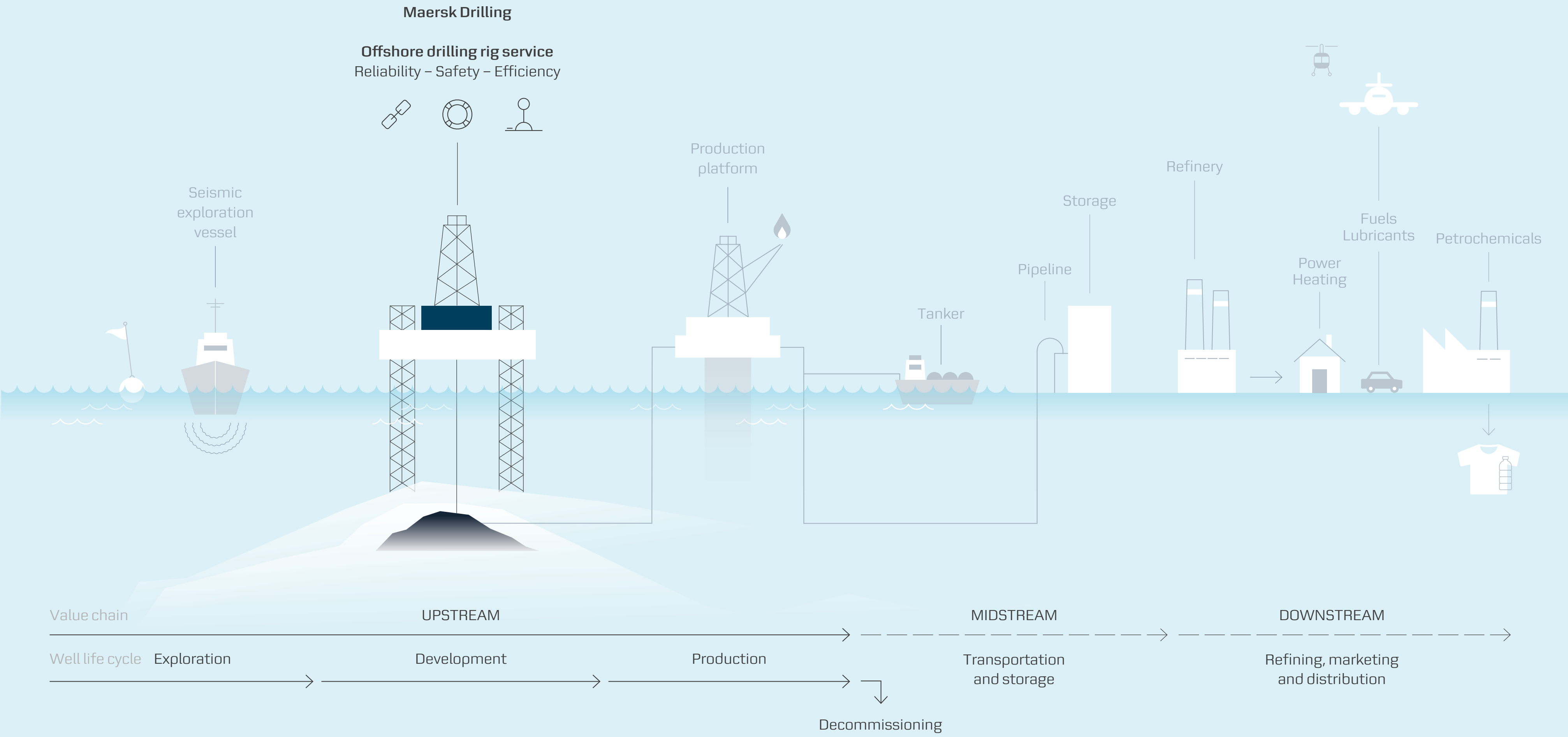
2017–18 Alliances
Maersk Drilling has entered into alliance agreements which are unique to the industry and examples of Maersk Drilling's continued dedication toward exploring innovative new business models with customers and partners within the offshore drilling industry.

Maersk Drilling has 46 years of experience of operating in the most challenging environments – our services are built around our highly skilled and comitted workforce and our state-of-the-art off-shore drilling rigs.

Angela Durkin
Chief Operation Officer

Our business

Our position and role in the oil and gas value chain



Business model and market

Business model

Maersk Drilling is part of the global offshore contract drilling industry providing offshore drilling rig services to oil and gas companies (operators) in support of their Exploration & Production (E&P) of oil and gas. E&P constitutes early phases of the oil and gas value chain requiring construction of wells to access oil and gas reservoirs. The construction of wells starts with exploration drilling, through to development drilling and making the well ready for the operators' production of hydrocarbons for ultimately plugging and abandonment of wells and fields. These wells are drilled by drilling contractors such as Maersk Drilling.

In simple terms, the offshore drilling business model involves operators chartering rigs on a time basis, whereby the drilling contractor provides the drilling rig and equipment as well as the capabilities and human resources to conduct drilling operations. Typically the drilling contractor is remunerated based on a 'day rate' – the amount the operator pays the drilling contractor per day during the drilling campaign.

Operators and drilling contractors enter into contracts either through a tender process or by direct negotiation. The former is more typical, as the operator is able to solicit bids from a range of drilling contractors and compare offers based on factors such as price, rig capabilities, historic performance, relationship and ability to reduce overall well costs. Direct negotiations typically arise in the context of a long-standing relationship between a particular operator and drilling contractor, and/or when an operator has a specific or narrow range of options in mind for a rig to suit the requirements and objectives of their campaign.

Under the day rate model, the operators' expense is a direct function of the time required to drill to the geological target and complete the well. The outlay to the drilling contractor typically represents up to 50% of the total expenditure of a drilling campaign; as a result, operators are focused on ensuring that the rig operation is completed as efficiently, predictably and safely as possible.

A variety of factors influence the time to drill a well. The main determinants include the capabilities of the rig itself – for example the ability to carry out multiple activities in parallel – the capabilities of the crew operating the equipment and the operational processes and systems applied by the drilling contractor – for example ensuring proper planning and coordination with various other suppliers.

Operators and drilling contractors seek to minimise downtime, inefficiencies and waste. A prerequisite is to have safe operations. In this regard, the drilling contractor's and operators' interests are very much aligned in terms of ensuring the safety and security of their personnel, the environment and their equipment.

Due to the focus on efficiency and predictability, operators are increasingly exploring new commercial and operational models with drilling contractors to align incentives toward driving down overall costs. Examples of such models include bundling and integrating more services into the drilling contract or offering performance incentives to drilling contractors, whereby efficient operations are rewarded with additional financial compensation – in effect sharing the cost savings resulting from a shorter campaign.

In terms of the cost base for drilling contractors, operating costs consist of salaries to crew, shore-base costs, maintenance and supplies, catering, insurance and sales, general and administrative costs. Main capital expenditures for drilling contractors relate to newbuildings, rig acquisitions, special periodic survey maintenance and upgrades or modifications of rigs.

The cost of the drilling contractor typically represents up to 50% of the total expenditure of a drilling campaign for an E&P company

24

bn USD in E&P spending on drilling contractors in 2018

Market

One fundamental factor in determining the level of activity in the offshore drilling industry is the level of E&P spending by the oil and gas companies. This level is a function of oil companies' long-term assessment of oil prices impacting their cash flow generation as well as the economics of offshore exploration and development projects in their portfolios.

E&P companies' capital allocation
The price of Brent crude oil, an international benchmark, averaged USD 72 per bbl in 2018, representing an increase of approximately 30% when compared to 2017 and 59% when compared to averaged USD 45 per barrel in 2016.

In 2018, free cash flow generation by the oil and gas companies increased compared to 2017 primarily as a result of the higher average oil prices in 2018. E&P companies' mindset for capital allocation remained conservative through the year prioritising debt reductions and shareholder capital return. Allocation of capital to exploration and development activities is necessary to sustain the oil and gas operators' reserves and production base.

At the end of 2014, oil and gas operators had approximately 15 years of proven reserve life, which by the end of 2018 had fallen to approximately 13 years – a decline of approximately 14% in just four years. According to Rystad Energy, operators approved new projects worth approximately 17bn boe of future production during 2018, which is significantly below the operators' aggregate oil and gas production, which stood at approximately 58bn boe in 2018.

Compounding this, decline rates of existing fields remained high in 2018 relative to their long run averages.

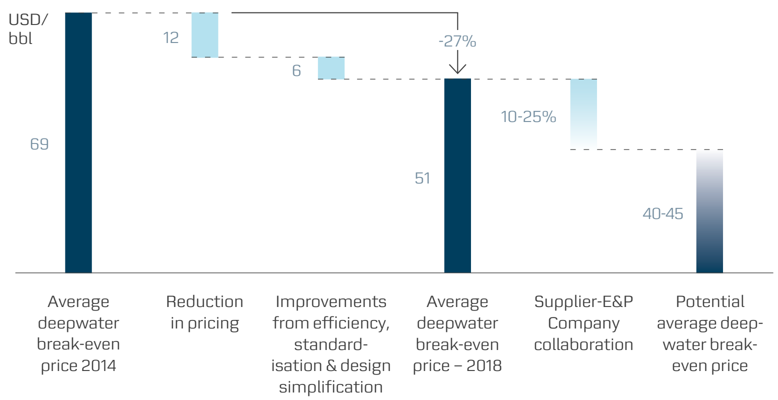
In the coming years, more of oil and gas operators' excess cash is expected to be allocated to exploration and development activities as a mean to sustain their businesses in the long-term.

Lower break-even oil prices
Oil and gas operators continued to optimise their business models and structurally reduce offshore project costs through project optimisation, standardisation, digitisation, simplification and service cost deflation.

As a result of the structural approach to reducing offshore project costs, offshore project economics have improved significantly both in absolute terms as well as relative to other sources, including unconventional sources (US shale). According to Rystad Energy, approximately 87% of pre-final investment decision offshore projects expected to be sanctioned during the period 2019-2025 have a break-even oil price below USD 60 per barrel.

Set against the backdrop of rising oil prices and improving project economics, offshore E&P spending on drilling contractors stabilised in 2018 at around USD 24bn, having decreased for three consecutive years in the period 2014 to 2017.

Development of deepwater break-even levels, 2014 – 2018



Source: Rystad Energy Research and Analysis

Improving market fundamentals

Global offshore rig utilisation levels continued to rise as a result of positive rig demand- and supply-side factors.

Operator demand for offshore drilling rigs rose to approximately 480 rig years in 2018, representing an increase of approximately 2.5% when compared to the previous year. This moderate increase in rig demand was entirely driven by growth in demand for jack-up rigs of more than 4%, as the demand for floaters decreased by approximately 2% in 2018. Contractors continued to reduce offshore drilling rig supply, as 37 jack-ups and 20 floaters were scrapped during the year.

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.

For the year ended 31 December 2018, total utilisation levels for the global fleet stood at approximately 63% for jack-ups and 58% for floaters. This represents approximately a 4%-point increase compared to 2017.

Despite improved utilisation indicators for the offshore drilling market, the global jack-up and floater markets continued to suffer from overcapacity.

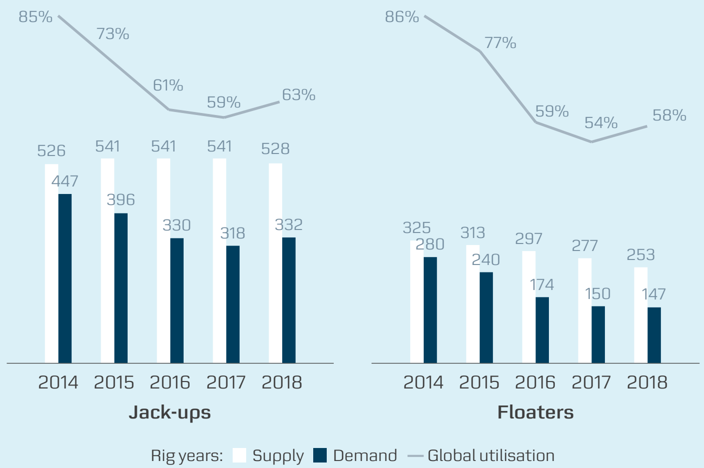
The harsh environment segment, particularly in Norway, has benefitted from limited supply of rigs resulting in increasing utilisation as well as increasing day rates. The harsh environment segments are characterised by relatively higher barriers to entry and have exhibited above-average rig utilisation and day rate levels over the course of the cycle compared with other more commoditised segments.

The industry continues to target cost reduction through operational efficiency improvements, integrated alliances and partnerships. A series of mergers and acquisitions amongst offshore drilling contractors also featured throughout the year. Altogether, this convey a signal of continued recovery in the offshore drilling market.

Long-term energy demand

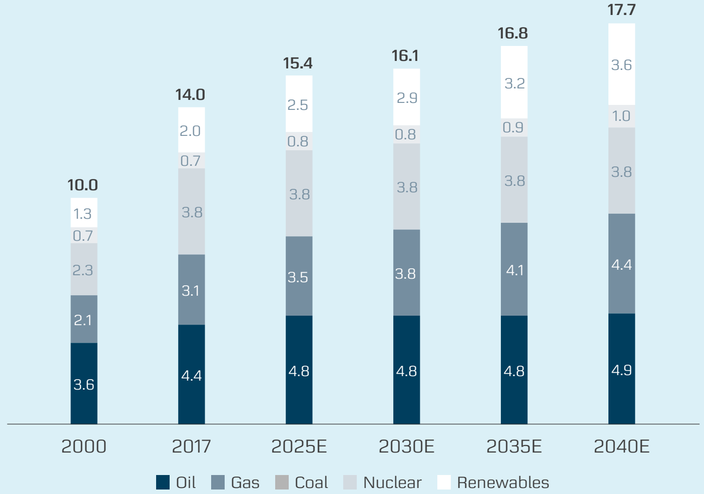
Global primary energy demand and offshore oil and gas' share thereof represent the primary driver of the demand for offshore drilling rigs. The graph to the right depicts global primary energy demand from 2000 to 2040 by fuel source according to the International Energy Agency's ("IEA") World Energy Outlook 2018. As set out in the graph the global primary energy demand is expected to grow approximately 25% from 2017 to 2040, or 1% on a per annum basis. The demand for oil and gas is expected to grow 24%, or 0.9% per annum.

Global utilisation levels in rig years, 2014-2018



Source: IHS Petrodata

Global primary energy demand by fuel source in billion tonnes of oil equivalent, 2000 – 2040E



Source: IEA World Energy Outlook 2018
Note: Renewables include Hydro, Bioenergy and Other renewables

Market position and strategic ambition

Maersk Drilling is strongly positioned with a modern and high standard fleet in market segments characterised by having the most attractive structural features, such as high barriers to entry.

Drawing on our 46 years of experience, we have developed a differentiated offering meeting the E&P companies' requirements concerning safety, efficiency and reliability. This has positioned us as a drilling contractor of choice among the large oil and gas companies enabling us to develop long-lasting customer relationships.

Our principal goal is to create long-term value for our shareholders. This is to be achieved through continued strong service delivery and operational effectiveness combined with development of new services and business model innovation.

Strongly positioned with a modern fleet in attractive market segments

Modern fleet
Maersk Drilling's fleet comprises 23 rigs in two different operating segments:

- Jack-up rigs: Of the 15 jack-up rigs, Maersk Drilling operates: (i) eight ultra-harsh environment jack-up drilling rigs, of which five are operating and one is preparing for contract in the Norwegian part of the North Sea, one is operating and one is warm-stacked in the UK part of the North Sea; (ii) four harsh environment jack-up rigs, of which two are operating in the Dutch part of the North Sea, one is operating and one is preparing for contract in the UK part of the North Sea; (iii) two premium jack-up rigs, of which one is operating in Brunei and one is cold-stacked in Singapore; and (iv) one accommodation jack-up rig operating in the Danish part of the North Sea.

- Floaters: Of the eight floaters, Maersk Drilling operates: (i) four drillships, of which three are operating offshore Ghana and one is warm-stacked in the Gulf of Mexico; and (ii) four semi-submersible rigs, of which one is operating in Egypt, one is operating in the Caspian Sea, one is preparing for contract in Timor-Leste and one is warm-stacked in Trinidad and Tobago.

In addition to the 23 rigs discussed above, one jack-up rig is cold-stacked in Denmark and held for sale, with a carrying amount of USD nil.

Besides rig type and water depth capacities, we categorise our rigs by operating environment capabilities and certification schemes. Harsh environments like the North Sea are characterised by pronounced wind, weather and sea conditions which require rigs capable of withstanding the forces of waves and current and, in many cases, operating in low temperatures. Further, to be able to operate a rig on the Norwegian Continental Shelf, the specific rig has to be certified with an Acknowledgement of Compliance ("AoC"). The AoC is a government-issued certificate that acknowledges compliance with Norwegian laws and regulations and is mandatory for drilling units operating in Norway. Harsh environment rigs with AoC are categorised as ultra harsh environment rigs. Out of our 15 jack-up rigs, 13 are specialised for harsh environment operations, of which eight are certified with a Norwegian AoC.

Our floater fleet is categorised by generation and water-depth. The fleet consists of eight floaters including four 7th generation drillships capable of drilling at water depths of up to 12,000ft., three 6th generation semi-submersibles capable of drilling at water depths up to 10,000ft; and one 5th generation semi-submersible designed for operations at water depths up to 3,280ft.

Depending on market conditions and outlook, we may decide to warm-stack or cold-stack an uncontracted rig. A warm-stacked rig remains available for operations at relatively short notice, while cold-stacked rigs will require substantially longer reactivation time. Cold-stacked rigs incur operating costs below warm stacking, but will typically require significantly higher reactivation costs. We consider several factors, such as deployment outlook for the individual rig and stacking costs, when deciding on whether to keep a rig warm- or cold-stacked.

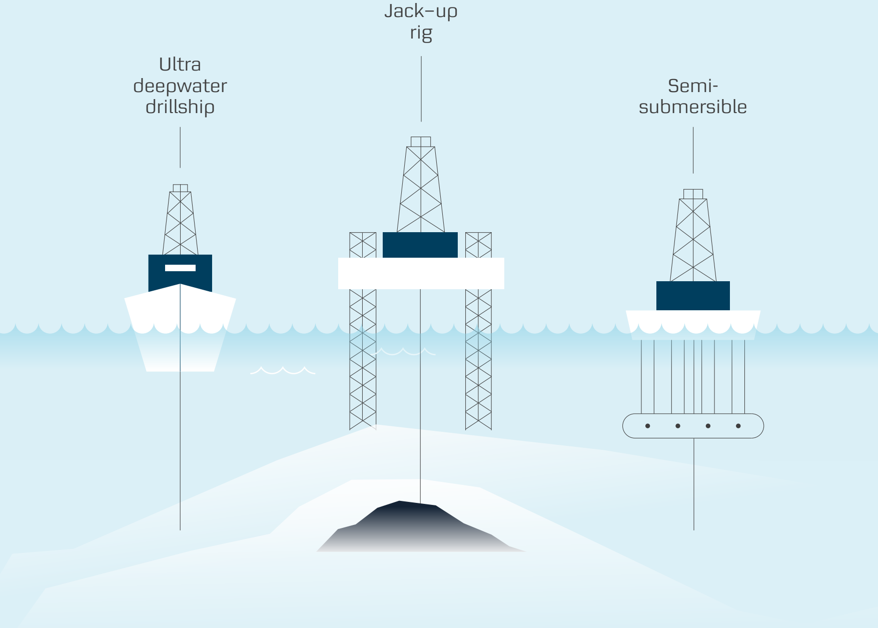
Maersk Drilling has one of the youngest and most advanced rig fleets in the industry including the largest harsh environment jack-up rigs in the world.

Frederik Smidth
Chief Technical Officer

Attractive market segments

Maersk Drilling is well positioned in the most attractive segments in the offshore drilling industry. In the market for harsh environment jack-up rigs, we are the market leader holding approximately 27% of all delivered rigs, and of those with AoC certification, we are market leading with 50%. The North Sea represents an attractive and protected niche, characterised by day rates and utilisation levels that are higher than in other jack-up markets.

In addition to a market leading position in the North Sea, we have with 10 years of operational experience built a strong position within the deepwater market where we primarily participate in the 6th and 7th generation segments characterised by day rates and utilisation generally higher than those for other benign-environment floaters. With our modern and highly capable fleet and strong customer relationships, we are well positioned to benefit from a recovery in the floater market, while meeting customer requirements for efficiency.



Fleet overview	Jack-ups	Semi-Submersibles	Drillships
Number of rigs	15x	4x	4x
Year constructed	1986-2016	2003-2010	2013-2015
Water depth	375 - 492 ft	3,281 - 10,000 ft	12,000 ft
Drilling depth	25,000 - 40,000 ft	30,000 - 32,800 ft	40,000 ft
Dual capability	Yes	Yes	Yes
Types	8x ultra-harsh environment, of which 6x CJ-70s 4x harsh environment 2x premium 1x accommodation	1x 5th generation midwater 3x 6th generation ultra deepwater	4x 7th generation ultra deepwater
Well control equipment	15,000 psi, 2x double ram BOP	15,000 psi, six ram BOP	1 or 2x 15,000 psi, six ram BOP
Hoisting equipment	2,000,000 lb	2,000,000 lb	2,500,000 lb
Dynamically positioned	Non-applicable	3x rigs	4x rigs

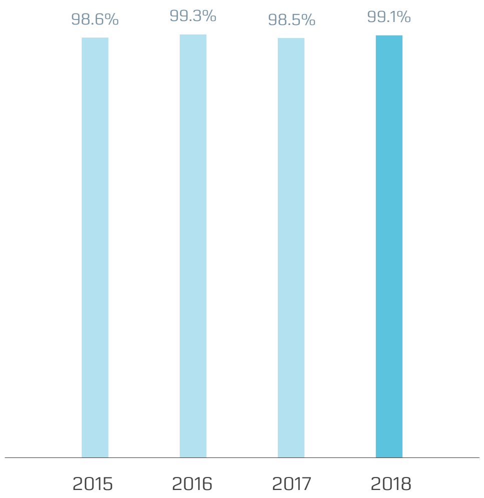
Differentiated services through long-term customer relations and partnerships

High uptime is essential for E&P companies as even marginal downtime during a drilling programme may adversely impact the overall execution with delays and higher costs. Our financial uptime is superior compared to our peers and has been consistently high over the past four years (2015-18), reflecting consistency and reliability of the services provided.

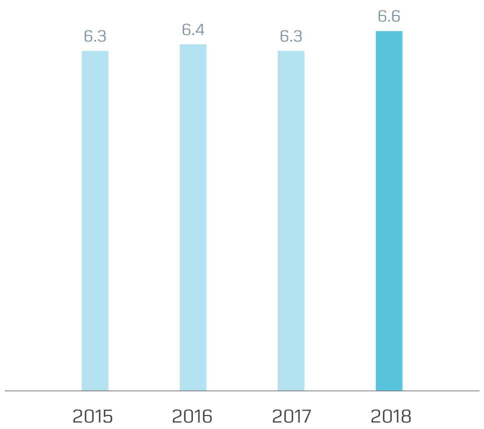
The operational strengths have positioned us as a drilling contractor of choice among E&P operators, enabling us to develop long-lasting customer relationships. For the year ended 31 December 2018, we recorded a customer satisfaction score of 6.6 (scale from 1-7).

With the strong customer relationships as foundation, we are further responding to the changes in the industry via business model and technological innovation with customers and partners. To further reduce inefficiencies and increase predictability for our customers, we pursue partnerships with other oilfield service providers in order to exploit new technologies such as sensory data, as well as new services and business models such as our alliance agreement with AkerBP.

Financial uptime



Customer satisfaction score



Scale 1 - 7

AkerBP alliance

Maersk Drilling signed an alliance with Aker BP in 2017 which aims at lowering the cost per barrel and increasing profitability for all alliance partners, including service partner Halliburton, through the implementation of digital solutions, increased collaboration efficiency, and standardisation and simplification of processes.

The alliance is formalised in a five-year agreement which includes an option to extend for an additional five years. Under this agreement, Maersk Drilling has a preferential but non-exclusive right to provide for Aker BP's jack-up rig requirements in Norway.

In addition to setting up shared goals and incentives, the alliance also aims to integrate project organisations, align safety procedures and create a one-team mind-set. Maersk Drilling is positioned to benefit from higher utilisation through preferential rights and higher revenue and profits due to a commercial model where savings are shared.

From left: Jørn Madsen, CEO of Maersk Drilling, Joe D. Rainey, President – Eastern Hemisphere at Halliburton, Karl Johnny Hersvik, CEO at Aker BP and Simen Lieungh, CEO at Odfjell Drilling

Maersk Drilling is fully committed to reducing well costs for our customers. We see great potential in a deeper collaboration across the industry to eliminate inefficiencies and create joint value.

Morten Kelstrup
Chief Commercial and Innovation Officer

Strategic ambition

Our principal goal is to create long-term value for our shareholders. To achieve this goal and maintain our leading position we will focus on cash flow generation from strong service delivery and operational effectiveness of our existing assets; and implementation of new services and business models. Further, we will explore investments in our core markets with proven competitive strengths, while remaining committed to maintaining a solid capital structure. A key fundamental for delivering on the strategic ambition is to have sufficient funding and flexibility to manage through the cycliality of the offshore drilling industry.

Strong service delivery and operational effectiveness

We aim to continuously enhance our service delivery and value proposition to our customers. Providing safe, reliable and efficient offshore drilling rig services to operators, with the objective of being the drilling contractor of choice in order to drive increased fleet utilisation, revenue and uptime. Further, we intend to drive operational effectiveness to remain cost competitive.

Safe operations are the foundation of Maersk Drilling's business, both in terms of our licence to operate and our ability to generate backlog and convert that into earned day rates. Maersk Drilling is increasing its ability to manage work in a safer manner by balancing "prevention/planning" to eliminate residual risk, "execution" to perform work safely and "recovery" to respond if something should go wrong.

As the total cost of a drilling campaign is a direct result of its overall duration, **reliability and efficiency** are critical factors in not just contractor selection, but also in determining whether a campaign is viable at all. The reliability of services is important, as any down-time of the rig (i.e. not being available to perform the work) directly causes non-productive time for the customer and thus increases the duration of the campaign and total costs. The efficiencies of our services is important due to its impact on reducing the overall time and cost of a drilling campaign.

Maersk Drilling intends to continue to distinguish ourselves by providing leading operational performance on safety, efficiency and reliability through a combination of its high-specification assets, operational excellence and innovation with partners across the value chain.

To maintain our competitive cost base, we target further innovative cost reduction measures without compromising safety, efficiency and reliability. Examples of this include: (1) within overhead and administration, pursuing further standardisation, automation and simplification; (2) within operational expenditures, revisiting crew composition and digitalisation efforts; and (3) within capital expenditures, investing in on-rig sensor networks and preventive maintenance to reduce maintenance expenditure on rigs.

New services and business model innovation

The most prominent challenges for our customers are the significant inefficiencies and unreliability caused by multiple suppliers and misaligned incentives between the various parties.

To drive better outcomes, we aim to combine our assets and leading offshore drilling services with new services and innovative business models together with customers and partners across the value chain. This, amongst others, by integrating new services into joint offerings as an integrated service provider with the objective of removing waste in the system through better orchestration and alignment of incentives with shared upside.

New services and business models can be seen as a continuum whereby we can offer from:

1) Providing a few additional services to customers with a similar commercial model as today,
2) Providing a larger array of additional services combined with a new commercial model with the intent to drive significant reduction in well delivery cost,
3) Taking ownership of the full well delivery and associated services, and being remunerated based on outcome to in turn drive significant cost reduction and increased predictability.

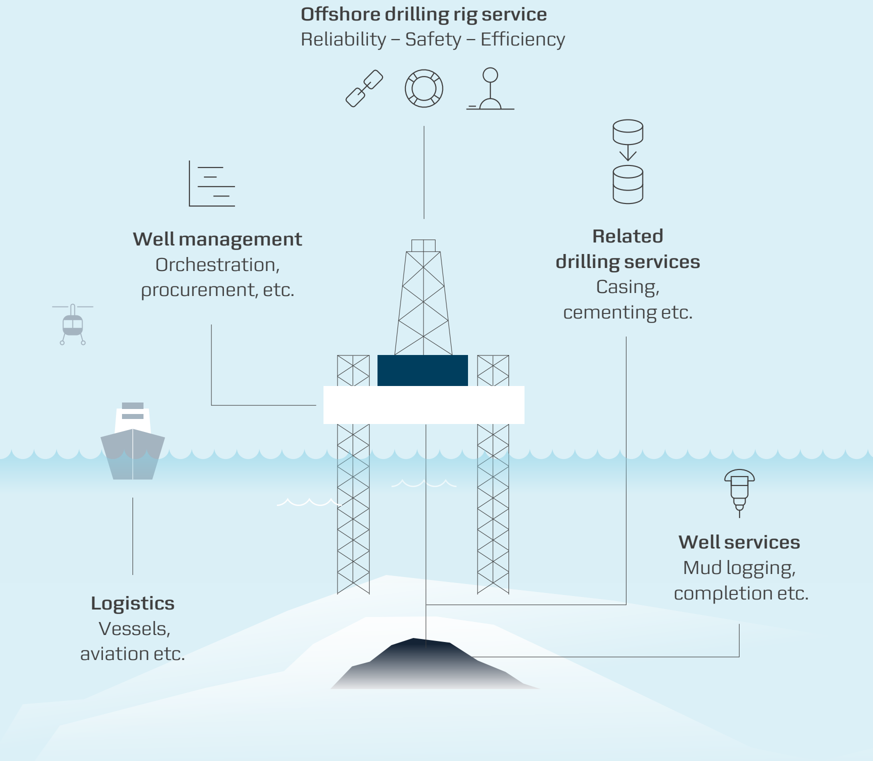
We are making progress on our strategic ambition with several contracts including not only the "standard" drilling service, but also an integrated offering with multiple service components such as cementing, casing running and remote operated vehicles, resulting in reduced inefficiencies for the customers and increased value for ourselves.

Besides the alliance with AkerBP (see page 21), we recently signed a master alliance agreement with Seapulse which aims at eliminating inefficiencies by aligning incentives and removing complexity across the entire value chain. Under the alliance we will provide fully integrated services, including provision of drilling rigs, related drilling services, well services, and other goods and services for a global offshore oil and gas exploration drilling programme of 12 wells with an expected duration of 490 days, spanning shallow water and deep-water wells in several regions.

In addition to offering integrated services, the ambition of exploring new innovative business models also offers value in the form of entry into new and untapped markets. An example of this is Maersk Decom A/S, which targets the decommissioning market in the North Sea. With Maersk Supply Service as joint venture partner, we aim at creating a new company that will help add backlog, profit and fleet utilisation. As field decommissioning is mandated by regulatory authorities, there will be a demand for an integrated solution by E&P companies.

Looking ahead to the longer term, the expansion into new business models is a key component of ensuring the longevity of our relationships with customers and thus ultimately the business itself. The exploration and deployment of new business models will enable long-term strategic optionality for Maersk Drilling by creating an innovative and agile growth platform off which new business can be explored and matured from a long-term growth and value perspective.

Integrated services



What — Expansion of Maersk Drilling's drilling rig service offering into new parts of the value chain to create a better outcome for the customers in form of improved efficiency and predictability of their well construction.

Why — Operators experience significant amount of inefficiencies and unpredictability primarily driven by the complexity of having a multitude of different service providers with misaligned incentives and poor interface management.

How — Offering a combined drilling rig offering and select new service scopes through a combination of in-house, partnering or sub-contracting.

Our performance

Financial performance in 2018

The result for 2018 was a profit of USD 941m (USD -1,522m) positively impacted by impairment reversals of USD 810m (impairment loss of USD -1,769m). EBITDA before special items was USD 611m (USD 683m), equal to an industry leading margin of 42.8% (47.5%).

Results

Revenue

Revenue for 2018 decreased by 1% to USD 1,429m compared with the previous year. The decrease in revenue from 2017 is mainly due to lower average day rates, especially in the floater segment, partly offset by higher utilisation. With an overall utilisation of 69% (66%), we have started to see the effect of higher activity with an increased number of tenders and projects.

Total number of contracted days increased to 6,024 from 5,553 in 2017, equal to an increase of 8.5%. The average day rate was 237 compared to 258 in 2017, reflecting the challenging market situation especially in the floater segment.

Costs

Operating costs comprising crew, maintenance, supplies, catering and insurance increased by 6.4% to USD 734m from USD 690m in 2017. The development is due to the higher activity and utilisation partly offset by the effect of the many cost saving initiatives implemented over recent years.

The costs associated with warm-stacked rigs are in general higher than those associated with cold-stacked rigs, but warm stacking strengthens the availability to respond to customer demand and has less costs and risks associated with reactivation of the rigs.

Sales, general and administrative costs increased to USD 84m in 2018 compared to USD 66m in 2017 as a result of new competences added to the organisation preparing to operate as a standalone listed company especially in areas previously maintained by A.P. Moller – Maersk such as treasury and investor relations. Further, to support the substantially increased tendering activities, additional resources were added to the commercial organisation, and investments were made in strengthening innovation capabilities as well as in developing new operational and business models facilitating Maersk Drilling's strategic ambitions.

USD million	2018	2017	2016
Revenue	1,429	1,439	2,297
Costs	818	756	916
EBITDA before special items	611	683	1,381
Margin	42.8%	47.5%	60.1%

EBITDA before special items

EBITDA before special items amounted to USD 611m (USD 683m), resulting in an EBITDA margin of 42.8% (47.5%). In 2016, EBITDA before special items of USD 1,381m included USD 345m in drilling contract termination payments, of which USD 175m related to settlement of day rates for the remainder of the original contract period in 2017.

Special items

Special items amounting to a cost of USD 16m (income of USD 2m) mainly comprise costs of separating Maersk Drilling from A.P. Moller – Maersk as well as transformation and restructuring projects partly offset by warranty compensations received from yards.

Impairment losses/reversals
Following the improved market outlook for offshore drilling with increased activity and improved long-term projections, parts of the prior-year impairment losses were reversed in 2018. The impairment reversals of net USD 810m related to both the jack-up and floater segment.

Financial income and expenses
Financial expenses, net decreased by USD 7m to USD 12m for the year ended 31 December 2018 as compared to USD 19m for the year ended 31 December 2017, primarily due to a reduction of interest expenses.

Tax
Tax changed from a USD 49m gain for the year ended 31 December 2017 to a USD 48m expense for the year ended 31 December 2018, primarily due to the impact of impairment losses and reversals on profit/loss before tax. Adjusted for impairment losses and reversals, the effective tax rate was 9.3% (8.8%).

Profit/loss for the year
The profit/loss for the year changed from a USD 1,522m loss for the year ended 31 December 2017 to a USD 941m profit for the year ended 31 December 2018, primarily reflecting the impacts from impairment losses and reversals.

Cash flows

Cash flow from operating activities
Cash flow from operating activities was USD 593m (USD 652m) equal to a cash conversion of 100% (95%). The cash conversion was positively impacted by reduced working capital and a reduction in taxes paid from USD 78m to USD 28m.

Cash flow used for investing activities
Cash flow used for investing activities was significantly reduced in 2018 to USD 136m (USD 448m), primarily due to 2017 being impacted by final yard instalment paid for delivery of the Maersk Invincible. The majority of 2018 capital expenditures relate to minor upgrades and periodic maintenance on floater units.

Adjusted free cash flow
With no newbuild cash flow in 2018 (USD 449m), ajdusted free cash flow equals cash flow from operating activities less cash flow used for investing activities. Adjusted free cash flow for 2018 amounted to USD 457m (USD 653m).

Cash flow from financing activities
Cash flow from financing activities was negative by USD 134m in 2018 (negative by USD 615m), impacted by the debt financing of USD 1.5bn drawn in December 2018 offset by settlement of balances with A.P. Moller – Maersk and cash dividend distribution of USD 1.3bn.

Capital structure and funding

Separation from A.P. Moller – Maersk
The composition of the balance sheet has significantly changed from 2017 to 2018 due to the separation from A.P. Moller – Maersk. Historically, Maersk Drilling has been funded by A.P. Moller – Maersk and excess funds placed in cash pools with A.P. Moller - Maersk. During 2018, debt financing of USD 1.5bn from a consortium of international banks was secured with proceeds used to settle balances with A.P. Moller – Maersk by means of cash payments and a combination of cash and non-cash dividends of USD 3.3bn.

Equity
At 31 December 2018, equity amounted to USD 3,810m compared to USD 6,209m at 31 December 2017, primarily impacted by the profit for the year of USD 941m and dividends to shareholders of USD 3,337m.

Net debt
At 31 December 2018, net debt amounted to USD 1,097m (net receivable of USD 1,809m), primarily comprising gross borrowings of USD 1,470m (USD 1,632m), loan receivables of USD 2m (USD 3,390m) and cash and bank balances of USD 372m (USD 49m). The leverage ratio (net debt to EBITDA before special items) was 1.8 at 31 December 2018, illustrating a solid capital structure with a high degree of financial flexibility which enables Maersk Drilling to manage through the business cycle of the drilling industry.

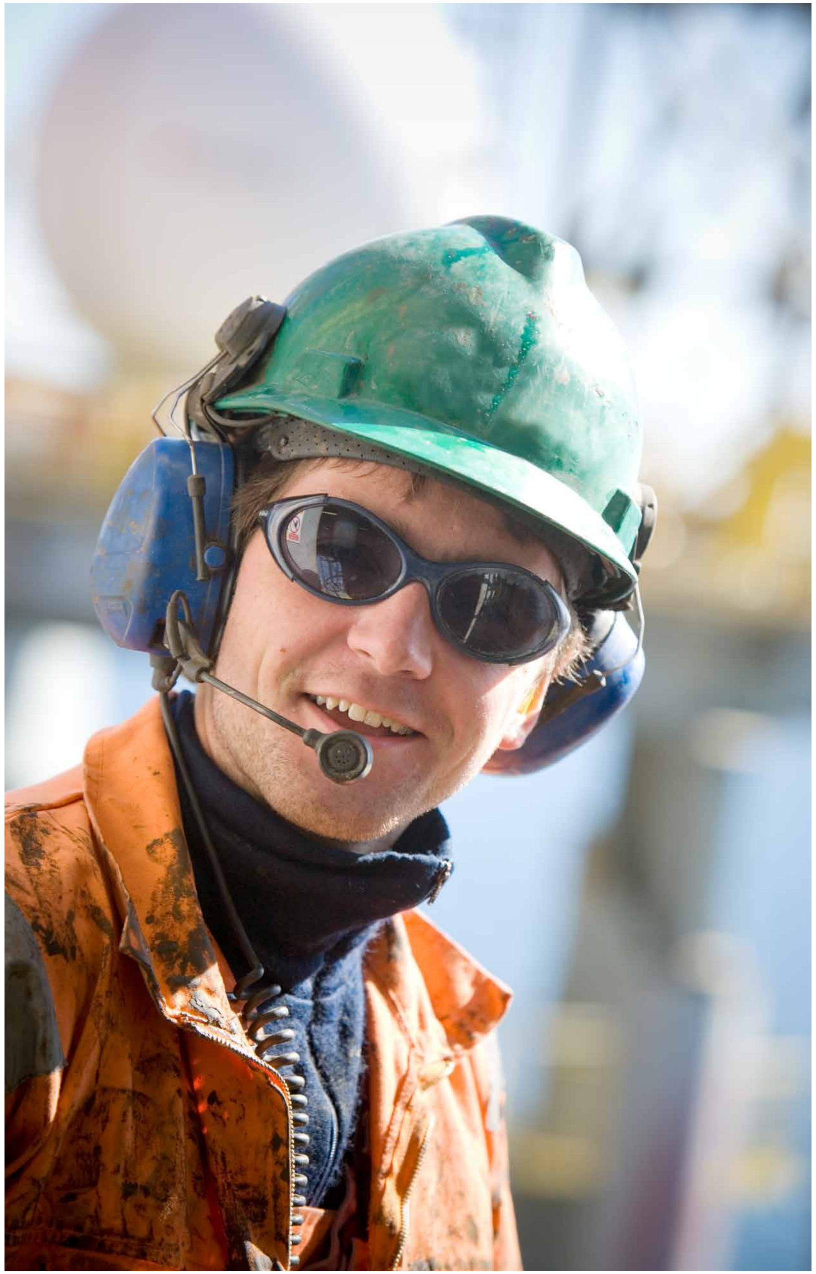
It is Maersk Drilling's policy to partly hedge interest rate risks using a model under which a larger proportion of risk is hedged in the short to medium term and a smaller proportion is hedged in the long-term. At 31 December 2018, the average fixed ratio of our gross debt was 52% for the whole term with 64% and 63% in 2019 and 2020, respectively.

At 31 December 2018, liquidity reserves amounted to USD 772m, comprising cash and bank balances of USD 372m and an undrawn revolving credit facility of USD 400m.

611m
43%
margin
EBITDA before special items (USD)

182m
Capex
(USD)

Free cash flow of
457m
(USD)



Revenue backlog

At 31 December 2018, Maersk Drilling has a revenue backlog of USD 2.5bn (USD 3.3bn) with a forward contract coverage of 63% for 2019 and 37% for 2020.

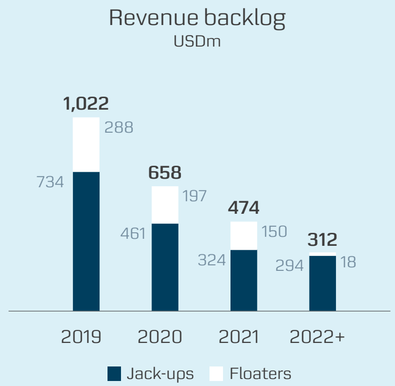
New contracts and extensions signed in 2018 added USD 0.4bn to the jack-up revenue backlog and USD 0.1bn to the floater revenue backlog. The average backlog day rates are for both segments increasing over the coming years reflecting an expected improvement in the market fundamentals.

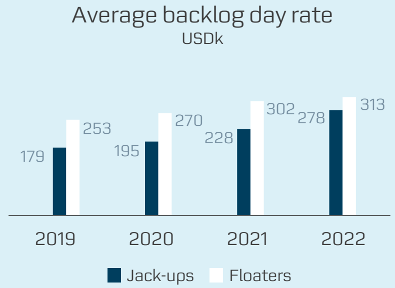
The revenue backlog and forward contract coverage are significantly higher in the jack-up segment than in the floater segment, especially for rigs with a Norwegian AoC certificate.

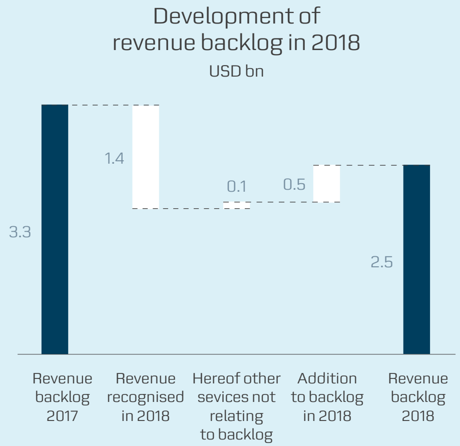
For the continued challenged floater segment the level of backlog and related average day rates reflect the strategy of not entering into long-term contracts at the current relatively low day rates.

As of 7 February 2019, we have one cold-stacked jack-up in Singapore, three warm-stacked rigs and three rigs preparing for contracts.

Details on current and future contract status for our rig fleet are provided in our fleet status report dated 7 February 2019 and included on page 91.







Segment performance Jack-up

Revenue

Revenue within the jack-up segment was positively affected by more days on contract leading to an increased utilisation of 73% (71%). However revenue remained broadly unchanged at USD 896m (USD 890m) due to Mærsk Innovator being on contract in the UK instead of Norway, partly offset by Maersk Invincible being on contract all of 2018. The average jack-up day rate decreased to USD 213t (USD 227t) mainly due to Mærsk Innovator moving from Norway to the United Kingdom.

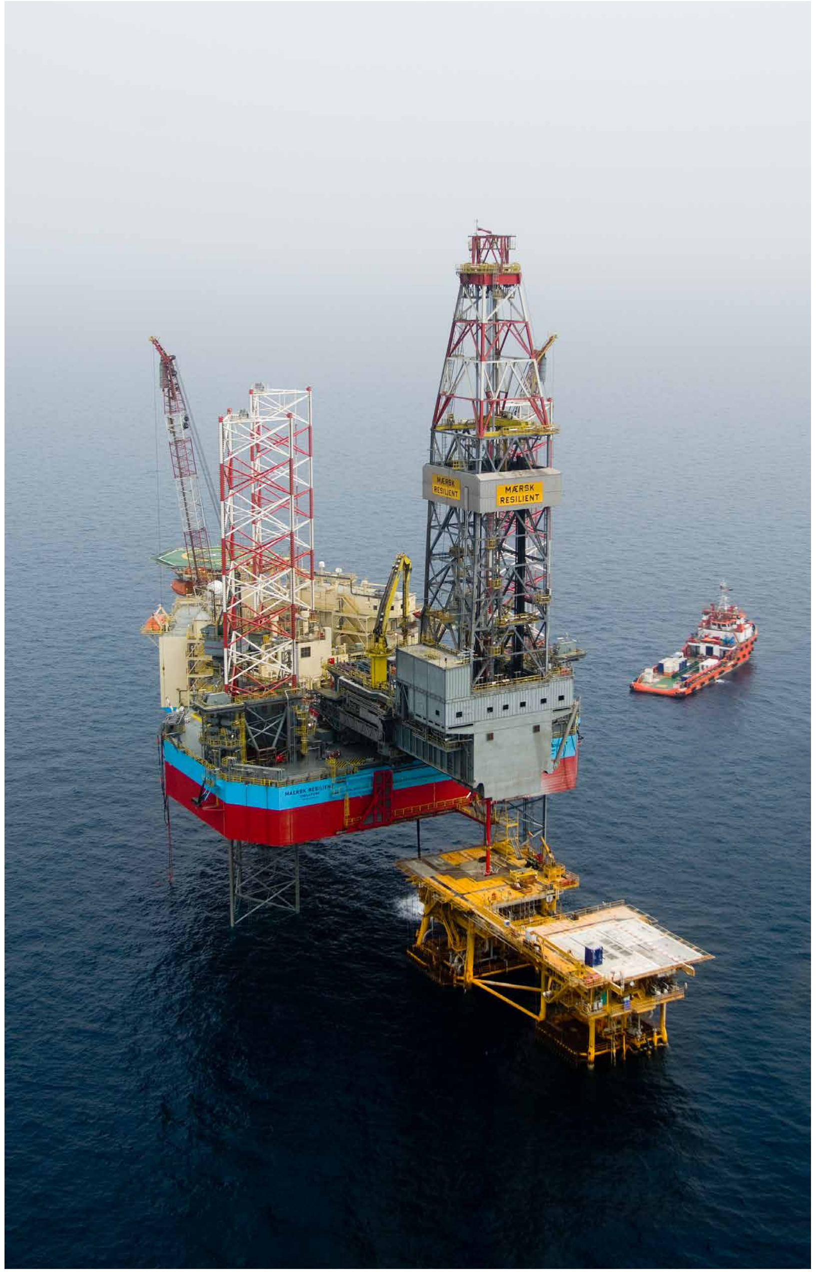
EBITDA before special items

EBITDA before special items came out slightly lower at USD 459m (USD 473m) due to higher operating costs, mainly from Maersk Invincible being on contract in Norway all of 2018, partly offset by general cost savings. The EBITDA margin for the jack-up segment was a consistent high 51.2% (53.1%).

Depreciation and amortisation

Depreciation and amortisation of USD 193m (USD 226m) were impacted by prior-year impairment losses.

USD million	2018	2017	2016
Revenue	896	890	1,012
Costs	437	417	467
EBITDA before special items	459	473	545
Margin	51.2%	53.1%	53.9%



Segment performance Floaters

Revenue

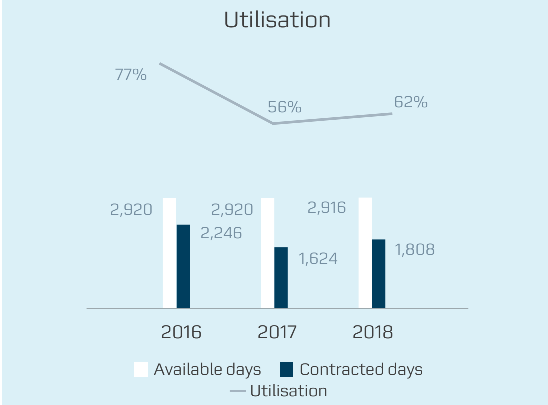
Revenue within the floater segment of USD 530m (USD 541m) was negatively affected by the completion of the Maersk Viking contract in the Gulf of Mexico in early 2018, but partly offset by more contracted days from the Maersk Venturer contract in Ghana and the Mærsk Developer contract in Trinidad. Utilisation increased to 62% from 56% in 2017 while the average floater day rate decreased to USD 293t (USD 333t) due to completion of legacy contracts.

EBITDA before special items

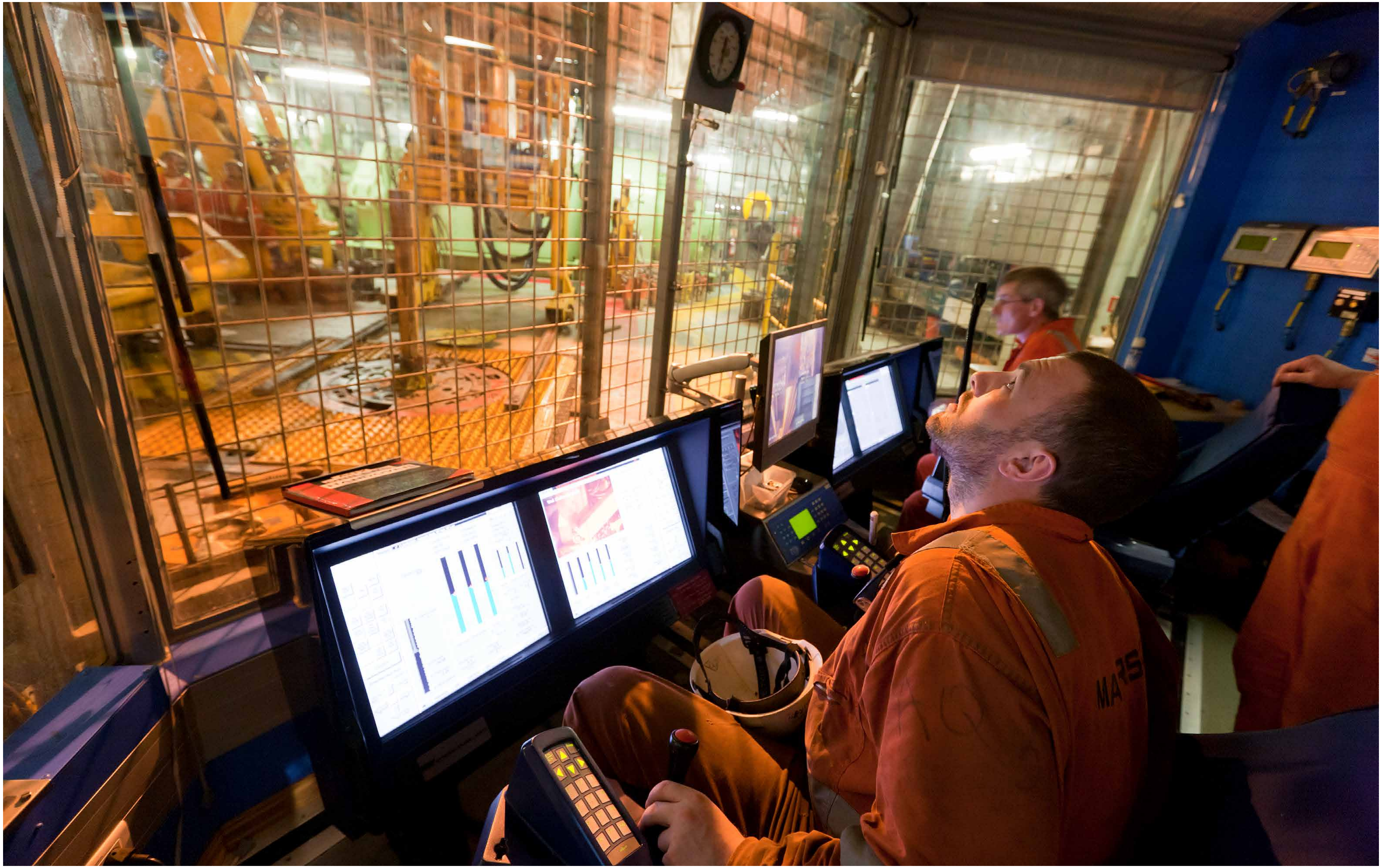
EBITDA before special items of USD 163m (USD 209m) was impacted by the lower revenue and higher costs of USD 38m from the Maersk Venturer start-up as well as operating costs for contracts in Ghana for ENI and Mærsk Developer operating in Trinidad, partly offset by general cost savings. The EBITDA margin for the floater segment was 30.8% (38.6%).

Depreciation and amortisation

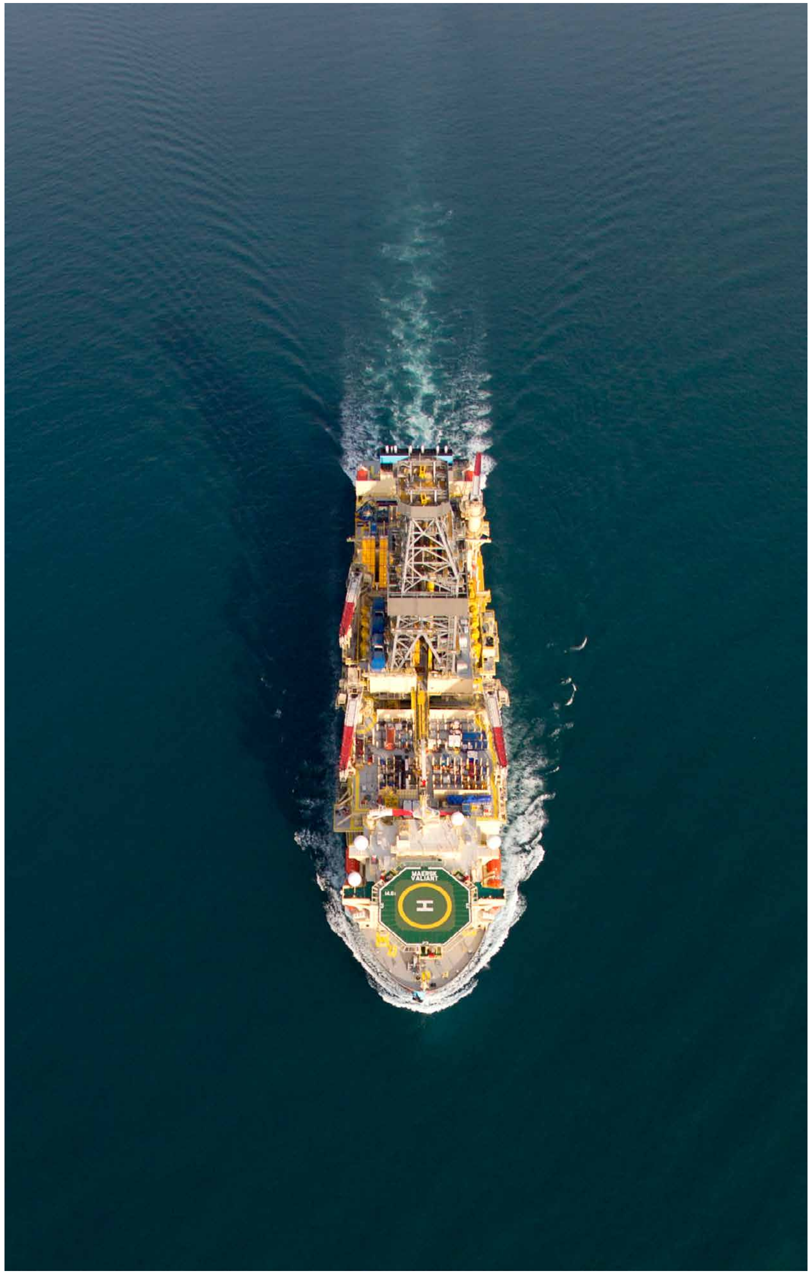
Depreciation and amortisation of USD 196m (USD 229m) were impacted by prior-year impairment losses.



USD million	2018	2017	2016
Revenue	530	541	1,266
Costs	367	332	434
EBITDA before special items	163	209	832
Margin	30.8%	38.6%	65.7%



Guidance for 2019



For 2019, we expect profit before depreciation and amortisation, impairment losses/reversals and special items (EBITDA before special items) around USD 400m.

Capital expenditures are expected to be in the level of USD 300-350m, primarily comprising rig upgrades and yard stays in connection with special periodic surveys for 7-10 rigs (2018: 4 rigs). Final scheduling and scoping of rig upgrades and yard stays are subject to commercial and operational planning.

Expectations for EBITDA before special items in 2019 are below 2018, primarily due to impact of the increased number of yard stays mentioned above resulting in reduced contracted days as well as lower day rates for certain rigs primarily in the floater segment coming off historic contracts.

As set out in the market section we expect improved market fundamentals longer term with increased utilisation and higher day rates.

Sensitivity guidance

The 2019 guidance is sensitive to the level of contracting of additional days to the current backlog and the day rates thereon. The table below lists two additional sensitivities, all else being equal.

Factors	Change	Impact on EBITDA before special items
Financial uptime	+/- 1.0%-point	+/- USD 13 m
USD/DKK exchange rate	+/- 5.0%	+/- USD 4 m

Governance and risk

Corporate governance

Good corporate governance is essential to Maersk Drilling. As a wholly owned subsidiary of A.P. Møller – Mærsk A/S, the governance structure of Maersk Drilling is today an integrated part of the A.P. Moller – Maersk Group's governance structure, which promotes the objectives of:

- Early identification of opportunities and challenges
- Efficient processes for informed decision-making
- Agile planning and fast execution
- Sound controls and clear allocation of authorities and responsibilities.

The core values of A.P. Moller – Maersk are engrained in Maersk Drilling's way of conducting its business and will continue to be so after the demerger and separate listing of Maersk Drilling. These core values have remained guiding principles for employees and leaders for over a century.

Governance structure
The governing body of Maersk Drilling Holding A/S is the General Meeting, at which the shareholders exercise their rights. These rights are exercised at the General Meeting through shareholder decisions, such as the election of Board members and external auditors of the Company, approval of the Annual Report and Articles of Association.

The management structure of Maersk Drilling Holding A/S consists of the Board of Directors and the Executive Management. The Board of Directors is responsible for the overall management, strategic direction and the supervision of the Executive Management who carries out the day-to-day management of the Company together with a wider Senior Management Team.

Following a separate listing of Maersk Drilling in 2019 it is expected that the Board of Directors will establish a corporate governance set-up as set out on the following pages.

Our five core values

Constant care

Take care of today, actively prepare for tomorrow

Forward thinking, planning and execution. Being informed, innovative and seeking out new ideas. Looking for changes in the environment

Our employees

The right environment for the right people

Attracting and retaining the right people, building the right team. Providing opportunities for continual development. Rewarding performance, promoting for potential

Humbleness

Listen, learn, share, and give space to others

Showing trust and giving empowerment. Having an attitude of continuous learning. Never underestimating our competitors or other stakeholders

Our name

The sum of our Values: passionately striving higher

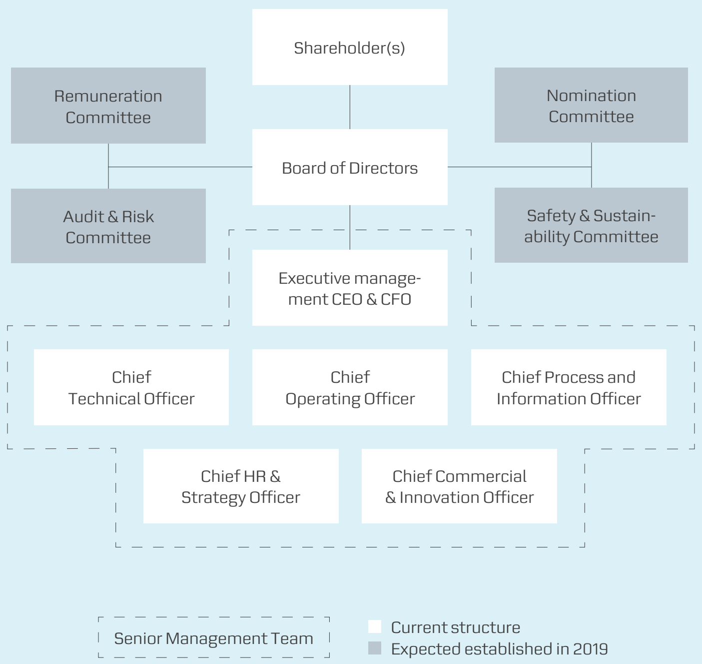
The embodiment of our values. Passion and pride for what we do and how we do it. Our image in the eyes of our customers and the external world

Uprightness

Our word is our bond

Honesty and accountability. Openness about the good and the bad. Speaking your mind in the debate, but backing the decision

Our corporate governance structure



Corporate governance principles and recommendations

Upon completion of the demerger, the Board of Directors of Maersk Drilling will adopt a set of corporate governance principles that will make up Maersk Drilling's corporate governance policy with effect from the date and official listing on Nasdaq Copenhagen. Maersk Drilling's corporate governance statement will upon adoption be available on its website.

Board of Directors

The General Meeting elects the members of the Board of Directors. Board member biographies can be found on page 86 under Additional information.

The Board of Directors shall annually revise and update the overall strategy, business and action plan of Maersk Drilling and approve the annual budget for the next financial year. The Board of Directors must annually perform a self-assessment to assess the competencies of the Board of Directors and its individual members and assess the Board of Directors' performance and achievements.

Outline of responsibilities:
- Lay down general business and management principles of the Company
- Decide strategy and risk policies for the Company
- Supervise the performance of the Company, the Executive Management and secure the proper organisation of the Company
- Review the Company's financial position, capital resources and reporting on financials and performance
- Appoint members of the Executive Management.

The Board of Directors will convene at least seven times per year.

Executive Management

The Executive Management is appointed by the Board of Directors and consists of Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

The Executive Management biographies can be found on page 89 under Additional information.

The Executive Management is responsible for Maersk Drilling's day-to-day management of the Company in accordance with the directions provided by the Board of Directors, comprising:

- Develop the business and submit strategy proposals to the Board of Directors for decision
- Implement the strategy for the Company and execute on investments and divestments
- Develop the organisational structure of the Company and allocate resources
- Drive and monitor the performance of the Company
- Prepare internal and external financial reporting
- Monitor and plan capital resources and liquidity
- Establish internal policies and procedures for relevant topics such as accounting, finance, IT, etc.
- Oversee Enterprise Risk Management
- Report to the Board of Directors.

Establishment of board committees

The Board of Directors is expected to establish an Audit & Risk Committee, a Remuneration Committee, a Nomination Committee and a Safety & Sustainability Committee in 2019 in connection with the completion of the demerger and separate listing of Maersk Drilling.

Audit & Risk Committee

Once established, the Audit & Risk Committee will consist of Kathleen McAllister as chairman and Martin Larsen and Robert Routs as members.

The tasks of the Audit & Risk Committee will include:

- Monitor the financial reporting process and submit recommendations to ensure its integrity. This includes verifying compliance with existing legislation, standards and other regulations for listed companies relating to presentation and publication of financial reporting
- Monitor whether Maersk Drilling's internal control system, internal audit, if any, and risk management systems function effectively
- Monitor the statutory auditing of the annual financial statements, etc., taking into account the outcome of the most recent quality control of the auditor
- Monitor and review the independence of auditors, including in particular the supply of non-audit services to Maersk Drilling
- Being responsible for the procedure for selecting and making recommendations to the Board of Directors concerning election of auditors
- Inform the entire Board of Directors of the outcome of the statutory audit, including the process for presentation of accounts.

The Audit & Risk Committee will hold a minimum of five meetings annually.

Nomination Committee

Once established, the Nomination Committee will consist of Robert M. Uggla as chairman and Claus V. Hemmingsen as member.

The tasks of the Nomination Committee will include:

- Continuously assess the Board of Directors' relevant competencies. As part of this, the Nomination Committee annually issues a recommendation to the Board of Directors
- Propose a competence profile for the Board of Directors, in which the Committee lists suitable criteria for selection of Board members
- Ensure that the performance and results of the Board of Directors as a whole and its individual members, along with the Board's collaboration with the Executive Management, are evaluated and the findings of such evaluation are presented for discussion to the Board of Directors
- Continuously assess the composition, expert knowledge and experience of the Executive Management, along with the performance and results of its duties, and issue recommendations to the Board of Directors on any need for changes in the Executive Management
- Ensure that succession plans exist for the Executive Management, including considering the adequate size of the Executive Management.

The Nomination Committee will hold a minimum of two meeting annually.

Remuneration Committee

Once established, the Remuneration Committee will consist of the Claus V. Hemmingsen as chairman and Robert M. Uggla and Robert Routs as members.

The Remuneration Committee is primarily responsible for:

- Review of the Remuneration Policy for the Board of Directors and the Executive Management
- Evaluate and make recommendations for remuneration of the Board of Directors and the Executive Management
- Review of the compensation levels for senior management as recommended by the CEO
- Review of the general incentive framework for all employees and the implementation thereof
- Preparation and review of documents and disclosures regarding remuneration for purposes of the annual report and general meetings.

The Committee will hold a minimum of three meetings annually.

Safety & Sustainability Committee

Once established, the Safety and Sustainability Committee will consist of Claus V. Hemmingsen as chairman and Robert Routs and one more director as members.

The tasks of the Safety and Sustainability Committee will include:

- Assist the Board of Directors with fulfilling its responsibilities to oversee the identification, management, and mitigation of risks, including related policies, activities and management systems, associated with

(i) matters of corporate social responsibility, including specifically those matters which are required to be reported annually according to Danish law, including environmental and climate matters, social and employee matters, respect for human rights, anti-corruption and bribery matters; and
(ii) health, safety, security and environment.

The Safety and Sustainability Committee will hold a minimum of two meeting annually.

Gender composition of management

Please refer to our full report on sustainability and gender composition of management pursuant to sections 99a and b of the Danish Financial Statements Act online at http://maersk-drilling-cms.prod.umw.dk/media/1728/md-sustainabilityreport-2018.pdf

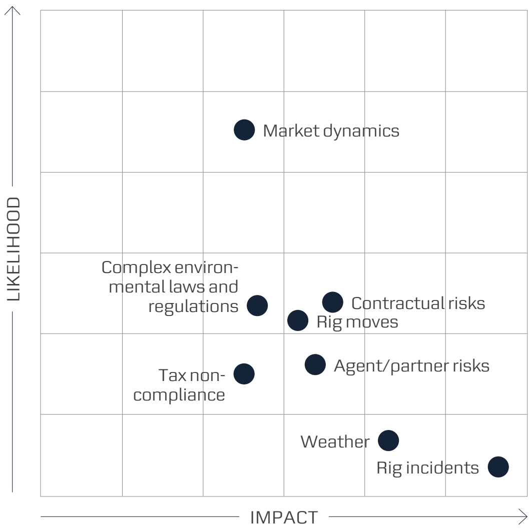
Risk management

The objective of Maersk Drillings' risk management is to contribute to the fulfilment of the strategy by ensuring that risks are identified, assessed, reported, monitored and addressed to in a way that is aligned with the business operations, objectives and risk appetite.

The processes are structured through an Enterprise Risk Management framework (ERM), setting forth the necessary elements for having coordinated actions and alignment among the various stakeholders with regard to addressing key enterprise risks.

The Executive Management regularly assesses the risk register to address mitigation and contingency planning activities. Risks are reported to the Board of Directors on a regular basis, and key risks are reported annually to external stakeholders in the annual report.

Maersk Drilling's significant risks and their potential impact are listed below. Each risk is further described on the following pages together with the mitigation activities.



Risk management structure

Maersk Drilling's ERM framework is based on four elements; Risk Principles, Risk Governance, Risk Communication and Risk Processes.

Rig incidents

RISK DESCRIPTION	RISK MITIGATION
Offshore drilling requires use of heavy equipment and exposure to hazardous conditions which carry inherent health and safety risks. Maersk Drilling's operations are therefore subject to hazards inherent in drilling for oil and natural gas, such as blowouts, reservoir damage, loss of production, loss of well control, punch through, lost or stuck drill strings, equipment defects, craterings, fires, explosions and pollution. Maersk Drilling's operations are also subject to hazards inherent in marine operations, such as capsizing, grounding, navigation errors, collision, oil and hazardous substance spills, extensive uncontrolled fires and marine life infestations. Such hazards would first and foremost present a risk to the safety of people as well as potentially to the environment. Additionally, it could result in a large-scale impact on assets, liquidity position and reputation and could put the licence to operate at risk.	The risks associated with operational accidents are mitigated through safety and maintenance standards, response preparedness, continuous training and rigorous monitoring. In addition to operational activity mitigations, our drilling contracts provide for varying levels of indemnity and allocation of liabilities between our customers and us. Also, people, assets and activities remain comprehensively insured against personal injuries, physical damage and liabilities.

Rig moves

RISK DESCRIPTION	RISK MITIGATION
The offshore drilling market is a global market as rigs can relocate and operate in various environments. However, mobilisation of rigs is expensive and time-consuming and can be impacted by several factors, including weather and currents. When mobilising a rig, additional risks are introduced, such as risk of collision, loss of tow, loss of stability/water tight integrity, mooring line failure and anchor dragging, which can cause human fatalities, damage to the rig or other units.	Maersk Drilling mitigates the risks associated with rig moves through timely preparation of the mobilisation, which includes extensive processes and completion of checklists. Towmasters are included in the rig move planning procedures, and we ensure that a sufficient number of towmasters are on board for each rig move.

Market dynamics

RISK DESCRIPTION	RISK MITIGATION
The offshore drilling industry is highly competitive, and profitability is strongly impacted by development in rig supply and drilling demands. The offshore drilling industry is volatile and cyclical, which is largely a result of changes in oil and natural gas prices and their impact on exploration and production company expenditures. Periods of low drilling demand and excess rig supply intensify competition in the industry and may result in rigs being idle or earning substantially lower day rates than the historical average for long periods of time. Additionally, general contractual terms and conditions are under pressure during periods of low industry activity, potentially further reducing the commercial value of available rig contracts.	Maersk Drilling mitigate the risks associated with low demand through a high focus on customers and their requirements and a well invested fleet of modern and technologically advanced drilling rigs. Maersk Drilling is also focused on co-developing new compensation and business models with customers. During the market downturn, Maersk Drilling has adopted a warm stacking strategy to its fleet, enabling shorter time for reactivation and lower risks in reactivation to meet customer demands and keep utilisation high.

Contractual risk

RISK DESCRIPTION	RISK MITIGATION
Maersk Drilling may be subject to the risk of its customers seeking to terminate or renegotiate their contracts due to non-compliance on pur part with the terms and conditions of the contract. Additionally, there is a risk of customers seeking to move liability risks onto Maersk Drilling, especially during market downturns, which can lead to less favourable terms and conditions for Maersk Drilling.	Contractual risks are addressed during the negotiation of new contracts or re-negotiation of existing contracts, where significant efforts are undertaken to ensure contracts leave minimal opportunity for termination or the impact on us from termination will not be a significant financial loss.

Weather

RISK DESCRIPTION	RISK MITIGATION
Some of our drilling rigs are located in areas that frequently experience hurricanes and other forms of severe weather conditions which can cause damage or destruction to the drilling rigs. Further, high winds and turbulent seas could cause suspension of the operations, and revenue, on drilling rigs for significant periods of time.	Maersk Drilling has put in place shutdown, moving and down-manning procedures in case of severe weather conditions. Additionally, in order for Maersk Drilling to secure a high level of safety, tests of processes are conducted at regular intervals for rigs operating in risk areas.

Complex environmental laws and regulations

RISK DESCRIPTION	RISK MITIGATION
Maersk Drilling 's operations are subject to a variety of laws, regulations and requirements in multiple jurisdictions controlling the discharge of various materials into the environment, requiring removal and clean-up of materials that may harm the environment, controlling carbon dioxide emissions or otherwise relating to the protection of the environment. In general, the laws and regulations protecting the environment are becoming increasingly numerous, stringent and complex. Failure to comply with applicable environmental laws and regulations or to obtain or maintain necessary environmental permits or approvals or even an accidental spillage of oil or other hazardous substances in connection with the operations could subject Maersk Drilling to significant administrative and civil fines and penalties, criminal liability, remediation costs for natural resource damages, third-party damages and material adverse publicity, or may result in the suspension or termination of operations.	We are committed to doing business in accordance with applicable regulatory standards and have adopted policies and procedures which are designed to promote legal and regulatory compliance. In accordance with industry practice, Maersk Drilling's customers typically take primary responsibility for any environmental pollution as a result of the customer's use of the drilling rigs under the contracts, and Maersk Drilling typically assumes liability for pollution originating from its own equipment. Maersk Drilling has generally been able to obtain some degree of contractual indemnification pursuant to which its customers agree to hold harmless and indemnify Maersk Drilling against liability for pollution, well and environmental damage. Generally in the oil and natural gas services industry, there is, however, increasing pressure from customers to pass on a larger portion of the liabilities to contractors, such as Maersk Drilling, as part of their risk management policies.

Agent/partner risk

RISK DESCRIPTION	RISK MITIGATION
Maersk Drilling relies on third-party suppliers to provide parts, crew and equipment. The reliance on third-party suppliers, manufacturers and service providers used in the drilling operations exposes us to these partners not adhering to company values and/or corporate policies and exposes us to volatility in the quality, price and availability of such items, especially where the number of suppliers are limited.	Maersk Drilling seeks to mitigate the risks associated with partners not adhering to company values and/or corporate policies through due diligence procedures, including termination clauses in contracts and assigning clear roles and responsibilities with partners. Additionally, constant awareness of partners and educating partners on our values and corporate policies mitigate these risks. Maersk Drilling also seeks to ensure we have good working relationships with multiple suppliers to reduce the risks of over-reliance on single suppliers.

Tax non-compliance

RISK DESCRIPTION	RISK MITIGATION
Maersk Drilling operate worldwide, which entails an inherent tax risk with respect to regulatory tax compliance, including corporate taxes, value added taxes and excise duties, as well as withholding taxes and taxes regarding specific rig taxation, and allocation between jurisdictions hereof. As tax laws are complex and subject to interpretation, there is a risk that these interpretations could affect the taxes Maersk Drilling pays in various jurisdictions. Maersk Drilling's tax positions are also subject to audit by relevant tax authorities who may disagree with our interpretations or assessments of the effects of tax laws, treaties or regulations, or their applicability to Maersk Drilling's corporate structure or certain of the transactions undertaken.	Tax-related risks are mitigated by an upright approach, collaboration with authorities in respect of investigations and enquiries as well as ensuring that the necessary competencies and an efficient organisation of specialists are in place to best meet the requirements and tax regulations relevant to operations. Tax exposures are monitored systematically on an ongoing basis.

Sustainability

At Maersk Drilling, we firmly believe that, by conducting our operations through sustainable practices, we ensure a sound and viable business for the future. We have a responsibility to the people who work for Maersk Drilling, but also to the people and the environment which are affected by our company.

Our major focus area is safety, but we also put much effort into the areas of local content as well as environment and climate.

Responsible Business relates to how we conduct business overall. Our interaction with third parties, our strong focus on anti-corruption and legal compliance, our commitment to the security of our employees, anyone physically present at a Maersk Drilling facility, assets, operations and our commitment only to engage with suppliers who live up to our high standards of business ethics, human rights and environmental considerations are managed through our Responsible Procurement programme.

Please refer to our full report on sustainability and diversity pursuant to sections 99a and 99b of the Danish Financial Statements Act online at http://maersk-drilling-cms.prod.umw.dk/media/1728/md-sustainabilityreport-2018.pdf

Key priorities set out in the sustainability report

Safety

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

Environment & climate

We aim to minimise the environmental footprint of our drilling activities, working systematically to prevent major environmental accidents, minimising spills to sea and reducing waste and the use of hazardous chemicals. Through partnerships with our customers, we are working to find new innovative and commercially viable solutions to reduce the carbon footprint in the oil and gas supply chain. We work with our customers, local communities and internationally recognised bodies to ensure that environmental factors are integrated into our business principles and into our operational practices.

Our people

We develop our people and provide opportunities for healthy personal and professional growth for everyone employed, onshore as well as offshore. We are committed to respecting and promoting human rights in our daily operations – for our employees, contractors and in our supply chain.

Local content

For us, an operation has to be mutually beneficial to the operator, the country in which we operate and Maersk Drilling to be a true success. Training and developing the talent of local employees, building capacity of local suppliers as per our code of conduct and transferring knowledge to local communities 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.

Remuneration

As part of A.P. Møller – Mærsk A/S' demerger, it is proposed that the General Meeting approves the Remuneration Policy applicable to the Board of Directors and the Executive Management of Maersk Drilling. The description below is a high-level summary of the proposed Remuneration Policy for Maersk Drilling after separation and separate listing.

The Remuneration Policy includes the overall guidelines on incentive pay for the Board of Directors and the Executive Management in accordance with section 139 of the Danish Companies Act and the Recommendations for corporate governance.

The proposed Remuneration Policy promotes the overall objectives of:

- ensuring alignment of interests between the Board of Directors, the Executive Management and shareholders
- attracting and retaining qualified members of the Board of Directors and the Executive Management
- constantly maintaining the motivation of both the Board of Directors and the Executive Management for achieving the Group's strategic long- and short-term targets
- promoting value creation for the benefit of the shareholders.

Board of Directors

Each ordinary member of the Board of Directors will receive a fixed annual base fee, while the Chairman and the Vice Chairman receive fixed multiples of the fixed annual base fee. Participation in a board committee entitles a board member to an additional fixed annual fee based on a proportion of the fixed annual base fee. Members of the Board of Directors and the board committees do not receive any incentive or share-based pay. The fee levels are based on comparison with companies of comparable size and complexity based in Denmark and in Europe.

Executive Management

Remuneration of the members of the Executive Management will be laid down by the Board of Directors based on recommendations from the Remuneration Committee. The remuneration of the Executive Management is reassessed annually and compared to that of other international companies of similar size and complexity.

The remuneration and benefits package for the Executive Management will consist of:

- Fixed pay: A fixed annual cash salary.

- Annual bonus: A short-term cash incentive based on the achievement against the targets established.

- Long-term incentive: A share-based incentive scheme is offered to incentivise long-term performance, commitment and retention of the members of the Executive Management, as well as to promote alignment of their interests with the shareholders. All long-term incentives shall have a vesting or maturity period of at least three years from the relevant grant date. The Executive Management will not be able to sell any shares vesting until the total period from grant is five years, i.e. an additional "Holding Period" of two years in addition to the three-year "Vesting Period". The Executive Management will also be subject to a share ownership requirement of twice the annual long-term incentive grant level applicable.

- Transition of long-term incentives: To ensure the Executive Management has an equity interest in the Company from the date of the demerger, they will be required to forfeit all unvested A.P. Møller – Mærsk A/S shares and share options as of 1 January 2019. The Executive Management will instead receive restricted share units in Maersk Drilling.

- Termination benefits: The period of notice applicable to the Executive Management is 12 months for the employer and 6 months for the executive. In addition to company notice, the Executive Management is entitled to a severance payment of up to 6 months' fixed pay at the time of termination.

Remuneration of executives in 2018

Further information on remuneration, share-based and other incentive schemes for 2018 is set out in notes 1.3 and 4.3 in the consolidated financial statements.

Financials

Consolidated financial statements 2018

Amounts in USD million

Consolidated income statement

	Note	2018	2017	2016
Revenue	1.1, 1.2	1,429	1,439	2,297
Costs	1.3	-818	-756	-916
Profit before depreciation and amortisation, impairment losses/reversals and special items		**611**	**683**	**1,381**
Special items	1.4	-16	2	16
Profit before depreciation and amortisation and impairment losses/reversals		**595**	**685**	**1,397**
Depreciation and amortisation	2.1, 2.2	-403	-468	-589
Impairment losses/reversals	2.3	810	-1,769	-1,510
Share of results in joint ventures		-1	-	-
Profit/loss before financial items		**1,001**	**-1,552**	**-702**
Financial expenses, net	1.5	-12	-19	-89
Profit/loss before tax		**989**	**-1,571**	**-791**
Tax	1.6	-48	49	1
Profit/loss for the year		**941**	**-1,522**	**-790**
Earnings per share, USD[1]		**1,882**	**-3,044**	**-1,580**
Diluted earnings per share, USD[1]		**1,882**	**-3,044**	**-1,580**

[1] Refer to the consolidated statement of changes in equity.

Consolidated statement of comprehensive income

	Note	2018	2017	2016
Profit/loss for the year		**941**	**-1,522**	**-790**
Cash flow hedges:				
Value adjustment of hedges for the year	3.6	-5	7	-2
Reclassified to income statement		2	-3	1
Total items that have or will be reclassified to the income statement		**-3**	**4**	**-1**
Actuarial gains/losses on defined benefit plans, etc.		-	-4	2
Total items that will not be reclassified to the income statement		**-**	**-4**	**2**
Other comprehensive income, net of tax		**-3**	**-**	**1**
Total comprehensive income for the year		**938**	**-1,522**	**-789**

Consolidated cash flow statement

	Note	2018	2017	2016
Profit/loss before financial items		1,001	-1,552	-702
Depreciation, amortisation and impairment losses/reversals, net	2.1, 2.2	-407	2,237	2,099
Gain on sale of non-current assets, etc., net		-	-	1
Change in working capital	4.1	11	53	58
Change in provisions, etc.		16	-8	-1
Taxes paid, net		-28	-78	-92
Cash flow from operating activities		**593**	**652**	**1,363**
Purchase of intangible assets and property, plant and equipment	4.1	-155	-508	-338
Sale of intangible assets and property, plant and equipment		21	-	10
Sale of subsidiaries and activities		-	60	-
Other financial investments, net		-2	-	-
Cash flow used for investing activities		**-136**	**-448**	**-328**
Financial income received		47	38	16
Financial expenses paid		-63	-70	-74
Proceeds from/(repayment of) borrowings, net	2.7	1,208	-583	-541
Dividends distributed		-1,326	-	-
Cash flow from financing activities		**-134**	**-615**	**-599**
Net cash flow for the year		**323**	**-411**	**436**
Cash and bank balances 1 January		49	460	44
Currency translation effect on cash and bank balances		0	0	-20
Cash and bank balances 31 December		**372**	**49**	**460**

Cash and bank balances at 31 December 2018 include USD 0m (2017: USD 16m / 2016: USD 24m) that relates to cash and bank balances in countries with exchange control or other restrictions. These funds are not readily available for general use by Maersk Drilling.

Amounts in USD million

Consolidated balance sheet at 31 december

Assets	Note	2018	2017	2016	1 January 2016
Intangible assets	2.1	**56**	**85**	**109**	**36**
Property, plant and equipment	2.2, 2.3	**4,845**	**4,270**	**5,974**	**7,840**
Financial non-current assets, etc.		**3**	**2**	**31**	**43**
Deferred tax	2.4	**2**	**20**	**16**	**22**
Total non-current assets		4,906	4,377	6,130	7,941
Trade receivables	3.5	339	297	288	434
Loans receivable	2.7	2	3,390	4,134	3,395
Other receivables	2.5	37	60	96	88
Prepayments	2.6	58	79	101	126
Receivables, etc.		**436**	**3,826**	**4,619**	**4,043**
Cash and bank balances		**372**	**49**	**460**	**44**
Total current assets		**808**	**3,875**	**5,079**	**4,087**
Total assets		**5,714**	**8,252**	**11,209**	**12,028**

Equity and liabilities	Note	2018	2017	2016	1 January 2016
Share capital		87	87	87	87
Reserves		3,723	6,122	8,170	8,229
Dividend proposed for the year		-	-	500	-
Total equity		**3,810**	**6,209**	**8,757**	**8,316**
Borrowings, non-current	2.7	**1,375**	**-**	**1,939**	**2,619**
Provisions	2.8	2	2	1	7
Deferred tax	2.4	60	68	108	182
Other non-current liabilities		**62**	**70**	**109**	**189**
Total non-current liabilities		**1,437**	**70**	**2,048**	**2,808**
Borrowings, current	2.7	**95**	**1,632**	**14**	**356**
Provisions	2.8	26	8	20	14
Trade payables		196	163	148	219
Tax payables		40	41	70	97
Other payables	2.9	71	81	95	71
Deferred income	2.10	39	48	57	147
Other current liabilities		**372**	**341**	**390**	**548**
Total current liabilities		**467**	**1,973**	**404**	**904**
Total liabilities		**1,904**	**2,043**	**2,452**	**3,712**
Total equity and liabilities		**5,714**	**8,252**	**11,209**	**12,028**

Amounts in USD million

Consolidated statement of changes in equity

	Maersk Drilling Holding A/S				
	Share capital	Reserve for hedges	Retained earnings	Dividend proposed for the year	Total equity
Equity 1 January 2016	87	-2	8,231	-	8,316
Other comprehensive income, net of tax	-	-1	2	-	1
Profit/loss for the year	-	-	-1,290	500	-790
Total comprehensive income for the year	**-**	**-1**	**-1,288**	**500**	**-789**
Contribution from shareholders	-	-	1,230	-	1,230
Total transactions with shareholders	**-**	**-**	**1,230**	**-**	**1,230**
Equity 31 December 2016	**87**	**-3**	**8,173**	**500**	**8,757**
2017					
Other comprehensive income, net of tax	-	4	-4	-	-
Profit/loss for the year	-	-	-1,522	-	-1,522
Total comprehensive income for the year	**-**	**4**	**-1,526**	**-**	**-1,522**
Dividends to shareholders	-	-	-526	-500	-1,026
Total transactions with shareholders	**-**	**-**	**-526**	**-500**	**-1,026**
Equity 31 December 2017	**87**	**1**	**6,121**	**-**	**6,209**
2018					
Other comprehensive income, net of tax	-	-3	-	-	-3
Profit/loss for the year	-	-	941	-	941
Total comprehensive income for the year	**-**	**-3**	**941**	**-**	**938**
Dividends to shareholders	-	-	-3,337	-	-3,337
Total transactions with shareholders	**-**	**-**	**-3,337**	**-**	**-3,337**
Equity 31 December 2018	**87**	**-2**	**3,725**	**-**	**3,810**

The share capital comprises 500,000 shares of DKK 1,000. No shares hold special rights. 1 November 2012 the share capital was established with paid in capital of USD 87k. 18 November 2012, the share capital was changed with a capital increase of USD 48,937k and 1 January 2013 it was changed with a capital increase, contribution in kind of USD 37,728k.

Earnings per share is equal to profit/loss for the year divided by 500,000 shares. As there is no dilution effect, diluted earnings per share is equal to earning per share.

Dividend per share in 2018 amounts to USD 6,674 (2017: USD 2,052 / 2016: nil).

Notes

Section 1
Income statement

Section 2
Balance sheet

Section 3
Capital structure

Section 4
Other notes

Section 5
Basis of preparation

Amounts in USD million

NOTE 1.1

Segment information

	2018			2017			2016		
	Jack-up rigs	Floaters	Total	Jack-up rigs	Floaters	Total	Jack-up rigs	Floaters	Total
Revenue	896	530	1,426	890	541	1,431	1,012	1,266	2,278
Other revenue, unallocated activities			3			8			19
Total revenue			**1,429**			**1,439**			**2,297**
Segment profit/loss before depreciation and amortisation, impairment losses/reversals and special items	459	163	622	473	209	682	545	832	1,377
Unallocated activities			-11			1			4
Consolidated profit/loss before depreciation and amortisation, impairment losses/reversals and special items			**611**			**683**			**1,381**
Depreciation and amortisation, reportable segments	-193	-196	-389	-226	-229	-455	-259	-318	-577
Unallocated activities			-14			-13			-12
Total depreciation and amortisation			**-403**			**-468**			**-589**
Total impairment losses/reversals	365	445	**810**	-691	-1,078	**-1,769**	-441	-1,069	**-1,510**
Investments in non-current assets, reportable segments[1]	68	78	146	479	21	500	276	6	282
Unallocated activities[1]			36			20			25
Total investments in non-current assets[1]			**182**			**520**			**307**
Non-current assets, reportable segments[1]	2,855	1,957	4,812	2,620	1,639	4,259	3,049	2,932	5,981
Unallocated activities[1]			89			96			102
Total non-current assets[1]			**4,901**			**4,355**			**6,083**

[1] Comprise intangible assets and property, plant and equipment.

At 1 January 2016 non-current assets from reportable segments amounted to USD 3,473m in the jack-up segment and USD 4,313m in the floater segment, with the remaining USD 90m in unallocated activities, totalling USD 7,876m.

Amounts in USD million

NOTE 1.1 - continued

Segment information

	Revenue			Non-current assets[1]			
	2018	2017	2016	**2018**	2017	2016	1 January 2016
Denmark	69	69	215	249	482	693	706
Norway	630	608	777	1,943	1,634	1,843	2,577
United Kingdom	130	140	32	312	342	315	4
United States of America	8	145	618	363	257	1,200	1,792
Angola	-	-	185	-	-	-	472
Egypt	109	108	163	184	150	289	452
Azerbaijan	105	102	104	138	139	158	179
Singapore	-	-	-	74	85	569	834
Ghana	256	166	159	913	262	477	701
Other Americas	-	-	-	167	501	-	-
Other	122	101	44	558	503	539	159
Total	**1,429**	**1,439**	**2,297**	**4,901**	**4,355**	**6,083**	**7,876**

[1] Comprise intangible assets and property, plant and equipment.

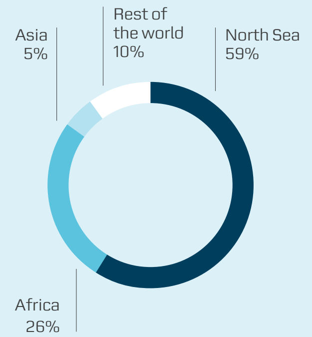
Geographical information
Description of revenue is based on geographical location. For non-current assets, such as drilling rigs, the geographical location is where the assets are located as per 31 December. For all other assets, geographical location is based on the legal ownership.

Significant customers
Revenue from five international oil companies that individually amount to more than 10% of revenue, represents in 2018 81% of the Group's revenue. In 2018, the five international oil companies accounted for USD 0.3bn, 0.3bn, 0.2bn 0.2bn and 0.1bn, respectively and approximately 90%, 94%, 0%, 0% and 100%, respectively of these revenues were in the jack-up segment, with the remaining in the floater segment.

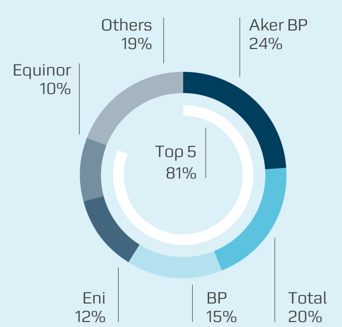
Revenue from five international oil companies that individually amount to more than 10% of revenue, represents in 2017 66% of the Group's revenue. In 2017, the five international oil companies accounted for USD 0.2bn each, and three of these international oil companies were in the jack-up segment, with the remaining in the floater segment.

Revenue from four international oil companies that individually amount to more than 10% of revenue, represents in 2016 58% of the Group's revenue. In 2016, the four international oil companies accounted for USD 0.5bn, 0.3bn, 0.3bn and 0.2bn, respectively and approximately 24%, 22%, 97% and 82%, respectively of these revenues were in the jack-up segment, with the remaining in the floater segment.

Geographical presence
Revenue 2018



Customer Base
Revenue 2018



Amounts in USD million

NOTE 1.2

Revenue

2018	Jack-up rigs	Floaters	Other	Total
Geographical split				
Denmark	66	-	3	69
Norway	630	-	-	630
United Kingdom	130	-	-	130
United States of America	-	8	-	8
Egypt	-	109	-	109
Azerbaijan	-	105	-	105
Ghana	-	256	-	256
Other	70	52	-	122
Total	**896**	**530**	**3**	**1,429**
Type of revenue				
Rendering of services	367	295	3	665
Lease revenue	529	235	-	764
Total	**896**	**530**	**3**	**1,429**

2017	Jack-up rigs	Floaters	Other	Total
Geographical split				
Denmark	69	-	-	69
Norway	608	-	-	608
United Kingdom	136	-	4	140
United States of America	-	141	4	145
Egypt	-	108	-	108
Azerbaijan	-	102	-	102
Ghana	-	166	-	166
Other	77	24	-	101
Total	**890**	**541**	**8**	**1,439**
Type of revenue				
Rendering of services	381	247	8	636
Lease revenue	509	294	-	803
Total	**890**	**541**	**8**	**1,439**

2016	Jack-up rigs	Floaters	Other	Total
Geographical split				
Denmark	209	-	6	215
Norway	777	-	-	777
United Kingdom	26	-	6	32
United States of America	-	618	-	618
Angola	-	185	-	185
Egypt	-	158	5	163
Azerbaijan	-	104	-	104
Ghana	-	159	-	159
Other	-	42	2	44
Total	**1,012**	**1,266**	**19**	**2,297**
Type of revenue				
Rendering of services	424	368	19	811
Lease revenue	588	553	-	1,141
Contract terminations	-	345	-	345
Total	**1,012**	**1,266**	**19**	**2,297**

Revenue from drilling activities, is recognised in accordance with the agreed day rates for the work performed to date. The day rates include both lease revenue and service fees related to the activities of the Group.

In 2016 revenue included USD 345m related to termination of Mærsk Deliverer and Maersk Valiant drilling contracts, of which USD 175m related to settlement of day rates for the remainder of the original contract period in 2017. Both termination fees relate to the floater segment.

Amounts in USD million

NOTE 1.3

Costs

	2018	2017	2016
Operating costs	734	690	826
Sales, general and administrative costs	84	66	90
Total costs	**818**	**756**	**916**
Staff costs			
Wages and salaries	365	365	483
Severance payments	2	-2	9
Pension costs	30	25	33
Other social security costs	8	6	9
Total Staff costs	**405**	**394**	**534**
Of which:			
Included in Operating costs	355	351	471
Included in Sales, general and administrative costs	37	35	47
Recognised in the cost of assets	13	8	16
Average number of employees	2,854	2,865	3,325

Administrative employees located in Denmark were employed by Rederiet A.P. Møller A/S until November 2017 when their employment was transferred to Maersk Drilling A/S. Costs incurred by Rederiet A.P. Møller A/S on behalf of Maersk Drilling were reimbursed by Maersk Drilling and therefore presented as staff costs.

Remuneration to the Board of Directors, Executive Management and Key Employees
The Group's key management personnel comprised at the end of 2018, the Board of Directors, the Executive Management (CEO) and seven Key Employees who together with the Executive Management have the authority and responsibility for planning, directing and controlling the Group's activities. The CFO was appointed to Executive Management in 2019.

The Board of Directors has not been remunerated for the period 2016 through 2018. In accordance with section 98b of the Danish Financial Statements Act, remuneration of the Executive Management is therefore not separately disclosed for 2018 and 2017 where Executive Management comprised one individual only. For 2016, total remuneration of the two members of the Executive Management amounted to USD 2m.
For information about share-based remuneration reference is made to note 4.3.

Remuneration to key management personnel	2018	2017	2016
Fixed annual salary	4	4	4
Cash bonus	2	2	2
Termination benefits	1	0	0
Share based incentive plans	1	1	1
Total remuneration	**8**	**7**	**7**

Fees to the statutory auditors	2018	2017	2016
Statutory audit	1	1	1
Other assurance services	1	2	0
Tax and VAT advisory services	0	0	0
Other services	1	0	0
Total fees	**3**	**3**	**1**

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskabs mainly consist of audit of non-statutory financial statements, financial due diligence and transaction advice, accounting advisory services, tax advice and other services related to the separation of Maersk Drilling.

NOTE 1.4

Special items

	2018	2017	2016
Compensation from shipyard due to late delivery of rig, warranties etc.	10	5	17
Special items, income	**10**	**5**	**17**
Transformation and restructuring costs	20	-	-
Separation costs	6	3	-
Other costs	-	-	1
Special items, costs	**26**	**3**	**1**
Special items, net	**-16**	**2**	**16**

Special items comprises non-recurring income and expenses that are not considered to be part of Maersk Drilling's ordinary operations such as gains and losses on divestments, compensation from shipyards, and restructuring projects, including separation and demerger costs.

Amounts in USD million

NOTE 1.5

Financial income and expenses

	2018	2017	2016
Interest expenses on liabilities	-46	-66	-86
Of which borrowing costs capitalised on assets[1]	-	7	6
Interest income on loans and receivables	48	38	17
Net interest expenses	**2**	**-21**	**-63**
Exchange rate gains on bank balances, borrowings and working capital	9	23	19
Exchange rate losses on bank balances, borrowings and working capital	-25	-16	-52
Net foreign exchange gains/losses	**-16**	**7**	**-33**
Fair value gains from derivatives	2	-	8
Fair value losses from derivatives	-	-5	-1
Net fair value gains/losses	**2**	**-5**	**7**
Financial expenses, net	**-12**	**-19**	**-89**
Of which:			
Financial income	59	61	43
Financial expenses	-71	-80	-132

[1] No borrowing costs have been capitalised in 2018. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation in 2017 was 4.1% p.a. (2016: 4.1% p.a.).

Exchange rate losses in 2016, USD 52m included a loss of USD 22m relating to cash kept in a country with limited access to repatriating surplus cash.

For an analysis of gains and losses from derivatives reference is made to note 3.6.

NOTE 1.6

Tax

	2018	2017	2016
Tax recognised in the income statement			
Current tax on profit/loss for the year	-30	-36	-56
Adjustment for current tax of prior periods	-7	35	-11
Total current tax	**-37**	**-1**	**-67**
Temporary differences	-18	75	73
Adjustment for deferred tax of prior periods	-1	-25	-4
Reassessment of recoverability of deferred tax assets, net	8	-	-1
Total deferred tax	**-11**	**50**	**68**
Total tax	**-48**	**49**	**1**
Tax reconciliation			
Profit/loss before tax	989	-1,571	-791
Tax using the Danish corporation tax rate (22%)	-218	346	174
Impairment losses/reversals with no tax impact	148	-321	-258
Tax rate deviations in foreign jurisdictions	-4	-4	78
Effect of other income taxes distinct from corporation tax	23	19	17
Non-taxable income	-	-	1
Non-deductible expenses	-3	-1	-6
Adjustment to previous years' taxes	-9	10	-15
Change in recoverability of deferred tax assets	9	-7	-2
Deferred tax asset not recognised	-4	-10	-4
Other differences, net	10	17	16
Total tax	**-48**	**49**	**1**

Adjusted for impairment losses and reversals, the effective tax rate was 9.3% in 2018 (2017: 8.8% / 2016: 9.1%).

NOTE 2.1

Intangible assets

	Customer contracts and IT software
Cost	
1 January 2016	46
Addition	87
31 December 2016	**133**
Addition	2
31 December 2017	**135**
Addition	-
31 December 2018	**135**
Amortisation and impairment losses	
1 January 2016	10
Amortisation	14
31 December 2016	**24**
Amortisation	26
31 December 2017	**50**
Amortisation	29
31 December 2018	**79**
Carrying amount:	
1 January 2016	**36**
31 December 2016	**109**
31 December 2017	**85**
31 December 2018	**56**

Amounts in USD million

NOTE 2.2

Property, plant and equipment

	Jack-up rigs	Floaters	Equipment and other	Construction work in progress	Total
Cost					
1 January 2016	4,702	5,077	125	255	10,159
Addition	114	-	9	97	220
Disposal	5	-	16	-	21
Transfer	61	32	-	-93	-
31 December 2016	**4,872**	**5,109**	**118**	**259**	**10,358**
Addition	463	2	15	38	518
Disposal	4	24	7	-	35
Transfer	184	16	-	-200	-
31 December 2017	**5,515**	**5,103**	**126**	**97**	**10,841**
Addition	-	-	72	110	182
Disposal	11	153	40	-	204
Transfer	41	73	-	-114	-
Transfer to assets held for sale	168	-	-	-	168
31 December 2018	**5,377**	**5,023**	**158**	**93**	**10,651**
Depreciation and impairment losses					
1 January 2016	1,400	881	38	-	2,319
Depreciation	254	316	5	-	575
Impairment losses	362	1,069	-	79	1,510
Disposal	4	-	16	-	20
31 December 2016	**2,012**	**2,266**	**27**	**79**	**4,384**
Depreciation	212	225	5	-	442
Impairment losses	691	1,078	-	-	1,769
Disposal	1	22	1	-	24
Transfer	69	-	10	-79	-
31 December 2017	**2,983**	**3,547**	**41**	**-**	**6,571**
Depreciation	179	191	4	-	374
Reversal of impairment losses	365	445	-	-	810
Disposal	4	142	15	-	161
Transfer to assets held for sale	168	-	-	-	168
Transfer	-5	-29	16	18	-
31 December 2018	**2,620**	**3,122**	**46**	**18**	**5,806**
Carrying amount:					
1 January 2016	**3,302**	**4,196**	**87**	**255**	**7,840**
31 December 2016	**2,860**	**2,843**	**91**	**180**	**5,974**
31 December 2017	**2,532**	**1,556**	**85**	**97**	**4,270**
31 December 2018	**2,757**	**1,901**	**112**	**75**	**4,845**

Amounts in USD million

NOTE 2.2 - continued

Property, plant and equipment

Operating leases as lessor
Property, plant and equipment include jack-up rigs and floaters which are leased out as part of the Group's activities. The amounts below comprise the future minimum lease payments for the assets and excludes the estimated service elements, which are presented in note 2.10. Jointly the two elements amount to Maersk Drilling's revenue backlog.

Operating lease receivables	2018	2017	2016	1 January 2016
Within one year	541	748	796	1,266
Between one and five years	701	1,038	1,571	2,130
After five years	35	82	29	155
Total	**1,277**	**1,868**	**2,396**	**3,551**

Pledges
Property plant and equipments with carrying amount of USD 4,686m (2017: USD 139m / 2016: USD 305m) has been pledged as security for borrowings with a carrying amount of USD 1,470m (2017: USD 245m / 2016: USD 245m).

Asset held for sale
The jack-up rig Maersk Giant which is currently stacked in Esbjerg, Denmark is at the end of 2018 classified as held for sale. The carrying amount of Maersk Giant is USD 0m at the end of 2018.

NOTE 2.3

Impairment test

Impairment tests of property, plant and equipment have been carried out for cash generating units with indications of impairment losses or reversals. Maersk Drilling considers rigs with similar functionality and operating environment as cash generating units due to largely interdependent cash flows. The cash generating units in the table below have been further subcategorised in connection with the impairment test, however the methodology and assumptions are similar across the subgroups.

The recoverable amount of each cash generating unit is determined based on the higher of its value-in-use or fair value less cost to sell. The value-in-use is calculated using certain key assumptions for the expected future cash flows and applied discount factor. The applied discount rate p.a. after tax in 2018 is 10.0% (2017: 10.5% / 2016: 8.5%).

The cash flow projections are based on financial budgets and business plans approved by management. In nature, these projections are subject to judgement and estimates that are uncertain, though based on experience and external sources where available. The discount rates applied reflect 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 are generally reflected in the discount rates.

Below is set out disclosures related to the impairment tests performed.

	Impairment losses/reversals			Recoverable amount[3]		
Cash generating unit	**2018**	2017	2016	**2018**	2017	2016
Jack-up rigs[1]	365	-691	-441	2,880	2,631	3,460
Floaters[2]	445	-1,078	-1,069	1,929	1,546	2,788
Total	**810**	**-1,769**	**-1,510**			

1 Covering four cash generating units, primarily operating in the North Sea.
2 Covering one cash generating unit, primarily operating globally.
3 The recoverable amount is based on estimated value in use, as it is considered that there is no basis for making a reliable estimate of the fair market value in an orderly transaction between market participants.

Impairment analysis for the years 2016-2018
The impairment losses recognised in 2016 were due to challenging market conditions. Continuing challenging market conditions also led to the impairment losses recognised in 2017. Following the improved market outlook for offshore drilling with increased activity and improved long-term projections part of the prior year impairment losses were reversed in 2018. The impairment reversals of USD 810m related to both the jack-up and floater segment.

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 after the budget period are critical variables.

The sensitivity analysis shows that the impairment reversals in 2018, for the CGU's where impairment reversals were recognised, would have been respectively;
— USD 1,194m and USD 468m with a -/+ 1 percentage point change in the discount rate, keeping all other assumptions unchanged.
— USD 951m and USD 678m with a +/- 1 percentage point change in growth rate after the budget period, keeping all other assumptions unchanged.
— USD 1,424m and USD 274m with a +/- 5 percentage point change in EBITDA margin, keeping all other assumptions unchanged.

For additional information on accounting estimates and judgements in respect of impairment analysis, reference is made to note 5.3.

Amounts in USD million

NOTE 2.4

Deferred tax

Recognised deferred tax assets and liabilities are attributable to the following:

	2018			2017		
	Assets	Liabilities	Net Liabilities	Assets	Liabilities	Net Liabilities
Property, plant and equipment	13	60	47	26	59	33
Tax loss carry forwards	-	-	-	-	-	-
Other	2	13	11	-	15	15
Total	**15**	**73**	**58**	**26**	**74**	**48**
Offsets	-13	-13	-	-6	-6	-
Total	**2**	**60**	**58**	**20**	**68**	**48**

	2016			1 January 2016		
	Assets	Liabilities	Net Liabilities	Assets	Liabilities	Net Liabilities
Property, plant and equipment	11	110	99	9	174	165
Tax loss carry forwards	2	-	-2	13	-	-13
Other	25	20	-5	24	32	8
Total	**38**	**130**	**92**	**46**	**206**	**160**
Offsets	-22	-22	-	-24	-24	-
Total	**16**	**108**	**92**	**22**	**182**	**160**

Change in deferred tax, net during the year	**2018**	2017	2016
1 January	**48**	**92**	**160**
Property, plant and equipment	14	-66	-66
Tax loss carry forwards	-	2	11
Other	-3	14	-13
Recognised in the income statement	**11**	**-50**	**-68**
Recognised in other comprehensive income	-1	2	-
Other	-	4	-
31 December	**58**	**48**	**92**

Unrecognised deferred tax assets	**2018**	2017	2016	1 January 2016
Deductible temporary differences	-	9	-	-
Tax loss carry forwards	9	3	7	-
Total	**9**	**12**	**7**	**-**

The unrecognised deferred tax assets have no significant time limitations.
Deferred taxes are subject to uncertainties due to tax disputes in certain countries, cf. note 5.3.

NOTE 2.5

Other receivables

	2018	2017	2016	1 January 2016
Tax receivables	5	15	35	37
Derivatives	-	2	1	1
Deposits	1	1	19	19
VAT and similar receivables	10	18	6	8
Receivables from settlements of claims	-	3	19	-
Costs to be reimbursed	15	7	5	12
Other	6	14	11	11
Total	**37**	**60**	**96**	**88**

NOTE 2.6

Prepayments

	Note	**2018**	2017	2016	1 January 2016
Mobilisation costs (costs to fulfil contracts)	2.10	36	71	78	113
Other		22	8	23	13
Total		**58**	**79**	**101**	**126**

Amounts in USD million

NOTE 2.7

Borrowings and net debt reconciliation

Borrowings	2018	2017	2016	1 January 2016
Term loans	1,470	-	-	-
Credit facilities	-	1,632	1,953	2,975
Total borrowings	**1,470**	**1,632**	**1,953**	**2,975**
Of which:				
Classified as non-current	1,375	-	1,939	2,619
Classified as current	95	1,632	14	356

Net debt reconciliation	2018	2017	2016	1 January 2016
Borrowings	1,470	1,632	1,953	2,975
Loans receivable, non-current	-	-	-28	-41
Loans receivable, current	-2	-3,390	-4,134	-3,395
Total financial liabilities and assets from financing activities	**1,468**	**-1,758**	**-2,209**	**-461**
Cash and bank balances	-372	-49	-460	-44
Other financial items[1]	1	-2	1	2
Net debt (receivable)	**1,097**	**-1,809**	**-2,668**	**-503**

1 Comprise primarily derivatives and other interest-bearing receivables

Change in financial liabilities and assets from financing activities	2018	2017	2016
1 January	**-1,758**	**-2,209**	**-461**
Proceeds from/(repayment of) borrowings, net	1,208	-583	-541
Non-cash changes:			
Dividend distribution	2,011	1,026	-
Contribution from shareholders	-	-	-1,230
Foreign exchange adjustments	4	-10	15
Other	3	18	8
31 December	**1,468**	**-1,758**	**-2,209**

Proceeds from/(repayment of) borrowings are presented net, and consist in 2018 of proceed from debt financing amounting to USD 1.5bn, and net repayment amounting to USD 0.3bn from settlement of internal cash pools, borrowings and loans receivables with the A.P. Moller - Maersk Group. Proceeds from/(repayment of) borrowings, net consisted in 2017 and 2016 purely of movements in internal cash pools, borrowings and loans receivables.

In 2018, the net movement of USD 1,208m excludes settlement of intercompany loans and receivables in the amount of USD 2,011m through non-cash dividend. In 2017, the net movement of USD 583m excludes settlement of intercompany loans and receivables through non-cash dividends of USD 500m and other non-cash distributions of USD 526m. In 2016, the net movement of USD 541m excludes a non-cash capital contribution amounting to USD 1,230m that was offset against borrowings from shareholders.

In addition to the collateral rigs set out in note 2.2, certain bank accounts and shares in the subsidiaries being owners of the collateral rigs and certain intra-group charterers in respect of the collateral rigs are pledged as security for term loans with a carrying amount at 31 December 2018 of USD 1,470m and undrawn credit facilities of USD 400m. In certain circumstances, earnings in respect of drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreements.

Amounts in USD million

NOTE 2.8

Provisions

	Restructuring	Legal disputes, etc.	Total
1 January 2016	**3**	**18**	**21**
Provision made	7	10	17
Amount used	-3	-5	-8
Amount reversed	-2	-7	-9
31 December 2016	**5**	**16**	**21**
Of which:			
Classified as non-current	-	1	1
Classified as current	5	15	20
1 January 2017	**5**	**16**	**21**
Provision made	-	5	5
Amount used	-4	-1	-5
Amount reversed	-	-11	-11
31 December 2017	**1**	**9**	**10**
Of which:			
Classified as non-current	-	2	2
Classified as current	1	7	8
1 January 2018	**1**	**9**	**10**
Provision made	20	1	21
Amount used	-1	-	-1
Amount reversed	-	-2	-2
31 December 2018	**20**	**8**	**28**
Of which:			
Classified as non-current	-	2	2
Classified as current	20	6	26

No provisions are expected to be realised after more than five years.

Restructuring includes provisions for decided and publicly announced restructurings. Legal disputes, etc. include among other things, indirect tax and duty disputes. The provisions are subject to considerable uncertainty, cf. note 5.3.

Reversals of provisions primarily relate to settlement of contractual disagreements, which are recognised in the income statement under operating costs.

NOTE 2.9

Other payables

	2018	2017	2016	1 January 2016
Derivatives	1	-	2	3
Interest payable	4	28	31	26
VAT, duties and similar payables	27	8	13	12
Payables to staff and management	29	26	19	1
Other	10	19	30	29
Total	**71**	**81**	**95**	**71**

Amounts in USD million

NOTE 2.10

Contract balances

	Note	2018	2017	2016	1 January 2016
Contract assets					
Mobilisation costs (costs to fulfil contracts)	2.6	36	71	78	113
Total		**36**	**71**	**78**	**113**
Contract liabilities					
Deferred income		39	48	57	147
Total		**39**	**48**	**57**	**147**

Revenue recognised in 2018 that was included in the contract liability at the beginning of each year relate to mobilisation fees from customers that are deferred and recognised over the contract term. The amount recognised in 2018 was USD 16m (2017: USD 38m / 2016: USD 95m).

Costs to fulfil contracts relate to mobilisation costs paid that are capitalised and amortised over the contract term. The amortisation in 2018 amounted to USD 35m (2017: USD 34m / 2016: USD 47m).

Contract assets and contract liabilities were higher at 1 January 2016 compared to subsequent periods as more contracts were in the initial stages and at higher day rate levels than in subsequent periods.

The transaction price allocated to the performance obligations that are to be completed as of the end of each year relate to the service element of jack-up rigs and floaters contracted to costumers under the day rate model. As such, the amounts below exclude the estimated lease elements, which are presented in note 2.2. Jointly the two elements amount to Maersk Drilling's revenue backlog.

	2018	2017	2016	1 January 2016
Within one year	481	527	547	677
Between one and five years	676	852	782	1,081
After five years	32	68	15	79
Total	**1,189**	**1,447**	**1,344**	**1,837**

NOTE 3.1

Financial risk management

It is the Group's policy to have sufficient committed funding available to support business strategy as well as a long-term funding view to minimise refinancing risk and secure a solid capital structure over the business cycle.

To enable focus on creating long-term shareholder value, taking into account the cyclicality of the offshore drilling industry, the allocation of free cash flows shall primarily support Maersk Drilling's long-term strategic ambition. Free cash flow is therefore allocated as follows:

(i) Maintaining a solid capital structure with sufficient funding available to support business strategy;
(ii) Pursue investments adding long-term value to the shareholders; and
(iii) Return surplus capital to shareholders via dividends or share buybacks.

Financial risk management
The Group's operating and financing activities expose it to a variety of financial risks, comprising:
— Liquidity risk
— Interest rate risk
— Currency risk
— Credit risk

Management of these financial risks is carried out by a central treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges each financial risk. The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risks.

In 2018, the Group entered into a syndicated facilities agreement, comprising a term loan facility of USD 1,150m, drawn in full and a revolving credit facility of USD 400m, which remains undrawn at the end of 2018. Furthermore, the Group entered into a term loan facility with Danmarks Skibskredit at USD 350m, drawn in full at the end of 2018.

The Group's loan facilities contain customary representations, certain covenants and undertakings (including on minimum requirements of the aggregate fair market value and insurance of the pledged rigs, customary restrictions on the flag and classification society applicable to the pledged rigs and restrictions on creating liens on the pledged rigs) and customary events of default (in each case, subject to customary agreed exceptions, materiality tests, carve- outs and grace periods). In addition, the loan facilities contains minimum free liquidity, leverage ratio and equity ratio financial covenants, which Maersk Drilling must comply with throughout the tenor of the facilities. The covenants have all been complied with in 2018.

Exposure from each of the financial risks, together with the Group's policies and mitigation procedures are further described below.

NOTE 3.2

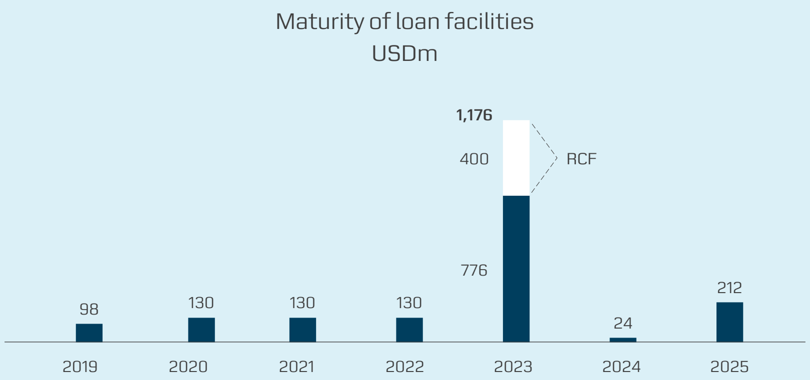
Liquidity risk

Liquidity risk is the risk that Maersk Drilling will encounter difficulty in meeting its obligations when they occur or ceasing to have access to adequate funding to pursue its strategic ambitions. The overall objective is to maintain adequate liquidity reserves to meet the Group's obligations and sustain from volatility in cash flow from operations.

The Group has a centralized and structured approach to liquidity, capital funding and cash management, focusing on repatriating and concentrating cash. Short-term funding of subsidiaries is handled by the cental treasury department, primarily through a group wide cash pool structure.

The liquidity reserve which consist of cash and bank balances, loans receivables plus the aggregate amount of undrawn or unutilised committed credit facilities that remain committed for a period of not less than 365 days, amount to USD 772m (2017: 3,930m / 2016: 4,813m / 1 January 2016: 3,768m).

The maturities of the Groups total loan facilities, comprising term loans drawn in full and undrawn committed revolving facility, are illustrated in the chart below.



Amounts in USD million

Maturities of liabilities and commitments	Carrying amount	Cash flows including interest: 0-1 year	1-5 years	5- years	Total
2018					
Borrowings	1,470	173	1,396	257	1,826
Trade and other payables	267	267	-	-	267
Total recognised in balance sheet	**1,737**	**440**	**1,396**	**257**	**2,093**
Operating lease and capital commitments		52	20	10	82
Total		**492**	**1,416**	**267**	**2,175**
2017					
Borrowings	1,632	1,760	-	-	1,760
Trade and other payables	244	244	-	-	244
Total recognised in balance sheet	**1,876**	**2,004**	**-**	**-**	**2,004**
Operating lease and capital commitments		35	18	9	62
Total		**2,039**	**18**	**9**	**2,066**
2016					
Borrowings	1,953	58	2,070	-	2,128
Trade and other payables	243	243	-	-	243
Total recognised in balance sheet	**2,196**	**301**	**2,070**	**-**	**2,371**
Operating lease commitments		8	27	23	58
Capital commitments		460	-	-	460
Total		**769**	**2,097**	**23**	**2,889**
At 1 January 2016					
Borrowings	2,975	418	2,813	-	3,231
Trade and other payables	290	290	-	-	290
Total recognised in balance sheet	**3,265**	**708**	**2,813**	**-**	**3,521**
Operating lease commitments		13	28	25	66
Capital commitments		472	2	-	474
Total		**1,193**	**2,843**	**25**	**4,061**

Amounts in USD million

NOTE 3.3

Interest rate risk

Interest rate risk comprises the risk that future cash flows from financial instruments will fluctuate because of changes in market interest rates. The interest rate exposure arises from loans and other credit facilities carrying floating interest rates. The exposure towards interest rates are mitigated by entering into fixed rate loans or interest rate swaps.

As from the refinancing in 2018, it has been the Group's policy that minimum 50% of the gross debt is at fixed interest rates.
At 31 December 2018, 64% (2017: 0% / 2016: 0% / 1 January 2016: 0%) of borrowings carries fixed interest rates with a weighted average duration of 2.2 years (2017: 0 years / 2016: 0 years / 1 January 2016: 0 years).

		Next interest rate fixing		
Borrowings by interest rate levels inclusive of interest rate swaps	**Carrying amount**	**0-1 year**	**1-5 years**	**5- years**
2018				
3-6%	1,470	533	937	-
Total	**1,470**	**533**	**937**	**-**
2017				
3-6%	1,632	1,632	-	-
Total	**1,632**	**1,632**	**-**	**-**
2016				
0-3%	14	14	-	-
3-6%	1,939	1,939	-	-
Total	**1,953**	**1,953**	**-**	**-**
At 1 January 2016				
0-3%	2,326	2,326	-	-
3-6%	649	649	-	-
Total	**2,975**	**2,975**	**-**	**-**

Interest rate sensitivity
An increase of interest rates by one percentage point is estimated to decrease profit for the year by USD 6m and increase other comprehensive income by USD 21m (2017: increase profit for the year by USD 18m and increase other comprehensive income by USD 0m / 2016: increase profit for the year by USD 22m and increase other comprehensive income by USD 0m). This analysis is based on borrowings and loans receivables at 31 December, and assumes that all other variables remain constant. A one percentage point decrease would have a corresponding inverse effect.

NOTE 3.4

Currency risk

Currency risk comprise the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The currency exposure arise from Maersk Drilling operating in countries with different local currencies. As income is primarily denominated in USD, all material entities in the Group denominate USD as the functional currency, while related operating expenses are incurred in both USD and local currencies. The Group's debt is also in all material aspect denominated in USD, and only a minimum of the Group's other debt is in other currencies such as DKK, GBP, and NOK.

The exposure towards changes in foreign exchange rates are mitigiated by entering into customer contracts where an element of the contract value is non-USD to create a natural hedge between the contracted revenue and local operating costs. Subsequently foreign exchange forwards are used to hedge any excess exposure.

Exposure towards currency risk is generally low and does not significantly affect the Group's profit or the value of financial instruments. It is the Group's policy to hedge significant net cash flows in other currencies than USD using a layered model with a 12-month horizon.

Cash kept in countries with limited access to repatriating surplus cash is subject to currency risks. In 2016 a loss of USD 22m was incurred due to currency.

Currency sensitivity
An increase of relevant exchange rates against USD by 5 percent is estimated to decrease profit for the year by USD 2m and increase other comprehensive income by USD 5m (2017: decrease profit for the year by USD 1m and increase other comprehensive income by USD 3m / 2016: decrease profit for the year by USD 1m and increase other comprehensive income by USD 2m) This analysis is based on financial instruments at 31 December, and assumes that all other variables remain constant. A one percentage point decrease would have a corresponding inverse effect.

NOTE 3.5

Credit risk

The Group has exposure to commercial counterparties. To minimise the credit risk, financial vetting is undertaken for all major customers.

Financial assets at amortised cost comprise loans receivable and other receivables. These are all considered to have low credit risk and thus the impairment provision calculated basis of 12 month expected losses is considered immaterial. The financial assets are considered to be low risk when they have low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The Group applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Customer contracts does not include unusual payment terms or material financing components. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In accordance with IFRS 9, also non-due trade receivables have been impaired.

Maturity analysis of trade receivables	**2018**	2017	2016	1 January 2016
Receivables not due	237	244	263	357
Less than 90 days overdue	81	53	25	68
More than 90 days overdue	24	3	2	13
Receivables, gross	**342**	**300**	**290**	**438**
Expected credit loss	3	3	2	4
Carrying amount	**339**	**297**	**288**	**434**

Amounts in USD million

NOTE 3.6

Derivatives

The Group enters into derivative transactions in order to mitigate foreign exchange rate exposure related to costs incurred in local currencies, and interest rate exposure on term loans.
The derivative transactions comprise foreign exchange forward contracts and interest rate swaps. Foreign exchange forward contracts are used to hedge the currency risk related to recognised and unrecognised transactions, of which the majority are designated as cash flow hedges. Interest rate swaps are used to swap variable interest payments on term loans to fixed interest payments. All interest rate swaps are designated as cash flow hedges.

Currency derivatives designated as cash flow hedges are mainly realised within one year, whereas interest rate swaps designated as cash flow hedges, matures over five years.

The notional of currency derivative contracts at 31 December amounts to:

	2018		2017		2016		1 January 2016	
	Foreign currency	**USD**	**Foreign currency**	**USD**	**Foreign currency**	**USD**	**Foreign currency**	**USD**
DKK/USD	725	113	442	70	338	50	359	55
GBP/USD	-	-	-	-	28	35	33	49
KRW/USD	-	-	-	-	391	0	4,488	4

All currency derivative contracts hedge future cash outflows, hence the respective foreign currencies is purchased and USD is sold.

The notional amount of interest rate swaps at 31 December 2018 amounts to USD 781m, and are all denominated in USD. The average fixed rate of the interest rate swaps are 2.6%.

Fair value of derivative contracts are recognised in other receivables, current amounting to USD 0m in 2018 (2017: USD 2m / 2016: USD 1m / 1 January 2016: USD 1m) and in other payables, current amounting to USD 1m in 2018 (2017: USD 0m / 2016: USD -2m / 1 January 2016: USD -3m).The hedge ratio are 1:1 for all hedging relationships.

The gains/losses, including realised transactions, are recognised as follows:

	2018	2017	2016
Hedging foreign exchange risk on operating costs	-2	3	-1
Total reclassified from equity reserve for hedges	**-2**	**3**	**-1**
Derivatives accounted for as held for trading			
Currency derivatives recognised directly in financial income/expenses	2	-5	7
Net gains/losses recognised directly in the income statement	**2**	**-5**	**7**
Total	-	-2	6

Amounts in USD million

NOTE 3.7

Financial instruments by category

	2018		2017		2016		1 January 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Carried at amortised cost								
Loans receivable	2	2	3,390	3,390	4,162	4,162	3,436	3,436
Other interest-bearing receivables	2	2	2	2	2	2	2	2
Total interest-bearing receivables	**4**	**4**	**3,392**	**3,392**	**4,164**	**4,164**	**3,438**	**3,438**
Trade receivables	339		297		288		434	
Other receivables (non-interest-bearing)	32		43		60		50	
Cash and bank balances	372		49		460		44	
Financial assets at amortised cost	**747**		**3,781**		**4,972**		**3,966**	
Carried at fair value								
Derivatives	-	-	2	2	1	1	1	1
Financial assets at fair value	**-**	**-**	**2**	**2**	**1**	**1**	**1**	**1**
Total financial assets	**747**		**3,783**		**4,973**		**3,967**	
Carried at amortised cost								
Term loans	1,470	1,500	-	-	-	-	-	-
Credit facilities	-	-	1,632	1,632	1,953	1,953	2,975	2,975
Total borrowings	**1,470**	**1,500**	**1,632**	**1,632**	**1,953**	**1,953**	**2,975**	**2,975**
Trade payables	196		163		148		219	
Other payables	70		81		93		68	
Financial liabilities at amortised cost	**1,736**		**1,876**		**2,194**		**3,262**	
Carried at fair value								
Derivatives	1	1	-	-	2	2	3	3
Financial liabilities at fair value	**1**	**1**	**-**	**-**	**2**	**2**	**3**	**3**
Total financial liabilities	**1,737**		**1,876**		**2,196**		**3,265**	

Financial instruments measured at fair value
Financial instruments carried at fair value can be divided into three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 Inputs for the asset or liability that are not based on observable market data.

Fair value of derivatives fall within level 2 of the fair value hierarchy and is calculated on the basis of observable market data as of the end of the reporting period. The Group has no financial instruments within level 3.

Financial instruments carried at amortised cost
Fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is determined primarily based on the present value of expected future cash flows. Where a market price was available, however, this was deemed to be the fair value.

Fair value of the borrowing items fall within level 2 of the fair value hierarchy and is estimated on the basis of discounted future cash flows.

The fair value of loans receivables and borrowings against related parties have a floating interest rate and the fair value is assessed to be similar to the carrying amount.

NOTE 4.1

Cash flow specifications

	2018	2017	2016
Change in working capital			
Trade and other receivables	-20	-5	163
Trade and other payables	31	58	-105
Total	**11**	**53**	**58**
Purchase of intangible assets and property, plant and equipment			
Additions	-182	-520	-307
Of which borrowing costs capitalised on assets	-	7	6
Change in payables to suppliers regarding purchase of assets	27	5	-37
Total	**-155**	**-508**	**-338**

Amounts in USD million

NOTE 4.2

Contingent liabilities and commitments

The term loans and credit facilities set out in note 2.7 may become prepayable in whole or in part on the occurrence of certain customary events including a change of control over the Company. Except for these and for customary agreements within the Group's activities, no material agreements have been entered into that will take effect, change or expire upon changes of the control over the Company.

As per 31 December 2018 Maersk Drilling has no material external guarantees (2017: none / 2016: none / 1 January 2016: USD 2m)

The Group is also involved in legal and tax disputes in certain countries. Some of these are subject to considerable uncertainty, cf. note 5.3.

Through participation in joint taxation scheme with A.P. Møller Holding A/S, the Danish companies are jointly and severally liable for taxes payable, etc. in Denmark.

Operating lease commitments

The Group's operating lease commitments primarily comprise lease contracts on office buildings in Denmark and Norway. The future operating lease payments are:

	2018	2017	2016	1 January 2016
Within one year	9	8	10	14
Between one and two years	8	6	9	11
Between two and three years	7	5	8	8
Between three and four years	6	6	7	7
Between four and five years	6	6	7	7
After five years	11	12	27	30
Carrying amount	**47**	**43**	**68**	**77**

The Group's operating lease costs recognised in the income statement include rental of operating equipment on short-term contracts and amounts to USD 20m (2017: USD 9m / 2016: USD 10m).

Capital commitments and newbuilding programme

The Group has capital commitments relating to acquisition of non-current assets totalling USD 46m (2017: USD 28m / 2016: USD 460m / 1 January 2016: USD 474m). In 2018 and 2017 no capital commitments are related to newbuildings. In 2016 USD 447m (1 January 2016: USD 436m) of the total capital commitments are related to the newbuilding programme for one rig (1 January 2016: one rig) at a total contract price of USD 636m (1 January 2016: USD 636m) including owner-furnished equipment.

Amounts in USD million

NOTE 4.3

Share-based payments

Equity settled incentive plans
The A.P. Moller – Maersk Group's Restricted Shares Plan was introduced in 2013 and grants have since 2013 on a yearly basis been awarded to employees. The transfer of restricted shares is contingent on the employee still being employed and not being under notice of termination and takes place when three years have passed from the time of granting.

The participants are not entitled to any dividend during the vesting period. Special conditions apply regarding illness, death and resignation as well as changes in A.P. Moller – Maersk's capital structure, etc.

The total value recognised for share based payments amounts to a cost of USD 1m (2017: cost of USD 1m / 2016: income of USD 1m).

	B-shares in A.P. Møller - Mærsk A/S		
Outstanding awards under equity-settled incentive plans	**Restricted Shares Plan Senior Management Team[1]** No.	**Restricted Shares Plan Employees[1]** No.	**Total fair value[1]** USD million
1 January 2016	705	528	
Granted	302	283	1
Exercised	276	258	
Outstanding 31 December 2016	**731**	**553**	
Granted	332	137	1
Exercised	190	137	
Forfeited	121	-	
Outstanding 31 December 2017	**752**	**553**	
Granted	354	156	1
Exercised	219	170	
Outstanding 31 December 2018	**887**	**539**	

[1] At the time of grant.

The fair value of restricted shares (A.P. Møller – Mærsk A/S B shares) granted to 7 members of Management (2017: 8 / 2016: 5) and to 5 employees (2017: 6 / 2016: 8) was USD 1m (2017: USD 1m / 2016: USD 1m) at the time of the grant. Total value of granted restricted shares recognised in the income statement is a cost of USD 1m (2017: USD 1m / 2016: USD 1m).

The fair value per restricted share at the time of grant is DKK 9,273 (USD 1,532) (2017: DKK 11,550 (USD 1,655) / 2016: DKK 8,463 (USD 1,299)), which is equal to the volume weighted average share price on the date of grant, i.e. 1 April 2018.

On 1 April 2018, the restricted shares originally granted in 2015 were settled by A.P. Møller – Mærsk A/S with the employees. The weighted average share price at that date was DKK 9,273 (USD 1,532).

The average remaining contractual life for the restricted shares as per 31 December 2018 is 1.3 years (2017: 1.3 years / 2016: 1.5 years / 1 January 2016: 1.1 years).

In 2014, the A.P. Moller – Maersk Group established a Performance Shares Plan for executives and other employees. The Performance Shares Plan lapsed in 2017. Total value of granted performance shares recognised in the income statement is a cost of USD nil (2017: cost of nil / 2016: income of USD 2m). The net income in 2016 is due to adjustment in the number of performance shares that are expected to vest.

Share options plan
In addition to the plans described above, the A.P. Moller – Maersk Group had a Share Options Plan. Each share option granted was a call option to buy an existing B share of nominal DKK 1,000 in A.P. Møller – Mærsk A/S. Share options related to this plan have not been granted since 2012.

The share options were granted at an exercise price corresponding to 110% of the average of the market price on the first five trading days following the release of A.P. Møller – Mærsk A/S' Annual Report. Exercise of the share options was contingent on the option holder still being employed at the time of exercise. The share options could be exercised when at least two years and no more than five years had passed from the time of granting. Special conditions applied regarding illness, death and resignation as well as changes in the A.P. Møller – Mærsk A/S capital structure, etc. The share options could only be settled in shares.

Total value of granted share options recognised in the income statement is a cost of USD nil (2017: USD nil / 2016: USD nil).

No share options were exercised in 2018. In 2017 the weighted average share price at the dates of exercise of share options in previous years were DKK 11,557 (USD 1,752) (2016: DKK 10,322 (USD 1,533)).

Of the 1,885 share options outstanding at 1 January 2016, 80 were exercised at an average exercise price of DKK 8,298 (USD 1,232) and 845 were forfeited in 2016 and 960 were exercised in 2017 at an average exercise price of DKK 8,298 (USD 1,258).

The average remaining contractual life as per 31 December 2018 is 0 years (2017: 0 years / 2016: 0.3 years). The exercise price for outstanding share options as at 31 December 2016 was DKK 8,298 (USD 1,177) (1 January 2016: DKK 8,298 to DKK 9,919 (USD 1,215 to USD 1,452)).

Amounts in USD million

NOTE 4.4

Related parties

	Controlling parties				Other related parties			
	2018	2017	2016	1 January 2016	**2018**	2017	2016	1 January 2016
Income statement								
Revenue	-	-	41		34	196	39	
Costs	13	77	91		14	15	6	
Financial income	46	41	21		-	8	4	
Financial expenses	43	65	70		0	2	34	
Assets								
Loans receivables	2	3,390	3,719	3,177	-	-	443	250
Trade receivables	-	2	1	0	2	19	26	23
Derivatives	-	2	1	1	-	-	-	-
Other receivables	6	-	3	3	-	6	15	9
Cash and bank balances	-	-	-	-	258	0	1	2
Liabilities								
Borrowings	-	1,632	1,953	1,969	105	-	-	1,006
Trade payables	-	10	1	2	5	11	9	13
Derivatives	-	-	2	2	0	-	0	1
Other payables	4	32	35	27	3	-	20	25
Dividends declared	3,337	-	1,026	-	-	-	-	-

The following related parties have a controlling interest in Maersk Drilling Holding A/S
The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal, Copenhagen, Denmark and A.P. Møller Holding A/S has control over the A.P. Moller – Maersk Group. A.P. Møller – Mærsk A/S, Esplanaden 50, 1098 Copenhagen K, is the 100% owner of Maersk Drilling Holding A/S.

Key management personnel
Related parties include the Group's key management personnel. Remuneration hereof is disclosed in note 1.3.

Other related parties
The Board of Directors and the Executive Management of A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal, A.P. Møller Holding A/S, A.P. Møller - Mærsk A/S, and their close relatives including undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including other subsidiaries and affiliates to A.P. Møller – Mærsk A/S.

The drilling activities of the A.P. Moller – Maersk Group previously included the Egyptian Drilling Company (EDC) joint venture. EDC was legally owned by A.P. Møller – Mærsk A/S, and is not included in these consolidated financial statements. EDC was sold by the A.P. Moller – Maersk Group at December 18, 2017.

Other related party transations
Commission to Maersk Broker for Maersk Drilling newbuildings amounts to USD 0m (2017: USD 2m / 2016: USD 0m).

NOTE 4.5

Subesequent events

No events have occurred after the balance sheet date which are expected to have a material impact on the consolidated financial statements.

NOTE 5.1

Basis of preparation

Basis of preparation
This Annual Report reflect the consolidated figures for Maersk Drilling Holding A/S and its subsidiaries (the "Group" or "Maersk Drilling").

All amounts in the Annual Report are stated in United States Dollars (USD) and rounded to the nearest million. The accounting policies described have been applied consistently for the financial year and for the comparative figures.

First time adoption of IFRS
For all periods up to and including the year ended 31 December 2017, the parent company, Maersk Drilling Holding A/S, has prepared separate financial statements in accordance with the Danish Financial Statements Act. These consolidated financial statements for the year ended 31 December 2018 are the first consolidated financial statements prepared in accordance with IFRS as adopted by the EU and further requirements in the Danish Financial Statements Act. Accordingly, Maersk Drilling has prepared consolidated financial statements for the year ended 31 December 2018 together with comparative figures for the years ended 31 December 2017 and 31 December 2016 and as of 1 January 2016 that comply with IFRS as adopted by the EU applicable as at 31 December 2018, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS as adopted by the EU.

As a Business Unit in the A.P. Moller – Maersk Group, the accounting policies applied by Maersk Drilling have been aligned with IFRS, and as such no material differences exists between the recognition and measurement criteria historically applied in the financial reporting to the A.P. Moller – Maersk Group and the criteria applied in the preparation of these consolidated financial statements. In addition, no objective evidence have been identified to suggest that estimates made under previous accounting policies were in error, and, as such, no adjustments have been recognised to opening equity upon the transition to IFRS. Accordingly, no reconciliations of impact are presented in these consolidation financial statements.

In accordance with IFRS 1, these consolidated financial statements comply with IFRS as adopted by the EU applicable as at 31 December 2018. All standards are applied fully retrospectively, considering transition options in IFRS 1. This also applies for IFRS 9 and IFRS 15 which became effective 1 January 2018 but have been applied retrospectively.

Separation from the A.P. Moller – Maersk Group
The Group comprises Maersk Drilling Holding A/S and all its subsidiaries as set out in the company overview. Historically, the Group has legally comprised activities not related to the present Maersk Drilling, and certain activities related to Maersk Drilling were legally owned by entities which were not part of the present Group, but under the common control of A.P. Møller – Mærsk A/S. During 2016 and 2017, the legal structure were adjusted by means of sales, capital contributions and dividend distributions, but throughout 2018, Maersk Drilling Holding A/S and its subsidiaries have comprised all of and only the Maersk Drilling related activities of the A.P. Moller – Maersk Group.

In 2016, Maersk Drilling Holding A/S received non-cash contributions of USD 1,230m cf. statement of changes in equity, which was used to repay debt to A.P. Møller - Mærsk A/S as a non-cash transaction.

In 2017, a legal restructuring was completed regarding The Maersk Company Limited (TMCL) subgroup as part of the carve-out of non-drilling activities. Two drillships owned by TMCL on a finance lease were sold together with related assets and liabilities to other legal entities owned by Maersk Drilling Holding A/S. Subsequent to the internal restructuring TMCL included only non-drilling activities which was sold to A.P. Møller - Mærsk A/S at carrying amount in November 2017.

Also in 2017, A.P. Møller - Mærsk A/S transferred the assets, liabilities and activities related to the four rigs Mærsk Gallant, Maersk Giant, Maersk Innovator and Mærsk Inspirer to a company now named Maersk Drilling North Sea A/S. Subsequently, A.P. Møller - Mærsk A/S transferred the shares in Maersk Drilling North Sea A/S to Maersk Drilling A/S as a tax-exempt contribution without payment or issuance of new shares. As the transfer of the four rigs and related assets and liabilities was a transaction under common control, the transaction has been accounted for by applying the pooling of interest method. The comparison figures as of and for the years ended 31 December 2017 and 31 December 2016 and as of 1 January 2016 have therefore been prepared as if the four rigs and related activities were always part of Maersk Drilling.

Certain net assets in the amount of USD 526m previously part of the Maersk Drilling segment and related to the four rigs, were not part of the transfer and is presented as a dividend distribution at the time of the transfer of the rigs in 2017 in the statement of changes in equity.

New reporting requirements
Maersk Drilling has not yet applied IFRS 16 Leases, which is endorsed by the EU and effective from 1 January 2019.

Maersk Drilling has in all material respect concluded the analysis of the impending changes resulting from IFRS 16. Maersk Drilling will apply the simplified approach with no restatement of comparative figures for prior periods and no reassessment of lease definitions compared to the existing under IAS 17 and IFRIC 4 will be performed.
The requirement in IFRS 16 to recognise a right-of-use asset and a related lease liability is expected to have an immaterial impact on the amounts recognised in the consolidated financial statements. As at 31 December 2018, Maersk Drilling had undiscounted operating lease commitments of USD 47m (2017: USD 43m / 2016: USD 68m / 1 January 2016: USD 77m) and have recognised USD 20m of operating lease expenses in 2018 (2017: USD 9m / 2016: USD 10m).
The operating lease expenses include rental of operating equipment on short-term contracts.

Subsequent to adoption of IFRS 16, profit before depreciation and amortisation, impairment losses and special items will increase, as approximately USD 10m of operating lease expenses currently recognised will be replaced by depreciation and interest expenses. The impact on profit/loss for the year will be neutral over time, but a timing effect will occur due to frontloading of interest expenses. Cash flow from operating activities will increase but be offset by an increased cash outflow from financing activities, and, accordingly, there will be no change in the underlying cash flow for the year.

IFRS 16 does not introduce material changes from a lessor perspective, and Maersk Drilling expects no changes in the composition of the balance sheet from the adoption of IFRS 16 resulting from current contracts with costumers. Revenue from drilling activities is recognised in accordance with the agreed day rates for the work performed to date.

NOTE 5.2

Significant accounting policies

Consolidation
Consolidation is performed by summarising the financial statements of the entities within the Group as described in note 5.1. Internal income and expenses, shareholdings, dividends, balances and gains on internal transactions within the Group are eliminated.

Foreign currency translation
The consolidated financial statements are presented in USD, which is also the functional currency of most material companies within the Group.

Transactions in currencies other than the functional currency are translated at the exchange rate prevailing at the date of the transaction. Monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rate as at the balance sheet date. Foreign exchange gains and losses are included in the income statement as financial income or expenses.

Segment information
The allocation of business activities into segments is in line with the internal management reporting provided to the chief operating decision maker. The reportable segments are as follows:

Jack-up rigs	Jack-up rigs operating in depths up to 500 ft and comprise the aggregated operating segments, harsh environment jack-up rigs and international jack-up rigs, as they have similar economic characteristics, share the same customers and are largely interchangeable.
Floaters	Semi-submersible rigs and drillships operating in depths up to 12,000 ft.

Segment profit/loss (defined as profit/loss before before depreciation and amortisation, impairment losses/reversals and special items) comprise items directly related to or which can be allocated to segments. Costs in group functions are allocated to reportable segments if they can be allocated to segments. Financial assets, liabilities, income and expenses from these items, and tax are not attributed to reportable segments.

Income statement
Revenue from drilling activities, is recognised in accordance with the agreed day rates for the work performed to date. Mobilisation fees are recognised straight-line over the contract period, along with amortisation of mobilisation costs. Compensations received, or receivable, for early termination are recognised as revenue with deferral of an estimated value of any obligations to standing ready for new engagements in the remaining contract period.

Operating costs comprise costs incurred in generating revenue for the year, this includes costs for crew, repair and maintenance, but excludes **sales, general and administrative costs**, which are presented separately.

Special items comprise non-recurring income and expenses that are not considered part of Maersk Drilling's ordinary operations, such as gains and losses on divestments, compensation from shipyards and restructuring projects, including separation and demerger costs.

Financial income and expenses comprise of interest income and expenses, foreign exchange gains/losses, realised and unrealised gains/losses on financial instruments and bank fees and transaction costs related to borrowings. Financial income and expenses are recognised in the income statement on an accrual basis related to the year it is recognised.

Tax comprises an estimate of current and deferred income tax as well as adjustments to previous years for the individual entities covered by the special purpose combined financial statements. Income tax is tax on taxable profits and consists of corporation tax, withholding tax of dividends, etc. Tax is recognised in the income statement to the extent it arises from items recognised in the income statement, including tax of gains on intra-group transactions that have been eliminated in the consolidation.

Statement of comprehensive income
Other comprehensive income consists of income and costs not recognised in the income statement, cash flow hedges as well as actuarial gains/losses on defined benefit plans, etc.

Other comprehensive income includes current and deferred income tax to the extent the items recognised in other comprehensive income are taxable or deductible.

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. Customer contracts will be amortised over the contract period. Estimated useful lives and residual values are reassessed on a regular basis.

	Useful life (years)	Residual value
Customer contract	5 years	0%
IT Software	3-5 years	0%

NOTE 5.2 - continued

Significant accounting policies

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives at an estimated residual value:

	Useful life (years)	Residual value
Rigs, Hull	25 years	30%
Rigs, Drilling Equipment/owner furnished equipment long	20 years	10%
Rigs, Drilling Equipment/owner furnished equipment short	10 years	0%
Rigs, Initial offshore inventory	10 years	0%
Rigs, Other	5 years	0%
Rigs, 5 year special periodic survey	5 years	0%

Special items comprise non-recurring income and expenses that are not considered part of Maersk Drilling's ordinary operations, such as gains and losses on divestments, compensation from shipyards and restructuring projects, including separation and demerger costs.

Financial income and expenses comprise of interest income and expenses, foreign exchange gains/losses, realised and unrealised gains/losses on financial instruments and bank fees and transaction costs related to borrowings. Financial income and expenses are recognised in the income statement on an accrual basis related to the year it is recognised.

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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. Customer contracts will be amortised over the contract period. Estimated useful lives and residual values are reassessed on a regular basis.

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives at an estimated residual value:

Estimated useful lives and residual values are reassessed on a regular basis.

The cost of an asset is divided into separate components, which are depreciated separately if the useful lives of the individual components differ. The 5 year special periodic survey costs are recognised in the carrying amount of rigs when incurred and depreciated over the period until the next 5 year special survey. Costs of on-going routine maintenance of the assets are expensed as incurred.

The cost of assets constructed by Maersk Drilling includes directly attributable expenses. For assets with a long construction period, borrowing costs during the construction period from specific as well as general borrowings are attributed to cost.

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 of disposal. The value in use is estimated as the present value of the future cash flows that Maersk Drilling expects to derive from the asset.

Intangible assets and property, plant and equipment are tested for impairment, if there is an indication of impairment.

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

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently reassessed unless there are changes to the contractual terms. Contracts which transfer all significant risks and benefits associated with the underlying asset to the lessee are classified as finance leases.

Loans and receivables are initially recognised at fair value, plus any direct transaction costs and subsequently measured at amortised cost using the effective interest method. Write-down is made for anticipated losses based on specific individual or group assessments when objective evidence of impairment exist.

Prepayments comprise capitalised mobilisation and start-up costs, prepaid costs and other consumables.
Equity includes total comprehensive income for the year comprising the profit/loss for the year and other comprehensive income.

Reserve for hedges includes the accumulated fair value of derivatives qualifying for cash flow hedge accounting, net of tax.

Equity settled performance shares, restricted shares and share options allocated to the executive employees of Maersk Drilling as part of A.P. Moller – Maersk's long-term incentive programme are recognised as staff costs over the vesting period at estimated fair value at the grant date and a corresponding adjustment in equity.

NOTE 5.2 - continued

Significant accounting policies

At the end of each reporting period, Maersk Drilling revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions and service conditions. Any impact of the revision is recognised in the income statement with a corresponding adjustment to equity.

Maersk Drilling settles the grants with A.P. Moller – Maersk based on the value of the grants.

Provisions are recognised when Maersk Drilling has a present legal or constructive obligation from past events. The item includes, among other, provisions for legal disputes, disputes over indirect taxes or duties and restructuring provisions. Provisions are recognised based on best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

Deferred tax is calculated on temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax is not recognised for differences on the initial recognition of assets or liabilities where at the time of the transaction neither accounting nor taxable profit/loss is affected, unless the differences arise in a business combination. In addition, no deferred tax is recognised for undistributed earnings in subsidiaries, when Maersk Drilling controls the timing of dividends, and no taxable dividends are currently expected. A deferred tax asset is recognised to the extent that it is probable that it can be utilised within a foreseeable future.

Financial liabilities are initially recognised at fair value less transaction costs. Subsequently, the financial liabilities are measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities.

Deferred income comprises of payments received from the customers, where recognition of revenue has been deferred, cf. accounting policy for revenue.

Derivative financial instruments
Derivative financial instruments are recognised on the trading date and measured at fair value using generally acknowledged valuation techniques based on relevant observable swap curves and exchange rates.

The effective portion of changes in the value of derivative financial instruments designated to hedge highly probable future transactions is recognised in other comprehensive income until the hedged transactions are realised. At that time, the cumulated gains/losses are transferred to the items under which the hedged transactions are recognised.
The ineffective portion of hedge transactions and changes in the fair values of derivative financial instruments, which do not qualify for hedge accounting, are recognised in the income statement as financial income or expenses for currency based instruments.

Cash flow statement
Cash flow from operating activities includes all cash transactions other than cash flows arisen from investments and divestments, principal payments of loans, instalments on finance lease liabilities, financial income received, financial expenses paid and equity transactions. Capitalisation of borrowing costs are considered as non-cash items, and the actual payments of those are included in cash flow from financing activities.

NOTE 5.3

Significant accounting estimates and judgements

The preparation of these consolidated financial statements requires management, on an ongoing basis, to make judgements and estimates and form assumptions that affect the reported amounts. Management forms its judgements and estimates on historical experience, independent advisors and external data points as well as in-house specialists and on other factors believed to be reasonable under the circumstances.

In certain areas, the outcome of business plans, including ongoing negotiations with external parties to execute those plans or to settle claims that are raised against Maersk Drilling, is highly uncertain. Therefore, assumptions may change or the outcome may differ in the coming years, which could require a material upward or downward adjustment to the carrying amounts of assets and liabilities. This note includes the areas, in which Maersk Drilling is particularly exposed to a material adjustment of the carrying amounts as at the end of 2018.

Aspects of uncertainty
In its assumption setting, management deals with uncertainty in different aspects. One aspect of uncertainty is whether an asset or liability exists where the assessment is basis for recognition or de-recognition decisions, including assessment of control. Another aspect is the measurement uncertainty, where management makes assumptions about the value of the assets and liabilities that are deemed to exist. These assumptions concern the timing and amount of future cash flows and the risks inherent in these.

Supply/demand for drilling rigs
Maersk Drilling is impacted by the demand for rigs as the oil companies may cancel or defer projects and exert pressure for lower rates, more contract flexibility and low cost solutions when oil prices are low. Hence, the future long-term development in the oil price is (indirectly) impacting accounting estimates for Maersk Drilling through the demand for drilling rigs.

Property, plant and equipment
Propert, plant and equipment are depreciated over their useful economic lives. Management assesses impairment indicators across this asset base. Judgement is applied in the definition of cash generating units and in the selection of methodologies and assumptions for impairment tests.

Maersk Drilling considers rigs with similar functionality and operating environment as cash generating units due to largely interdependent cash flows.

Projected cash flow models are used when fair value is not obtainable or when fair value is deemed lower than value in use. External data is used to the extent possible and centralised processes, involving corporate functions, ensure that indexes or data sources are selected consistently observing differences in risks and other circumstances. Current market values for rigs are estimated using acknowledged brokers, but may be impacted by distress in the market.

Impairment considerations
Following the decline in the oil price from mid-2014, oil companies dramatically reduced their exploration and development activities adversely impacting offshore drilling activities. In addition, a decline in the breakeven price for shale oil production made this the lowest cost option for new oil production. In 2018, free cash flow generation by the oil and gas companies increased compared to 2017, as a result of the higher average oil prices in 2018.

NOTE 5.3 - continued

Significant accounting estimates and judgements

Oil and gas operators continued to optimise their business models and structurally reduce offshore project costs through project optimisation, standardisation, digitisation, simplification, and service deflation. As a result of the structural approach to reducing offshore project costs, offshore project economics have improved significantly both in absolute terms as well as relative to other sources, including unconventional sources (shale oil). Consequently, offshore rig utilisation levels have been positively impacted by these demand- and supply-side factors.

Supply/demand imbalance in the offshore rig market along with any uncertainty in regards to the future oil price projections driving demand were the key drivers for the impairment losses in Maersk Drilling in 2016 and 2017. Based on the challenging market conditions impairment losses of USD 1.8bn and USD 1.5bn were recognised by Maersk Drilling in 2017 and 2016, respectively.

Operator demand for offshore drilling rigs rose during 2018, with demand for jack-up rigs growing slightly higher than the demand for floaters. Contractors continued to reduce offshore drilling rig supply, as 37 jack-ups and 20 floaters were scrapped during the year. 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.

These factors have led to a change in management's expectations of the longer term prospects for the offshore drilling business, which is now more positive. The day rates in the medium term are expected to moderately increase compared to the all-time low rates but not to the same level as before the decrease in the oil price in 2014. In line with analysts in the market, management expects a gradual move towards more economically sustainable rates in the long-term.

The fair value estimates using the market approach 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 and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin after the budget period are critical variables.

Refer to note 2.3 for information about impairment losses, recoverable amounts and discount rates and sensitivity disclosures.

Depreciation and residual values

Useful lives are estimated based on past experience. Management decides from time to time to revise the estimates for individual assets or groups of assets with similar characteristics due to factors such as quality of maintenance and repair, technical development and environmental requirements. Refer to note 5.2 for the useful lives typically used for new assets.

Residual values are difficult to estimate given the long lives of rigs, the uncertainty as to future economic conditions and the future price of steel, which are considered as the main determinant of the residual price. The long-term view is prioritised in order to disregard, to the extent possible, temporary market fluctuations which may be significant.

Legal disputes, uncertain tax positions, etc.

Management's estimate of the provisions in connection with legal disputes, including disputes on taxes and duties, is based on the knowledge available on the actual substance of the cases and a legal assessment of these. The resolution of legal disputes, through either negotiations or litigation, can take several years to complete and the outcome is subject to considerable uncertainty.

Maersk Drilling is engaged in a limited number of disputes with tax authorities of various scope. In evaluating the accounting impact of uncertain tax positions, Maersk Drilling applies a two stage test in accordance with IAS 12 and IFRIC 23. If it is probable (i.e. a probability of more than 50%) that a tax authority will accept a particular uncertain tax position, then the tax position reported in these consolidated financial statements are consistent with what is or will be used in the tax returns of the entity and no further liability is recognised. However, if it is not probable that a tax authority will accept a particular uncertain tax position then the income tax accounting is adjusted generally by recognising an additional liability. The adjustment could also be a decrease in tax receivables or an adjustment to deferred tax balances depending on the tax position. The uncertain tax position is measured using either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position.

The classification as deferred or current tax is often encumbered with uncertainty due to the nature of these disputes and effects within joint taxation including calculated interest, and final assessments could impact the classifications and estimates of the disputes.

Deferred tax assets

Judgement has been applied in the measurement of deferred tax assets with respect to Maersk Drilling's ability to utilise the assets. Management considers the likelihood of utilisation based on the latest business plans and recent financial performances of the individual entities.

Leasing

Judgement is applied in the classification of lease as operating or finance lease when the Group is a lessor. Maersk Drilling enters into a substantial amount of customer contracts, which are combined lease and service contracts like time charter agreements typically on a day rate basis. Management applies a formalised process for classification and estimation of present values for finance leases with use of specialised staff in corporate functions. Maersk Drilling has no material finance leases.

Parent company financial statements 2018

Amounts in USD million

Maersk Drilling Holding A/S

Income statement

	Note	2018	2017
Costs	1	-0	-
Gross result		**-0**	**-**
Impairment losses	4	-760	-1,374
Profit/loss before financial items		**-760**	**-1,374**
Dividends		1,837	-
Financial income, net	2	26	12
Profit/loss before tax		**1,103**	**-1,362**
Tax	3	-6	-3
Profit/loss for the year		**1,097**	**-1,365**
Appropriation:			
Proposed dividend		-	-
Extraordinary dividends		3,337	-
Retained earnings		-2,240	-1,365
		1,097	**-1,365**

Amounts in USD million

Maersk Drilling Holding A/S

Balance sheet at 31 december

Assets	Note	2018	2017
Non-current assets			
Financial non-current assets			
Investments in subsidiaries	4	4,551	5,311
Total non-current assets		**4,552**	**5,311**
Current assets			
Receivables			
Derivatives, current	5	0	-
Receivables from group enterprises		1,023	1,021
Receivables, etc.		**1,023**	**1,021**
Total current assets		**1,023**	**1,021**
Total assets		**5,574**	**6,332**

Equity and liabilities	Note	2018	2017
Share capital		87	87
Retained earnings		4,001	6,242
Proposed dividend		-	-
Total equity		**4,088**	**6,329**
Non-current liabilities			
Borrowings, non-current	**5**	**1,375**	**-**
Deferred tax liability		6	-
Derivatives, non-current	5	1	-
Other non-current liabilities		**7**	**-**
Total non-current liabilities		**1,382**	**-**
Current liabilities			
Borrowings, current	**5**	**95**	**-**
Trade payables		2	0
Current tax payables		3	3
Derivatives, current	5	0	-
Other payables, etc., current		4	-
Other current liabilities		**9**	**3**
Total current liabilities		**104**	**3**
Total liabilities		**1,486**	**3**
Total equity and liabilities		**5,574**	**6,332**

Amounts in USD million

Maersk Drilling Group

Statement of changes in equity

	Share capital	Retained earnings	Proposed dividend	Total equity
Equity 31 December 2016	87	7,248	500	7,835
Change in accounting policy	-	72	-	72
Adjusted equity 1 January 2017	**87**	**7,320**	**500**	**7,907**
Contribution	-	287	-	287
Dividend to shareholder	-	-	-500	-500
Profit/loss for the year	-	-1,365	-	-1,365
Equity 31 December 2017	**87**	**6,242**	**-**	**6,329**
2018				
Other equity movements	-	-1	-	-1
Dividend to shareholder	-	-3,337	-	-3,337
Profit/loss for the year	-	1,097	-	1,097
Equity 31 December 2018	**87**	**4,001**	**-**	**4,088**

The share capital comprises 500,000 shares of DKK 1,000. No shares hold special rights.

Notes

Amounts in USD million

NOTE 1

Costs

Maersk Drilling Holding A/S has not had employees in 2018 or 2017, as all personnel is employed in affiliated companies. For remuneration of the Board of Directors and Executive Management reference is made to notes 1.3 and 4.3 (share-based payments) in the consolidated financial statements.

NOTE 2

Financial income and expenses

	2018	2017
Interest income from group enterprises	30	12
Financial income	**30**	**12**
Interest expenses	-4	-
Financial expenses	**-4**	**-**
Financial income, net	**26**	**12**

NOTE 3

Tax

	2018	2017
Tax recognised in the income statement		
Current tax on profits for the year	-0	3
Adjustment for current tax of prior periods	0	0
Total current tax	**-0**	**3**
Deferred tax, temporary differences	6	-
Total deferred tax	**6**	**-**
Total tax expense	**6**	**3**

NOTE 4

Investments in subsidiaries

	Investments in subsidiaires
Cost	
1 January 2017	6,398
Contribution	287
31 December 2017	**6,685**
31 December 2018	**6,685**
Impairment losses	
1 January 2017	-
Impairment losses	1,374
31 December 2017	**1,374**
Impairment losses	760
31 December 2018	**2,134**
Carrying amount:	
31 December 2017	**5,311**
31 December 2018	**4,551**

Valuation of Investment in subsidiaries

At 31 December 2018, the carrying amount of investment in subsidiaries was tested for impairment, and an impairment of USD 760m (2017: USD 1,374m) was recognised, primarily due to dividends distributed by subsidiaries. Reference is made to note 2.3 in the consolidated financial statements for a description of the key assumptions applied in the impairment test.

List of subsidiaries

Reference is made to page 92 for a list of subsidiaries.
Maersk Drilling A/S is the only direct subsidiary of the Company.

NOTE 5

Borrowings

At 31 December 2018, notional borrowings amounting to USD 1,500m, had a carrying amount of USD 1,470m. Notional borrowings of USD 236m matures after more than five years.

Interest rate risk
Interest rate risk comprvises the risk that future cash flows from financial instruments will fluctuate because of changes in market interest rates. The interest rate exposure arises from loans and other credit facilities carrying floating interest rates. The exposure towards interest rates are mitigated by entering into fixed rate loans or interest rate swaps.

The Company enters into interest rate swaps in order to mitigate interest rate exposure on term loans. Interest rate swaps are used to swap variable interest payments on term loans to fixed interest payments. All interest rate swaps are designated as cash flow hedges and matures over five years.

The notional amount of interest rate swaps at 31 December 2018 amounts to USD 781m, and are all denominated in USD. The average fixed rate of the interest rate swaps are 2.6%.

NOTE 6

Contingent liabilities

Shares in the subsidiary are pledged as security for borrowings with a carrying amount at 31 December 2018 of USD 1,470m and undrawn credit facilities of USD 400m.

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.

Subsidiaries are involved in a number of legal disputes. Subsidiaries are also involved in tax disputes in certain countries. Some of these involve significant amounts and are subject to considerable uncertainty.

NOTE 7

Related parties

The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal, Copenhagen, Denmark and A.P. Møller Holding A/S has control over the A.P. Moller – Maersk Group.
A.P. Møller – Mærsk A/S, Esplanaden 50, 1098 Copenhagen K, is the 100% owner of Maersk Drilling Holding A/S.

Key management personnel
Related parties include the Company's key management personnel. Remuneration hereof is disclosed in note 1.3 in the consolidated financial statements.

Other related parties
The Board of Directors and the Executive Management of A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal, A.P. Møller Holding A/S, A.P. Møller - Mærsk A/S, and their close relatives including undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including other subsidiaries and affiliates to A.P. Møller – Mærsk A/S.

During 2017, A.P. Møller - Mærsk A/S transferred the assets, liabilities and activities related to the four rigs Maersk Gallant, Maersk Giant, Maersk Innovator and Maersk Inspirer to the company Phoenix I A/S (now named Maersk Drilling North Sea A/S) as an equity transaction with effect from 1 January 2017 and based on A.P. Møller - Mærsk A/S' accounting values as at 1 January 2017. Subsequently, A.P. Møller - Mærsk A/S at the same date transferred the shares in Maersk Drilling North Sea A/S - as a tax-exempt contribution without payment or issuance of new shares - to Maersk Drilling A/S, a subsidiary of Maersk Drilling Holding A/S. The related impact on retained earnings in Maersk Drilling Holding A/S was USD 287m.

All other transactions with related parties have been conducted at arm's length.

Consolidation
A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate owner. A.P. Møller Holding A/S is the ultimate parent company that prepares consolidated financial statements. The immediate parent company A.P. Møller – Mærsk A/S prepares consolidated financial statements.

Amounts in USD million

NOTE 8

Significant accounting policies

The Financial Statements of Maersk Drilling Holding A/S for 2018 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium reporting class C entities.

Change in accounting policies for investments in subsidiaries
In 2018, the Company has changed from reporting under the provisions applying to reporting class B entities to reporting under the provisions applying to medium reporting class C entities. This has solely implied new or changed presentation and disclosure requirements. Comparative figures have been restated where required.

The Company has changed accounting policies for investments in subsidiaries in the parent financial statements, accounting for these at cost going forward. Consequently, dividends received from investments in subsidiaries, are recognised through the income statement. In prior years, investments in subsidiaries were accounted for using the equity method, with the share of the profit for the year for subsidiaries recognised through the income statement. This change has led to an increase of profit for the year of USD 136m (2017: USD 67m decrease in loss for the year). It has led to an increase in investments in subsidiaries and of equity with USD 279m as of 31 December 2018 (31 December 2017: increase of USD 140m). The change in accounting policy has not had an impact on deferred or current taxes. Comparative figures have been restated to reflect the change in accounting policy.

As from 2018, consolidated financial statements will be prepared by Maersk Drilling Holding A/S providing insight into the financial performance of Maersk Drilling Holding A/S and its subsidiaries combined. It is therefore Maersk Drilling's assessment that accounting for investments in subsidiaries at cost will provide a more true and fair view to the readers of the parent company financial statements and the annual report as a whole.

Apart from the above changes the accounting policies are consistent with those of last year.

Cash flow statement
With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared.

Income statement
Other external cost
Other external costs comprise expenses incurred during the year for mainly professional fees.

Dividends from subsidiaries
Dividends from subsidiaries are recognised as income at the time of declaration. If dividends declared exceed total comprehensive income for the year in the subsidiary, or if the carrying amount of the subsidiary exceeds the carrying amount of the net assets in the subsidiary an impairment test is prepared.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on result for the year
Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the result for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The Company is part of A.P. Møller Holding A/S' joint taxation. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with refund concerning tax losses).

Balance sheet
Investments in subsidiaries
Investments in subsidiaries are measured at cost or at a lower recoverable amount.

If indications of impairments are identified, an impairment test as described in the accounting policies for the consolidated financial statements is prepared. If the recoverable amount is lower than the carrying amount, the asset is written down to its lower recoverable amount.

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.

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

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 liabilities
Financial liabilities are initially recognised at fair value less transaction costs. Subsequently, the financial liabilities are measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities.

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 2017, the exchange rate DKK/USD was 620.77 (2016: 705.50).

Amounts in USD million

NOTE 9

Significant accounting estimates and judgements

When preparing the financial statements of the Company, management undertakes a number of accounting estimates and judgements to recognise, measure and classify the Company's assets and liabilities. The only significant accounting estimate and judgement relates to the assessment of impairment of investments in subsidiaries.

Management assesses impairment indicators for investments in subsidiaries, and determines the recoverable amount generally consistent with the assumptions described in note 2.3 of the Consolidated financial statements to which reference is made.

NOTE 10

Subesequent events

No events have occurred after the balance sheet date which are expected to have a material impact on the parent company financial statements.

Statement of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today discussed and approved the Annual Report of Maersk Drilling Holding A/S for 2018.

The consolidated financial statements for 2018 of Maersk Drilling Holding A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act, and the parent company financial statements have been prepared in accordance with the Danish Financial Statements Act. The Directors' report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Annual Report gives a true and fair view of the Group's and the Company's, financial position at 31 December 2018 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 2018.

In our opinion, the Directors' report includes a fair review of the development in the Group's and the Company's operations and financial matters, the results for the year, financial position and the Group's cash flows as well as a description of the most significant risks and uncertainties that the Group and the Company face.

We recommend that the Annual Report be approved at the Annual General Meeting.

Copenhagen, 7 February 2019

Executive Management

Jørn Madsen
CEO

Jesper Ridder Olsen
CFO

Board of Directors

Claus V. Hemmingsen
Chairman

Robert M. Uggla
Vice Chairman

Robert Routs

Kathleen McAllister

Martin Larsen

Mads Winther

Independent Auditor's Report

To the Shareholders of Maersk Drilling Holding A/S

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the parent company financial statements give a true and fair view of the parent company's financial position at 31 December 2018 and of the results of the parent company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the consolidated financial statements and the parent company financial statements of Maersk Drilling Holding A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("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 Group 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 Director's Report
Management is responsible for Director's Report.

Our opinion on the financial statements does not cover Director's 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 Director's Report and, in doing so, consider whether Director's 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 Director's Report provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Director's Report is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Director's Report.

Management's responsibilities for the financial statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company 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 Group's and the parent 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 Group or the parent 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 Group's and the Parent 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 Group's and the parent 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 Group and the parent 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, 7 February 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Rasmus Friis Jørgensen	Thomas Wraae Holm
State Authorised	State Authorised
Public Accountant	Public Accountant
mne28705	mne30141

Additional information

Board of Directors

Image from the left, Martin Larsen, Kathleen McAllister, Robert Routs, Robert M. Uggla, Claus V. Hemmingsen, Mads Winther.

Claus V. Hemmingsen
Chairman

Born	1962
Gender	Male
Joined the board	November 2012
Term of office will end	2020

Vice CEO of A.P. Møller – Mærsk A/S

OTHER MANAGEMENT DUTIES, ETC.: A.P. Moller – Maersk's Energy Division (CEO); DFDS A/S (Chairman); the Danish-Chinese Business Forum (Chairman); Danske Rederier (Vice Chairman); Maersk Supply Service A/S (Chairman); Three subsidiaries of A.P. Møller – Mærsk A/S; Skibsfartsnævnet (Chairman); Relief Foundation (Board member); the International Chamber of Shipping (Board member).

Not considered independent.

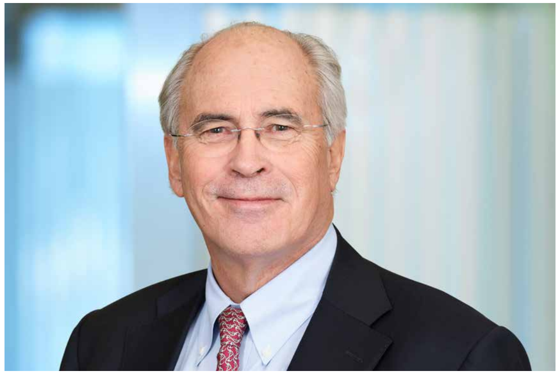
Robert M. Uggla
Vice Chairman

Born	1978
Gender	Male
Joined the board	January 2019
Term of office will end	2020

CEO of A.P. Møller Holding A/S
Member of the Board of Directors of A.P. Møller – Mærsk A/S

OTHER MANAGEMENT DUTIES, ETC.: Agata ApS (CEO); A.P. Møller Capital P/S (Chairman); Estemco XII ApS (CEO); Maersk Product Tankers A/S (Chairman); Four subsidiaries of A.P. Møller Holding A/S; Foundation Board of IMD (Board member).

Not considered independent.



Robert Routs

Born	1946
Gender	Male
Joined the board	January 2019
Term of office will end	2020

Member of the Board of Directors of A.P. Møller – Mærsk A/S

OTHER MANAGEMENT DUTIES, ETC.: Koninklijke DSM N.V. (Chairman); Aecom (Board member) ATCO Ltd. (Board member).

Considered independent.

Kathleen McAllister

Born	1964
Gender	Female
Joined the board	January 2019
Term of office will end	2020

OTHER MANAGEMENT DUTIES, ETC.: Höegh LNG Partners LP (Board member) and Fluid Holding Corp. (the sole shareholder of Q'Max Solutions Inc. - Board member).

Considered independent.

Martin Larsen

Born	1979
Gender	Male
Joined the board	September 2018
Term of office will end	2020

CFO of A.P. Møller Holding A/S

OTHER MANAGEMENT DUTIES, ETC.: A.P. Møller Capital P/S (Board member); Maersk Product Tankers A/S (Board member); Five subsidiaries of A.P. Møller Holding A/S; Assurancefor-eningen Skuld (Gjensidig) (Board member); Navigare Capital Partners A/S (Board member).

Not considered independent.

Mads Winther

Born	1977
Gender	Male
Joined the board	April 2018
Term of office will end	2019

SVP, Head of Strategy and M&A, Energy division, A.P. Møller – Mærsk A/S

OTHER MANAGEMENT DUTIES, ETC.: Maersk Supply Service A/S (Interim CFO and Board member); Seven subsidiaries of A.P. Møller – Mærsk A/S.

Not considered independent.

Executive Management

Image from the left, Jesper Ridder Olsen, Jørn Madsen.

Jørn Madsen
Chief Executive Officer (CEO)

Born	1964
Gender	Male
Year of first employment with Maersk Drilling	1990
Year of appointment to current position in Maersk Drilling:	2016

Jørn has been CEO of Maersk Drilling since November 2016. Prior to his appointment as CEO, Jørn Madsen was CEO of Maersk Supply Service A/S from 2015 to 2016, and prior hereto he has held positions as COO, Managing Director of Maersk Drilling Norge A/S, and Rig Manager in Maersk Drilling from 1990 to 2015. Jørn Madsen is currently Chairman of the Board of Directors of Maersk Decom A/S and a member of the Board of Directors of Maersk Training A/S. Jørn Madsen holds an MBA from IMD/University of Geneva and a Master of Science, Mechanical Engineering from the Technical University of Denmark.

Jesper Ridder Olsen
Chief Financial Officer (CFO)

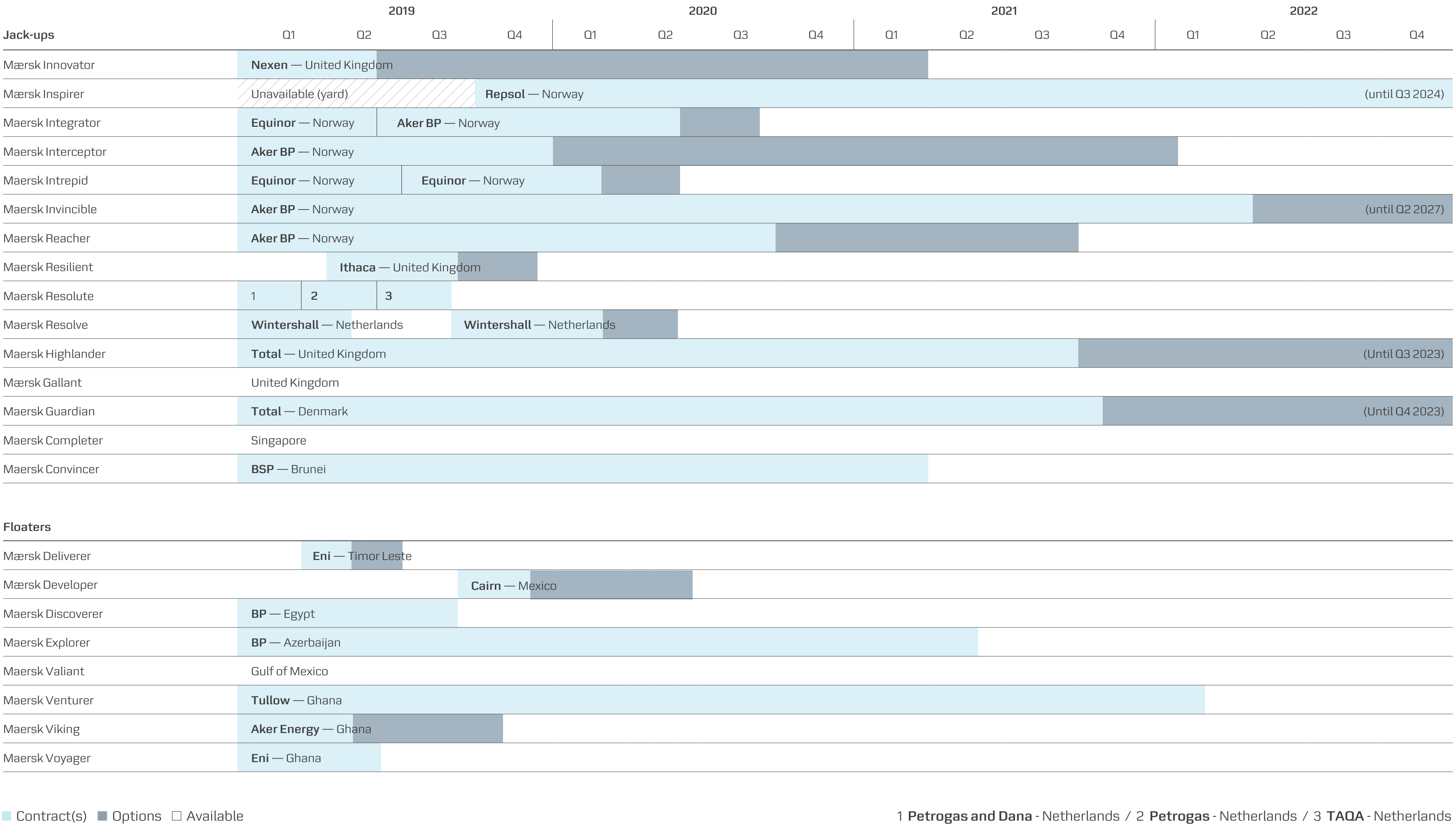
Born	1970
Gender	Male
Year of first employment with Maersk Drilling	2018
Year of appointment to current position in Maerk Drilling:	2018

Jesper has been CFO of Maersk Drilling since September 2018. Prior to his appointment as CFO, Jesper Ridder Olsen was Head of Accounting, Control & Tax of A.P. Moller - Maersk from November 2017 to September 2018. Prior hereto, he has been a partner at Ernst & Young and KPMG where he was a member of the executive management. Jesper Ridder Olsen holds a Master of Science, Business Administration and Auditing, Copenhagen Business School, and was authorised as a State Authorised Public Accountant in 2001.

Senior Management Team

Image from the left: Jesper Ridder Olsen (Chief Financial Officer), Morten Kelstrup (Chief Commercial and Innovation Officer), Angela Durkin (Chief Operating Officer), Nikolaj Svane (Chief HR and Strategy Officer), Jørn Madsen (Chief Executive Officer), Frederik Smidth (Chief Technical Officer), Brian Nygaard (Chief Process and Information Officer and Head of Global Business Solutions).

Fleet status report



Company overview

Maersk Drilling comprises the companies listed below.

Group Companies Company	Country of incorporation	Ownership share
Maersk Drilling A/S	Denmark	100%
Maersk Drilling Services A/S	Denmark	100%
Maersk Drilling UK Limited	UK	100%
Maersk Drilling (UAE) FZE	United Arab Emirates	100%
Maersk Drilling International A/S	Denmark	100%
Maersk Offshore Crew Management (Guernsey) Ltd.	Guernsey	100%
Maersk Drilling Deepwater A/S	Denmark	100%
Maersk Drilling Services LLC	Azerbaijan	100%
Maersk Drilling Labuan Ltd	Malaysia	100%
Maersk Inspirer Operations AS	Norway	100%
Maersk Reacher Operations AS	Norway	100%
Maersk Intrepid Operations AS	Norway	100%
Maersk Integrator Operations AS	Norway	100%
Maersk Drilling Norge AS	Norway	100%
Maersk Invincible Norge A/S	Denmark	100%
Maersk Intrepid Norge A/S	Denmark	100%
Maersk Interceptor Norge A/S	Denmark	100%
Maersk Integrator Norge A/S	Denmark	100%
Mærsk Innovator Norge A/S	Denmark	100%
Mærsk Inspirer Norge A/S	Denmark	100%
Maersk Reacher Norge A/S	Denmark	100%
Mærsk Gallant Norge A/S	Denmark	100%
Maersk Drilling DS A/S	Denmark	100%
Maersk Drilling Americas A/S	Denmark	100%
Maersk Drilling USA Inc	USA	100%
Maersk Developer LLC	USA	100%

Group Companies Company	Country of incorporation	Ownership share
Maersk Viking LLC	USA	100%
Maersk Valiant LLC	USA	100%
Maersk Drilling Brasil Servicos de Perfuracao Maritmos Ltda	Brazil	100%
Maersk Drilling Mexico S.A. de C.V.	Mexico	100%
Maersk Drilling Services S.A. de C.V.	Mexico	100%
Maersk Drilling Australia Pty Ltd.	Australia	100%
Maersk Drilling Holdings Singapore Pte Ltd.	Singapore	100%
Maersk Highlander UK Ltd	UK	100%
Maersk Drillship I Singapore Pte.Ltd.	Singapore	100%
Maersk Drillship II Singapore Pte.Ltd.	Singapore	100%
Maersk Drillship III Singapore Pte Ltd.	Singapore	100%
Maersk Drillship IV Singapore Pte Ltd.	Singapore	100%
Maersk Drilling Nigeria Holdings Pte. Ltd.	Singapore	100%
Maersk Drilling Nigeria Operations Limited	Nigeria	100%
Maersk Drilling Services Singapore Pte. Ltd.	Singapore	100%
Maersk Drilling Deepwater Egypt LLC	Egypt	100%
Maersk Drilling North Sea A/S	Denmark	100%
Maersk Drilling Abu Dhabi Ltd. (W.L.L.)[1]	Abu Dhabi	33%
Maersk Drilling HBA Lda[1]	Angola	49%
Maersk Contractors Qatar W.L.L.[1]	Qatar	49%
Maersk Drilling Malaysia SDN [1]	Malaysia	49%
Maersk Rigworld Ghana Limited[1]	Ghana	65%
Maersk Drilling Nigeria JVCO Limited[1]	Nigeria	49%
Maersk Decom A/S[2]	Denmark	50%
PMD Viking Ghana Ltd[2]	UK	50%

1 Certain entities in which Maersk Drilling has an ownership share of less than 100% but holds the full right to govern and receive dividends through shareholder agreements, etc., are considered subsidiaries and consolidated without any non-controlling interest.

2 Joint venture.

Definitions

Adjusted free cash flow
Cash flow from operating activities less cash flow used for investing activities, adjusted for newbuild cash flow.

Asset turnover
Revenue as a percentage of average non-current assets.

Available days
Available days are the aggregate number of calendar days in the period less yard stays, if not paid by customer. For new rigs entering the fleet, available days are from when the rig is ready to operate.

Average day rates
Average day rates are calculated by dividing day rate revenue by the number of contracted days. Day rate revenue includes the contractual rates for when the rig is in operation but also certain amounts received in lump sum such as for rig mobilisation or capital improvement, which are amortised over the initial term of the contract. Revenue attributable to reimbursable expenses is excluded in the calculation of average day rates.

CAPEX
Investments in intangible assets and property, plant and equipment, including additions from business combinations.

Cash conversion
Cash flow from operating activities as a percentage of EBITDA.

Contracted days
Contracted days are days covered by the contract with a customer, including mobilistion or yard stays if payd by the customer.

Deepwater
Water depths greater than 5,000 ft.

Drillship
A vessel that has been fitted with drilling equipment, mainly used for deepwater drilling.

EBIT
Profit/loss before financial items and income taxes.

EBITDA
Profit/loss before depreciation, amortisation and impairment losses, financial items and income taxes.

EBITDA before special items
Profit/loss before depreciation and amortisation, impairment losses and special items, financial items and income taxes.

EBITDA margin before special items
EBITDA before special items as a percentage of revenue.

Equity ratio
Equity as a percentage of total assets.

Financial uptime
Hours that can be invoiced for the rig in use by the customer as a percentage of total hours in period.

Forward contract coverage
Percentage indicating the part of rig days that are contracted for a specific period.

Jack-up rig
A mobile drilling platform that stands on the seabed by means of three steel legs and a self-elevating system that adjusts the platform height to the water depth during the drilling operation, typically used for shallow water drilling.

Leverage
Net debt divided by EBITDA before special items.

Midwater
Water depths 401-5,000 ft.

Net debt
Equals interest-bearing debt less cash and bank balances less other interest-bearing assets.

Return on equity
Profit/loss for the year divided by the average equity.

Revenue backlog
Future contract commitments for a rig, for a particular point in time at which revenues are expected to be realised. Calculated by multiplying contracted day rate by the contract period, excluding any optional extension periods.

Semi-submersible
A mobile vessel that is partially submerged in water during the drilling operation and positioned by means of a conventional mooring system and/or a computerised dynamic positioning system, typically used for midwater and deepwater drilling.

Shallow water
Water depths up to 400 ft.

Special items
Special items comprise non-recurring income and expenses that are not considered part of Maersk Drilling's ordinary operations, such as gains and losses on divestments, compensation from shipyards and restructuring projects, including separation and demerger costs.

Ultra deepwater
Water depths greater than 7,500 ft.

Utilisation
Utilisation is the number of contracted days, divided by the number of available days.

Working capital
Equals trade receivables and other current assets less trade payables and other current payables.

Colophon

Maersk Drilling Holding A/S
CVR no. 34 73 17 21
Lyngby Hovedgade 85
DK-2800 Kgs. Lyngby
Denmark

Board of Directors
Claus V. Hemmingsen, Chairman
Robert M. Uggla, Vice Chairman
Robert Routs
Kathleen McAllister
Martin Larsen
Mads Winther

Executive Management
Jørn Madsen (CEO)
Jesper Ridder Olsen (CFO)

Auditor
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Editor
Christian Huss

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e-Types

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