Maersk Drilling Deepwater A/S

Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no. 24 21 21 14

Annual report 2019

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

17 June 2020

Klaus Greven Kristensen
chairman

Contents

Statement by the Board of Directors and the Executive Board

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

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

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

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

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

Lyngby, 17 June 2020

Executive Board:

Morten Kelstrup

Board of Directors:

Jesper Ridder Olsen Chairman	Morten Kelstrup	Klaus Greven Kristensen

Independent auditor's report

To the Shareholder of Maersk Drilling Deepwater A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

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

Basis for opinion

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

Statement on the Management's Review

Management is responsible for 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.

Management's Responsibilities for the Financial Statements

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

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

Independent auditor's report

Auditor’s Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional 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.

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

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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

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

Thomas Wraae Holm
State Authorised
Public Accountant
mne30141

Management's review

Company details

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

CVR no.:	24 21 21 14
Established:	15 March 1977
Registered office:	Lyngby
Financial year:	1 January – 31 December

Board of Directors

Jesper Ridder Olsen, Chairman
Morten Kelstrup
Klaus Greven Kristensen

Executive Board

Morten Kelstrup

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's review

Financial highlights

USD'000	2019	2018	2017	2016	2015
Key figures					
Revenue	17,365	32,779	11,621	1,750	97,115
Gross profit/loss	-23,434	-14,252	-29,261	-24,718	92,393
Operating profit/loss	-30,822	18,846	-242,818	-54,218	-75,718
Profit/loss from financial income and expenses	-3,069	-7,958	-9,217	-9,172	-9,090
Profit/loss before tax	-33,891	10,888	-252,035	-63,390	-84,808
Profit/loss for the year	-32,258	10,355	-201,417	-52,880	-65,393
Total assets	158,524	159,157	123,371	346,290	422,162
Equity	89,144	121,402	-133,953	67,464	136,344
Investment in property, plant and equipment	16,839	10,245	4,904	3,963	4,226
Ratios					
Operating margin	-177%	58%	-2,090%	-3,098%	-78%
Return on invested capital	-29%	17%	-224%	-13%	-16%
Current ratio	41%	98%	17%	1,571%	915%
Return on equity	-31%	0%	0%	-52%	-37%
Solvency ratio	56%	76%	-109%	20%	32%

Financial ratios are calculated in accordance with the guidelines "Recomendations and Ratios" issued by the Danish Society of Financial Analysts. The financial ratios have been calculated as follows:

Operating margin	$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating profit/loss x 100}}{\text{Average invested capital}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity ex. non-controlling interests at year end x 100}}{\text{Total equity and liabilities at year end}}$

Management's review

Operating review

Principal activities

The Company's principal activity is to lease the drilling rig Maersk Developer. Since September 2019 the Company has leased out the semisubmersible drillig rig for operations in Mexico.

Development in activities and financial position

Results for the year were negative at USD 32,258 thousand (2018: a profit of USD 10,355 thousand impacted by reversal of impairments). The underlying earnings are unsatifactory and lower than expected.

Outlook

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

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

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

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

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

Uncertainty regarding recognition and measurement

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

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

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

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

Management's review

Operating review

Events after the balance sheet date

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

On 17 April 2020, Maersk Drilling announced that it had received notification from its customer BG International Ltd., a subsidiary of Shell, of early termination of the drilling contract for Mærsk Developer with immediate effect. The original end of contract was expected to be in August 2020. Maersk Drilling will receive compensation in the form of an early termination fee.

Particular risks

Operating risks

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

Over the past years, oil and gas companies have optimised their business models to structurally reduce offshore project costs through project optimisation, standardisation, digitisation, simplification and service cost deflation. As a result of the lower cost levels, more than 90% of offshore oil and gas projects are today economically feasible at an oil price around USD 60 per barrel. Combined with the oil and gas companies' increasing positive cash flows, this has given them with the opportunity to invest in new offshore projects.

The price of Brent crude oil averaged USD 64 per barrel in 2019, representing a decrease of 11% compared to the average of USD 72 per barrel in 2018. Subsequent to year-end, the oil price has dropped substantially to a level of around USD 25-40 per barrel. This may lead the oil and gas companies to cancel or defer projects and exert pressure for lower rates, more contract flexibility and low- cost solutions, which could impact the Company negatively in 2020 and future years.

Financial risks

Currency risks

Currency risk is the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The currency exposure arises from the Company operating in countries with different local currencies. Revenue is primarily denominated in USD, which is also the presentation currency of the Company, while related operating expenses are incurred in both USD and local currencies.

The exposure to changes in foreign exchange rates is generally mitigiated by entering into customer contracts where an element of the contract value is in local currency to create a natural hedge between the contracted revenue and local operating costs. The Maersk Drilling Group uses foreign exchange forward contracts to hedge any excess exposure, but such hedges are generally not entered into by individual subsidiaries.

The currency exposure is not considered significant.

Management's review

Operating review

Interest rate risks

Interest rate risk is 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 Maersk Drilling Group mitigates the exposure towards interest rates by entering into fixed rate loans or interest rate swaps at the parent company level whereas individual subsidiaries generally are funded through loans carrying floating interest rates.

Credit risks

For drilling contracts, credit risk is minimised by undertaking a credit assessment of the counterparty prior to entering into the contracts. Depending on creditworthiness, the Company may seek protection in the form of parent company guarantees, prepayments or other types of collateral.

The Company has a concentration of customers, but is not considered exposed to material credit risks, as the customers are major international oil companies.

Safety

For the Company, safety is a top priority. It is an unwavering commitment, rooted in our Core Values. Safety permeates everything we do and stand for, onshore and offshore, and it is the foundation for delivering reliable and efficient operations to our customers. Our ambition is to have zero serious incidents.

In 2019, the Company made it one of its top four strategic priorities to develop and implement new approaches to safety in the entire organisation. In addition to our tried and tested safety practices and management systems, we have shared the learnings and results of this new approach with the wider industry as we consider safety to be a priority that transcends commercial interests.

Environmental matters

The Company's ambition is to provide responsible drilling services and reducing the environmental impact of our operations is an important part of this. We mainly target impacts relating to spills, waste and the use of chemicals onboard our rigs. Our Health, Safety, Security and Environment (HSSE) function works in close cooperation with our rigs to optimise activities governed by our HSSE Policy as well as our Corporate Major Accident Prevention Policy.

Financial statements 1 January – 31 December

Income statement

USD'000	Note	2019	2018
Revenue	3	17,365	32,779
Other external costs		-40,799	-47,031
Gross profit/loss		-23,434	-14,252
Depreciation, amortisation and impairments		-7,388	33,098
Operating profit/loss		-30,822	18,846
Financial income	4	116	667
Financial expenses	5	-3,185	-8,625
Profit/loss before tax		-33,891	10,888
Tax on profit/loss for the year	6	1,633	-533
Profit/loss for the year	7	-32,258	10,355

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Property, plant and equipment	8		
Rigs		131,720	122,104
Assets under construction		0	163
		131,720	122,267
Total fixed assets		131,720	122,267
Current assets			
Inventories			
Bunker and lube oil		315	146
Receivables			
Trade receivables		11,419	751
Receivables from group entities		6,299	12,083
Corporation tax		4,482	17,647
Prepayments	9	33	780
		22,233	31,261
Cash at bank and in hand		4,256	5,483
Total current assets		26,804	36,890
TOTAL ASSETS		158,524	159,157

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	10	1,657	1,657
Retained earnings		87,487	119,745
Total equity		89,144	121,402
Provisions			
Provisions for deferred tax	11	3,725	2,094
Total provisions		3,725	2,094
Liabilities other than provisions			
Current liabilities other than provisions			
Loan from group entities		20,000	20,000
Trade payables		14,265	8,730
Payables to group entities		31,362	6,931
Other payables		28	0
		65,655	35,661
Total liabilities other than provisions		65,655	35,661
TOTAL EQUITY AND LIABILITIES		158,524	159,157

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	1,657	-135,610	-133,953
Cash capital increase	0	245,000	245,000
Transferred over the profit appropriation	0	10,355	10,355
Equity at 1 January 2019	1,657	119,745	121,402
Transferred over the profit appropriation	0	-32,258	-32,258
Equity at 31 December 2019	1,657	87,487	89,144

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Maersk Drilling Deepwater A/S for 2019 has been prepared in accordance with the provisions applying to reporting class C medium-sized entites under the Danish Financial Statements Act.

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

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the consolidated cash flow statements of The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, 2800 Kgs Lyngby, CVR no. 40404716.

Foreign currency translation

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

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

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

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

Income statement

Revenue

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

Other external costs

Other external costs comprise costs incurred during the year for repair and maintenance, catering, hired crew and administrative costs.

Financial income and expenses

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

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Tax on profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity. The Company is part of A.P. Møller Holding A/S' joint taxation. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with refund for tax losses).

Balance sheet

Property, plant and equipment

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

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

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

Rigs	25 years

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

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

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

Impairment of fixed assets

The carrying amount of property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Inventories

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

Receivables

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

Corporation tax and deferred tax

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

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

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

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

Prepayments

Prepayments comprise prepayment of costs incurred, concerning rent, insurance premiums, subscriptions and interest as well as the deferral of mobilisation costs and other startup costs relating to subsequent financial years.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Liabilities other than provisions

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

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Segment information

Segment information is provided on business segments and geographical markets. The segment information is in line with the Group's accounting policies, risks and internal financial management.

2 Uncertainty regarding recognition and measurement

In line with our expectations, operator demand for offshore drilling rigs continued to rise during 2019, with demand for jack-up rigs growing slightly higher than the demand for floaters. Drilling contractors also continued to reduce offshore drilling rig supply. Leading indicators continued to provide support for future drilling activity, as increased tendering activity translated into more awarded contracts throughout the year. Contracting activity also exhibited an element of direct awards, where operators, either through alliances or directly with selected drilling contractors, bypassed the tendering process. In line with analysts who cover the market, Management continued to expect a gradual move towards more economically sustainable rates in the long-term.

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

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

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

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

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

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USD'000		2019	2018
3	**Revenue**		
	Revenue, Trinidad	0	32,779
	Revenue, Mexico	17,365	0
4	**Financial income**		
	Interest income from group entities	116	667
5	**Financial expenses**		
	Interest expense to group entities	2,494	8,380
	Other financial costs	46	180
	Exchange losses to group entities	645	65
		3,185	8,625
6	**Tax on profit/loss for the year**		
	Current tax for the year	-4,482	-6,208
	Deferred tax for the year	2,115	15,337
	Adjustment of tax concerning previous years	1,218	-5,336
	Adjustment of deferred tax concerning previous years	-484	-3,260
		-1,633	533
7	**Proposed profit appropriation/distribution of loss**		
	Retained earnings	-32,258	10,355

8 Property, plant and equipment

USD'000	Rigs	Assets under construction	Total
Cost at 1 January 2019	608,059	163	608,222
Additions for the year	0	16,839	16,839
Disposals for the year	-60,861	0	-60,861
Transfers for the year	17,002	-17,002	0
Cost at 31 December 2019	564,200	0	564,200
Depreciation and impairments at 1 January 2019	-485,955	0	-485,955
Depreciation for the year	-7,386	0	-7,386
Reversed depreciation on disposals	60,861	0	60,861
Depreciation and impairments at 31 December 2019	-432,480	0	-432,480
Carrying amount at 31 December 2019	131,720	0	131,720

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9 Prepayments

Prepayments of USD 33 thousand (2018: USD 780 thousand) mainly relate to insurances.

10 Contributed capital

The contributed capital consists of 8,096.5 shares of a nominal value of DKK 1,000 each.

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

11 Deferred tax

Deferred tax is attributable to prepayments, deferred income and other provisions.

USD'000	31/12 2019	31/12 2018
Deferred tax at 1 January	2,094	-9,983
Deferred tax adjustment for the year in the income statement	1,631	12,077
	3,725	2,094

12 Contractual obligations, contingencies, etc.

Contingent liabilities

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

13 Pledges and guarantees

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

Property, plant and equipment with carrying amount of USD 132 million (the collateral rigs) has been pledged as security for the credit facilities set out above. In addition to the collateral rigs, insurance coverage and certain bank accounts related to the collateral rigs and certain intra-group charterers in respect of the collateral rigs are provided as collateral. In certain circumstances, earnings from drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreement.

14 Related party disclosures

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

Other related parties with controlling interest:

- A.P. Møller Holding A/S, Esplanaden 50, DK-1263 Copenhagen K (ultimate parent company preparing consolidated financial statements)
- APMH Invest A/S, Esplanaden 50, DK-1263 Copenhagen K
- The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, 2800 Kgs. Lyngby (initial parent company preparing consolidated financial statements)

Financial statements 1 January – 31 December

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

Other related parties

The Board of Directors and the Executive Management of the entities listed above having a controlling interest in Maersk Drilling Deepwater A/S including their close relatives and undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including A.P. Møller - Mærsk A/S and its subsidiaries and affiliates and Danske Bank A/S.

Related party transactions

Transactions with related parties are carried out on an arm's length basis and are therefore not separately disclosed pursuant to section 98 C (7) of the Danish Financial Statements Act.

Consolidated financial statements

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

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

15 Events after balance sheet date

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

On 17 April 2020, Maersk Drilling announced that it had received notification from its customer BG International Ltd., a subsidiary of Shell, of early termination of the drilling contract for Mærsk Developer with immediate effect. The original end of contract was expected to be in August 2020. Maersk Drilling will receive compensation in the form of an early termination fee.