

# **Maersk Drilling Holding A/S**

Lyngby Hovedgade 85

2800 Kgs. Lyngby

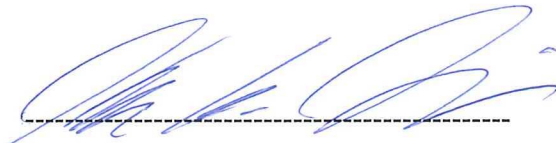
Company Reg. No. 34731721

## **Annual Report 2017**

(Financial year No. 6)

As adopted by the Company at the Annual General Meeting

25 May 2018



Klaus Greven Kristensen

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## Statement of the Board of Directors and Management

The Board of Directors and the Management have today discussed and approved the annual report for 2017 of Maersk Drilling Holding A/S.

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

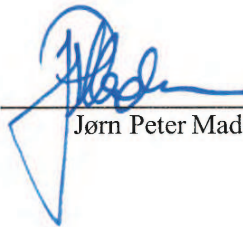
In our opinion, the Financial Statements provide a true and fair view of the Company's assets, liabilities, and financial position 31 December 2017 and of the results of the Company's operations for the financial year 2017.

It is also our opinion that the Management review includes a true and fair view of the development in the Company's operations and financial conditions, the results for the year and financial position.

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

Lyngby, 25 May 2018


Management:



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Jørn Peter Madsen

Board of Directors:



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Claus V. Hemmingsen  
(Chairman)




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Graham Stuart Talbot



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Christian Kledal



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Mads Dehlsen Winther

## Independent Auditor's Report

To the shareholder of Maersk Drilling Holding A/S

### *Opinion*

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Drilling Holding A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

### *Basis for Opinion*

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

### *Statement on Management's Review*

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

## Independent Auditor's Report

### *Management's Responsibilities for the Financial Statements*

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

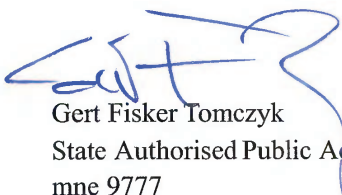
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 25 May 2018


### **PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 33771231



Gert Fisker Tomczyk  
State Authorised Public Accountant  
mne 9777



Thomas Wraae Holm  
State Authorised Public Accountant  
mne 30141

## **Management's Review**

### **Company details**

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

Company Reg. No.: 34731721  
Date of incorporation: 1 November 2012  
Registered office: Lyngby  
Financial year: 1 January 2017 - 31 December 2017

### **Board of Directors**

Claus V. Hemmingsen (Chairman)  
Graham Stuart Talbot  
Christian Kledal  
Mads Dehlsen Winther

### **Management**

Jørn Peter Madsen

### **Auditors**

**PricewaterhouseCoopers**  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK-2900 Hellerup

## **Management's Review**

### **The Company's main activities**

The Company and its subsidiaries is a leading global operator of high-technology drilling rigs, and provides offshore drilling services to oil and gas companies with one of the world's youngest and most advanced fleets.

At July 14, 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 July 14, 2017 and based on A.P. Møller - Mærsk A/S' accounting values as at July 14, 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. The book value of the net assets transferred to Phoenix I A/S amounted to USD 287m.

### **Market risks**

The main risks to the Group's performance and strategy execution relate to future employment of rigs and operational performance. The offshore market continues to remain depressed due to weak demand for drilling rigs and significant excess capacity in global rig supply. Leading indicators, however, showed signs of support for future drilling rig activity. Buoyed by an increase in tendering activity, the number of contracts awarded globally has risen approximately 20% compared to 2016, while the average duration of these contracts remained largely unchanged.

Impairment indicators in Maersk Drilling are lower day rates on new contracts and a decline in fair values of rigs and drillships, which in many cases have dropped below carrying amount. The fair value estimates are highly uncertain due to the character of the assets and few transactions. The value in use calculations for the individual cash generating units are sensitive to the day rates expected to apply when contracts expire and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin in the terminal period are critical variables. The day rates in the short to medium term are significantly lower than the rates at which the Group has prior contracted. In line with analysts in the market, management expects a gradual move towards more economically sustainable rates in the long-term.

### **Development in activities and finances**

The result for the year amounts to USD (1,431)m (2016: USD (950)m). The result before impairments in the company and subsidiaries amounts to USD 234m (2016: USD 525m), which is higher than management expectations. The result from subsidiaries is positively impacted by high operational uptime and effective cost management for rigs in operations and negatively impacted by a number of idle rigs and the expiration of contracts signed at higher day rates as well as by post-tax impairments of USD 1,665m. Compared to the Maersk Drilling business unit included in the consolidated financial statements of A.P. Møller - Maersk Group, the post-tax impairment is lower by USD 85m due to certain parts of the drilling activities which were still with A.P. Møller- Mærsk A/S in 2016 but transferred to Maersk Drilling in 2017 and due to impairment of the investment in the Egyptian Drilling Company Joint Venture which remains with A.P. Møller - Mærsk A/S.



## **Financial Statements 1 January - 31 December**

### **Accounting policies**

The Financial Statements of Maersk Drilling Holding A/S for 2017 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

In accordance with Section 112 of the Danish Financial Statements Act, the Company does not prepare a consolidated report as the Company and its subsidiaries are included in the consolidated report of A.P. Møller - Mærsk A/S.

### **Recognition and measurement**

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, write-downs and provisions and reversals as a result of changes in accounting estimates of amounts previously recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

## **Financial Statements 1 January - 31 December**

### **Accounting policies**

#### **Income statement**

##### **Other external cost**

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

##### **Income from investments in subsidiaries**

“Income from investments in subsidiaries” include share of the profit for the year including goodwill amortisation for subsidiaries accounted for under the equity method and gain on sale of subsidiaries.

##### **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 recognised in the balance sheet at equity value in accordance with the Parent's accounting policies plus value of goodwill calculated according to the purchase method.

The total net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation according to equity method" under equity if positive. Reserve is reduced by dividend payments to the parent company and with certain other changes in equity in subsidiaries.

#### **Impairment of non-current assets**

The carrying amount of investments in subsidiaries are reviewed to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If the recoverable amount is lower than the carrying amount, the asset is written down to its lower recoverable amount.

## Financial Statements 1 January - 31 December

### Accounting policies

#### Balance sheet

##### 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 debt

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

#### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the date of the transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

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

USD is used as functional currency and as presentation currency because the majority of transactions are in U.S. dollars. At 31 December 2017 the exchange rate DKK/USD was 620.77 (2016: 705.50).

## Financial Statements 1 January - 31 December

### Income statement

Note	2017 USD ('000)	2016 USD ('000)
Other external costs	-	(3)
<b>Gross result</b>	<b>-</b>	<b>(3)</b>
4 Income from investments in subsidiaries	(1,440,591)	(954,906)
<b>Result before financial items</b>	<b>(1,440,591)</b>	<b>(954,909)</b>
1 Financial income	12,497	5,774
2 Financial expenses	-	(1)
<b>Result before tax</b>	<b>(1,428,094)</b>	<b>(949,136)</b>
3 Tax on result for the year	(2,834)	(1,259)
<b>Result for the year</b>	<b>(1,430,928)</b>	<b>(950,395)</b>

### Appropriation

Proposed dividend	-	500,000
Retained earnings	(1,430,928)	(567,321)
Reserve for net revaluation according to equity method	-	(883,074)
	<b>(1,430,928)</b>	<b>(950,395)</b>

## Financial Statements 1 January - 31 December

### Balance sheet

Note	ASSETS	2017 USD ('000)	2016 USD ('000)
	<b>Non-current assets</b>		
4	<b>Financial non-current assets</b>		
	Investments in subsidiaries	5,170,976	6,326,833
	<b>Total non-current assets</b>	<b>5,170,976</b>	<b>6,326,833</b>
	<b>Current assets</b>		
	<b>Receivables</b>		
	Receivables from group enterprises	1,020,727	1,509,585
	<b>Total current assets</b>	<b>1,020,727</b>	<b>1,509,585</b>
	<b>TOTAL ASSETS</b>	<b>6,191,703</b>	<b>7,836,418</b>

## Financial Statements 1 January - 31 December

### Balance sheet

Note	EQUITY AND LIABILITIES	2017 USD ('000)	2016 USD ('000)
	<b>Equity</b>		
	Share capital	86,752	86,752
	Reserve for net revaluation according to equity method	–	–
	Retained earnings	6,102,197	7,248,391
	Proposed dividend	–	500,000
	<b>Total equity</b>	<b>6,188,949</b>	<b>7,835,143</b>
	<b>Short-term liabilities</b>		
	Trade payables	3	4
	Payables to group enterprises	1	2
	Current tax payables	2,750	1,269
	<b>Total short-term liabilities</b>	<b>2,754</b>	<b>1,275</b>
	<b>Total liabilities</b>	<b>2,754</b>	<b>1,275</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,191,703</b>	<b>7,836,418</b>
5	<b>Commitments and contingent liabilities, etc.</b>		
6	<b>Employee remuneration</b>		
7	<b>Related parties</b>		
8	<b>Shareholders</b>		
9	<b>Consolidation</b>		
10	<b>Events after the balance sheet date</b>		

## Financial Statements 1 January - 31 December

### Equity statement

USD ('000)	Share- capital	Reserve for net revaluation according to equity method	Retained earnings	Proposed dividend	Total
Equity 1 January 2016	86,752	883,074	6,585,481	0	7,555,307
Contribution	–	–	1,230,000	–	1,230,000
Other equity movements	–	–	231	0	231
Result for the year	–	(883,074)	(567,321)	500,000	(950,395)
<b>Equity 1 January 2017</b>	<b>86,752</b>	<b>–</b>	<b>7,248,391</b>	<b>500,000</b>	<b>7,835,143</b>
Contribution	–	–	286,630	–	286,630
Other equity movements	–	–	(1,896)	–	(1,896)
Dividend to shareholder	–	–	–	(500,000)	(500,000)
Result for the year	–	–	(1,430,928)	–	(1,430,928)
<b>Equity 31 December 2017</b>	<b>86,752</b>	<b>–</b>	<b>6,102,197</b>	<b>–</b>	<b>6,188,949</b>

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

At 1 January 2013 the share capital was changed with a capital increase, contribution in kind of USD 37,728k.

## Financial Statements 1 January - 31 December

### Notes

	<b>2017</b>	<b>2016</b>
	USD ('000)	USD ('000)
<b>1 Financial income</b>		
Interest income from group enterprises	12,497	5,774
	<b>12,497</b>	<b>5,774</b>
<b>2 Financial expenses</b>		
Exchange gain to group enterprises	-	(1)
	-	<b>(1)</b>
<b>3 Tax on the result of the year</b>		
Tax for the year	(2,750)	(1,269)
Adjustments to prior years tax for the year	(84)	10
	<b>(2,834)</b>	<b>(1,259)</b>
<b>4 Financial non-current assets</b>		
USD ('000)		Investments in subsidiaries
Cost price 1 January 2017		6,398,434
Contribution		286,630
Cost price 31 December 2017		6,685,064
Net revaluation 1 January 2017		(71,601)
Net share of result for the year		(1,440,591)
Other adjustments		(1,896)
Net revaluation 31 December 2017		(1,514,088)
<b>Carrying amount 31 December 2017</b>		<b>5,170,976</b>

Net share of result for the year includes post-tax impairment losses of USD 1,665m (2016: USD 1,475m)



## Financial Statements 1 January - 31 December

### Notes

Company and domicile	Owned share
Maersk Drilling A/S, Denmark (owned directly)	100%
Maersk Drilling Americas A/S, Denmark	100%
Maersk Drilling Australia Pty Ltd., Australia	100%
Maersk Drilling Deepwater A/S, Denmark	100%
Maersk Drilling DS A/S, Denmark	100%
Maersk Drilling (Malaysia) DSN. BHD., Malaysia	100%
Maersk Drilling Holdings Singapore Pte Ltd., Singapore	100%
Maersk Drilling International A/S, Denmark	100%
Maersk Drilling Services A/S, Denmark	100%
Maersk Drilling Services LLC, Azerbaijan	100%
Maersk Intrepid Norge A/S, Denmark	100%
Maersk Norge AS, Norway	100%
Maersk Offshore Crew Management (Guernsey) Ltd., Guernsey	100%
Maersk Reacher Norge A/S, Denmark	100%
Maersk Volve A/S, Denmark	100%
Maersk Interceptor Norge A/S, Denmark	100%
Maersk Integrator Norge A/S, Denmark	100%
Maersk Invincible Norge A/S, Denmark	100%
Mærsk Gallant Norge A/S, Denmark	100%
Mærsk Giant Norge A/S, Denmark	100%
Mærsk Guardian Norge A/S, Denmark	100%
Mærsk Innovator Norge A/S, Denmark	100%
Mærsk Inspirer Norge A/S, Denmark	100%
The Maersk Company Limited, UK	100%
Maersk Highlander UK Ltd, UK	100%
Maersk Drilling Mexico S.A de C.V, Mexico	100%
Maersk Drilling North Sea A/S, Denmark	100%

## Financial Statements 1 January - 31 December

### Notes

#### 5 **Commitments and contingent liabilities, etc.**

##### **Contingent liabilities**

The Company is jointly taxed with all other Danish companies in the A.P. Møller Holding Group. As a fully owned subsidiary, the Company has unlimited and joint liability together with the other companies under joint taxation for Danish company tax, withholding taxes on dividends, interest and royalties within the jointly taxed companies.

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.

#### 6 **Employee remuneration**

Maersk Drilling Holding A/S has not had employees in 2017 and 2016. Personnel are hired from affiliates, in the A.P. Møller - Maersk Group. The Board of Directors has not been remunerated.

#### 7 **Related parties**

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. Møller - Maersk Group.

Other related parties with dominant influence include;

- A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen K.

##### **Other related parties**

Subsidiaries and affiliates to A.P. Møller Holding A/S.

Related parties also include the Board of Directors and leading employees and their family members. Related parties also include companies in which the above persons have significant interests.

All transactions with related parties have been made in accordance with arm's length principles. A transfer of activities relating to drillrigs was made from A.P. Møller - Mærsk A/S at book value of USD 287m.

## Financial Statements 1 January - 31 December

### Notes

#### 8 Shareholders

The Company has registered the following shareholder holding minimum 5% of the voting share capital or minimum 5% of the nominal share capital:

A.P. Møller - Mærsk A/S  
Esplanaden 50  
1098 Copenhagen K

#### 9 Consolidation

The consolidated financial statements of A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen can be obtained by contacting this company or at its website [www.maersk.com](http://www.maersk.com). The consolidated financial statements of A.P. Møller - Holding A/S can be obtained by contacting this company.

#### 10 Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.