ENSCO U.K. Limited

Annual report and financial statements

Registered number 4550389

31 December 2016

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2016.

Principal activities

The principal activity of ENSCO U.K. Limited ("the Company") is the leasing of drilling rigs to other fellow subsidiaries of Ensco plc that provide drilling services to the offshore oil and gas industry. The Company does not currently own drilling rigs and must lease rigs from a related party which are then sub-leased to another related party performing the contract on a cost plus basis.

Dividends

Dividends were paid in respect of the year ended 31 December 2016 of $1.3bn. *(2015: $90.0m).*

Directors

The directors who held office during the year and up to the date of this report were as follows:

Julian Richard Hall
Derek Andrew Sangster
Nicolas Jaciuk

The directors benefited from qualifying third party indemnity insurance, which was provided by a fellow group company during the financial year and the date of this report.

Employees

There were no employees of the Company during the year *(2015: nil).*

Political contributions

The Company did not make any political contributions during the year *(2015: $nil).*

Financial instruments

Details of the Company's principal financial instruments are disclosed in notes 9 and 10 to the financial statements.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Nicolas Jaciuk
Director
22 September 2017

100 New Bridge Street
London
EC4V 6JA

Strategic report

Business review and results

Turnover increased by $14.4 million (14%) in 2016 compared with the previous year, primarily due to an increase in income from the chartering of the ENSCO 5006, a semisubmersible rig. The Company also earned interest of 3.8% on an intercompany promissory note of $1.3 billion due to the Company from Ensco Worldwide Investments Limited until it was paid as a dividend to its parent in October 2016.

Principal risks and uncertainties

The Company has minimal risks as its services are solely with fellow Ensco group companies. The principal risks and uncertainties affecting the offshore oil and gas drilling industry include:

- market price of oil and natural gas and the stability thereof;
- global supply and demand for oil and natural gas;
- the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing;
- the level of production by non-OPEC countries;
- worldwide expenditures for offshore oil and natural gas drilling;
- long-term effect of worldwide energy conservation measures;
- the development and use of alternatives to hydrocarbon-based energy sources;
- laws and government regulations that limit, restrict or prohibit exploration and development of oil and natural gas in various jurisdictions;
- advances in exploration and development technology;
- disruption to exploration and development activities due to severe weather conditions and the risk thereof;
- acts of terrorism or military action impacting operations; and
- global economic conditions.

Furthermore, the Company's ultimate parent is subject to a number of risks and uncertainties. Additional discussion of these risks and uncertainties is included in the Ensco plc 2016 financial statements which can be obtained from the address shown in note 12.

Strategic report *(continued)*

Future developments

Operating results in the offshore contract drilling industry are highly cyclical and directly related to the demand for drilling rigs and the available supply of drilling rigs. Demand for drilling rigs is directly related to the regional and worldwide levels of offshore exploration and development spending by oil and gas companies, which is beyond our control.

Oil prices have declined by more than 50% since mid-2014, with crude oil prices continuing to trade at close to $50 per barrel in 2017, in contrast to prices in excess of $100 per barrel in July 2014. The decline in oil prices has caused a significant decline in the demand for offshore drilling services as many projects become uneconomical resulting in fewer market tenders in recent periods.

Operators continue to significantly reduce their capital spending budgets, including the cancellation or deferral of existing programmes, and are expected to continue operating under reduced budgets in the current commodity price environment. These declines in capital spending levels, together with the growing oversupply of rigs, have resulted in significantly reduced day rates and utilization, and we expect this trend to continue.

We expect 2017 to be an increasingly challenging year for drilling contractors, as customers seek to reduce costs in the near-term by delaying drilling programs, re-negotiating existing contract terms, or terminating drilling contracts altogether. We believe the current market dynamics will not change until we see a meaningful recovery in commodity prices.

By order of the board

Nicolas Jaciuk
Director
22 September 2017

100 New Bridge Street
London
EC4V 6JA

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG

Independent auditor's report to the members of ENSCO U.K. Limited

We have audited the financial statements of ENSCO U.K. Limited for the year ended 31 December 2016 set out on pages 6 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Derbyshire

David Derbyshire (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

27 September 2017

Profit and loss account and other comprehensive income
for the year ended 31 December 2016

	Note	2016 $000	2015 $000
Turnover	*3*	**119,533**	105,117
Cost of sales		**(115,508)**	(101,579)
Operating profit	*4-6*	**4,025**	3,538
Interest receivable and similar income	*7*	**44,407**	51,496
Profit before taxation		**48,432**	55,034
Tax on profit	*8*	**(915)**	(9,109)
Profit for the financial year		**47,517**	45,925
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**47,517**	45,925

All of the results above are derived from continuing operations.

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

Balance sheet
at 31 December 2016

	Note	2016	2016	2015	2015
		\$000	**\$000**	\$000	\$000
Current assets					
Debtors (including \$nil *(2015: \$1.3 billion)* due after more than one year)	*9*	**185,062**		1,649,292	
Creditors: amounts falling due within one year	*10*	**(87,543)**		(279,397)	
Net current assets			**97,519**		1,369,895
Total assets less current liabilities			**97,519**		1,369,895
Net assets			**97,519**		1,369,895
Capital and reserves					
Called up share capital	*11*		**2**		2
Share premium account			**50,000**		1,271,000
Profit and loss account			**47,517**		98,893
Shareholder's funds			**97,519**		1,369,895

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 22 September 2017 and were signed on its behalf by:

Nicolas Jaciuk
Director

Statement of changes in equity
for the year ended 31 December 2016

	Called up share capital $000	Share premium account $000	Profit and loss account $000	Total equity $000
At 1 January 2015	2	1,271,000	142,968	1,413,970
Total comprehensive income for the year				
Profit for the year	-	-	45,925	45,925
Total comprehensive income for the year	-	-	45,925	45,925
Transactions with owners recorded directly in equity				
Interim dividend paid	-	-	(90,000)	(90,000)
At 31 December 2015	**2**	**1,271,000**	**98,893**	**1,369,895**
At 1 January 2016	2	1,271,000	98,893	1,369,895
Total comprehensive income for the year				
Profit for the year	-	-	47,517	47,517
Total comprehensive income for the year	-	-	47,517	47,517
Transactions with owners recorded directly in equity				
Capital reduction	-	(1,221,000)	1,221,000	-
Interim dividend paid	-	-	(1,319,893)	(1,319,893)
At 31 December 2016	2	50,000	47,517	97,519

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

Notes

1 Accounting policies

ENSCO U.K. Limited ("the Company") is incorporated and domiciled in the UK. These financial statements were prepared in accordance with Financial Reporting Standard 102 ("FRS 102").

Basis of preparation

The financial statements are prepared on the historical cost basis.

Ensco plc is the largest group in which the results of the Company are consolidated. The consolidated financial statements of Ensco plc are available to the public and may be obtained from the address given in note 13. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

a) Reconciliation of the number of shares outstanding from the beginning to end of the period;

b) Cash Flow Statement and related notes; and

c) Key Management Personnel compensation.

As the consolidated financial statements of Ensco plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The functional currency of the Company is the U.S. dollar. The U.S. dollar is the prevalent currency used within the oil and natural gas industry and the Company has a significant level of U.S. dollar cash flows, assets and liabilities. The financial statements are therefore presented in U.S. dollars.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on page 2. After having made the appropriate inquiries, the directors have a reasonable expectation that the Company has adequate resources to finance its operations for at least the 12 month period following the approval of these financial statements. Consequently, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currencies

The functional currency of the Company is the U.S. dollar. As is customary in the oil and natural gas industry, a majority of the Company's turnover is denominated in U.S. dollars; however, a portion of the turnover and expenses incurred are denominated in currencies other than the U.S. dollar. Non-monetary balances are held at historical exchange rates. Monetary balances are translated at the year-end exchange rates with any gains or losses taken to cost of sales. Transactions are shown in the profit and loss account at the average exchange rate during the month that the transaction occurred. Transaction gains and losses are included in cost of sales in the Company's profit and loss account.

Taxation

The charge for taxation is based on taxable profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more-likely-than-not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes *(continued)*

1 Accounting policies *(continued)*

Interest receivable and similar income

Interest income is recognised in profit or loss on an accruals basis using the effective interest method.

Trade and other debtors /creditors

Trade and other debtors/creditors are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Loans

Loans are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, loans are stated at amortised cost using the effective interest method, less any impairment losses.

Impairment of debtors and loans

Debtors and loans are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A debtor or loan is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of debtors and loans measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired debtor or loan continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Classification of financial instruments issued by the Company

Financial instruments issued are treated as equity only to the extent the following two conditions are achieved:

a) no contractual obligations to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable; and

b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent the above is not met, the proceeds of issue are classified as a financial liability.

Turnover

Turnover represents the amounts derived from the provision of drilling rig services to fellow subsidiaries. Turnover is recognised on an accruals basis on delivery of the related services. Turnover is recorded at the fair value of consideration receivable, net of Value Added Tax.

2 Critical accounting policies and estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the UK requires us to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The significant accounting policies are included in note 1 to the financial statements. These policies, along with the underlying judgments and assumptions made in their application, have a significant impact on the financial statements. The Company identifies the critical accounting policies as those that are the most pervasive and important to the portrayal of the financial position and operating results and that require the most difficult, subjective and/or complex judgments regarding estimates in matters that are inherently uncertain. The Company currently has no critical accounting policies based on the limited nature of its operations.

Notes *(continued)*

3 Analysis of turnover

Turnover, which arises from the provision of services, is analysed by geographical destination as follows:

	2016	2015
	\$000	\$000
Rest of world (non-Europe)	**119,533**	105,117

All of the Company's turnover and the profit before taxation are derived from its principal activity. In the view of the directors, the Company has only one class of business.

4 Notes to the profit and loss account

	2016	2015
	\$000	\$000
Operating profit is stated after charging:		
Bareboat charter hire cost	**115,490**	101,600
Auditor's remuneration:		
Audit of these financial statements	**8**	12

The audit fee is borne by another Ensco plc group company.

5 Remuneration of directors

None of the directors received any remuneration from the Company during the year *(2015: \$nil)*.

6 Staff numbers and costs

The Company had no employees during the year *(2015: nil)*.

7 Interest receivable and similar income

	2016	2015
	\$000	\$000
Income from loans to fellow group companies	**44,407**	51,496

On 1 May 2012, the Company sold two drilling rigs acquired from the Company's immediate parent company Ensco Overseas Limited ("EOL") to a fellow UK Ensco plc group company, Ensco Worldwide Investments Limited ("EWIL"), at no gain/loss. This transaction resulted in an intercompany promissory note of \$1.3 billion due from EWIL.

Interest is receivable on the unpaid principal balance at 3.8% and is paid semi-annually in arrears on 30 June and 31 December. The entire principal balance was repaid in October 2016.

Notes *(continued)*

8 Taxation

Analysis of charge for the year

	2016 $000	2015 $000
UK Corporation Tax		
Current tax on income for the year	-	220
Adjustment in respect of prior periods	-	8,041
Total UK current tax charge	-	8,261
Foreign Tax		
Current tax on income for the year	915	848
Total tax charge	915	9,109

Factors affecting the tax charge for the current year
The tax charge for the year is lower *(2015: lower)* than the standard rate of corporation tax in the UK 20% *(2015: 20.25%)*. The differences are explained below:

	2016 $000	2015 $000
Total tax reconciliation		
Profit before tax	48,432	55,034
Tax at 20% *(2015:20.25%)*	9,686	11,144
Effects of:		
Claim of group relief for nil consideration	(9,686)	(10,924)
Foreign income tax	915	848
Adjustment in respect of prior periods	-	8,041
Total tax charge	915	9,109

The 2015 adjustment in respect of prior year taxation related to the decision made in 2015 to settle certain prior year group relief for consideration.

Factors affecting the future tax charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax (credit) charge accordingly.

Notes *(continued)*

9 Debtors

	2016	2015
	$000	$000
Amounts owed by group companies	22,334	1,552,706
Revolving loan receivable from a group company	162,728	96,586
	185,062	1,649,292

Amounts owed by group companies included a promissory note amounting to $1.3 billion due after more than one year (see note 7). Interest was receivable on the unpaid principal balance at 3.8% and is paid semi-annually in arrears on 30 June and 31 December. The entire principal balance is due on 1 May 2022. In October 2016 the outstanding principal and interest were settled in full.

The Company entered into a revolving loan agreement which commenced on 15 December 2015 with a fellow group company. The maximum borrowing capacity under the agreement is $800.0 million. The borrowings under the agreement are due on demand, but no later than 14 December 2020. Interest is received quarterly in arrears at the LIBO rate plus 3%.

10 Creditors: amounts falling due within one year

	2016	2015
	$000	$000
Amounts owed to group companies	87,543	279,397

11 Called up share capital

	2016	2015
	$000	$000
Allotted and called up		
1,001 ordinary shares of £1 each	2	2

12 Ultimate parent company

At the year end, the Company's immediate parent company is ENSCO Overseas Limited, a company registered at P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104. The Company's ultimate parent company is Ensco plc, incorporated in the United Kingdom.

The largest group in which the results of the Company are consolidated is that headed by Ensco plc. No other group financial statements include the results of the Company. The consolidated financial statements of Ensco plc are available to the public and may be obtained from Ensco, Investor Relations Department, Suite 3300, 5847 San Felipe, Houston, Texas 77057. The registered office of Ensco plc is 6 Chesterfield Gardens, London, W1J 5BQ, England.