Maersk Drilling A/S

Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no. 32 67 38 21

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 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:

Jørn Madsen	Jesper Ridder Olsen

Board of Directors:

Klaus Greven Kristensen Chairman	Morten Kelstrup	Jørn Madsen

Independent auditor's report

To the Shareholder of Maersk Drilling 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 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 A/S
Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no.:	32 67 38 21
Established:	1 December 2009
Registered office:	Lyngby
Financial year:	1 January – 31 December

Board of Directors

Klaus Greven Kristensen, Chairman
Morten Kelstrup
Jørn Madsen

Executive Board

Jørn Madsen
Jesper Ridder Olsen

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's review

Financial highlights

USD'000	2019	2018	2017	2016*	2015
Key figures					
Revenue	263,799	303,629	296,913	374,214	454,811
Gross profit	125,328	138,715	79,994	72,976	77,296
Operating profit/loss	-10,826	-23,137	29,479	37,058	44,236
Profit/loss from financial income and expenses	-34,611	-34,816	-47,287	-44,384	-49,705
Profit/loss before tax	-64,852	931,280	-1,362	-949	391
Profit/loss for the year	-50,195	942,040	-1,440,591	-954,906	389,725
Total assets	6,144,014	6,238,450	6,875,636	8,192,407	7,954,147
Equity	4,223,418	4,272,892	5,170,976	6,326,833	6,051,508
Investment in property, plant and equipment	23,732	54,487	5,872	8,438	19,006
Ratios					
Operating margin	-4%	-8%	10%	10%	10%
Return on invested capital	0%	14%	-19%	-11%	7%
Current ratio	489%	418%	732%	604%	367%
Return on equity	-1%	20%	-25%	-15%	8%
Solvency ratio	69%	68%	75%	77%	76%

* The accounting policies were changed in 2016 with retrospective effect for 2015 due to changes in principles for cash-generating units in the subsidiaries of Maersk Drilling A/S.

Financial ratios are calculated in accordance with the guidelines "Recommendations 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 and its subsidiaries (the Group) is a leading global operator of high-technology drilling rigs and provides offshore drilling services to oil and gas companies and has one of the world's youngest and most advanced fleets.

Development in activities and financial position

Results for the year reached a negative of USD 50,195 thousand (2018: a profit of USD 942,040 thousand impacted by reversal of impairments), which was in line with Management expectations.

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

Foreign branches

The Company is directly engaged in drilling activities in Azerbaijan through the branch named Maersk Drilling A/S Branch Azerbaijan.

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 provided 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 costs 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 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 to be significant.

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.

Management's review

Operating review

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 the creditworthiness, the Company may seek protection in the form of parent company guarantees, pre-payments or other type of security.

The Company has a concentration of customers, but is not considered to have a 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.

Corporate social responsibility

At the Company, 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 the Company, but also to the people and the environment which are affected by our Company.

Please refer to our full report on sustainability pursuant to section 99a of the Danish Financial Statements Act which can be found online at https://www.maerskdrilling.com/who-we-are/sustainability

Goals and policies for the underrepresented gender

The Board believes that its members should be elected on the basis of their combined qualifications and at the same time recognises the advantages of a board comprising a wide range of backgrounds such as global experience, style, culture and gender.

The Company's overall ambition is to work towards an equal gender distribution of its Board of Directors. On the basis of this ambition, the target is therefore to have at least one representative of each gender out the presently three shareholder-appointed board members. At 31 December 2019, there were no women on the Board and the target has therefore not been met. Members of the Board of Directors of subsidiaries in the Maersk Drilling Group typically comprise senior executives of the parent company, The Drilling Company of 1972 A/S, which at present are all male. However, it remains the ambition to have at least one female Board member by 2021.

The composition of the Company's board meets the requirements on diversity among the Company's shareholder-appointed board members with respect to the underrepresented gender.

Management's review

Operating review

The Company adheres to the Policy on Diversity and Inclusion in the Company which was adopted at the board meeting of The Drilling Company of 1972 A/S on 2 April 2019. the Company does not discriminate based on age, gender, nationality, socioeconomic background, disability, religion or sexual orientation. We believe that diversity and inclusion can contribute to improved performance and high quality decision-making and is essential to innovation and organisational learning; critical elements to maintaining our position as a leading player in the offshore drilling industry.

In the oil and gas industry, diversity can be a challenge, and women continue to be underrepresented. The Petroleum Equipment and Services Association in 2018 found that only 15% of the worldwide oil and gas workforce is female, and even fewer hold technical and management roles. With a traditional stronghold in the North Sea, the majority of the Company’s workforce is Scandinavian or British nationals.

Our share of female employees increased from 10% in 2018 to 13% in 2019 and the share of female leaders rose slightly from 10% to 11%. Offshore, women only make up 2% of the workforce, all employed in non-managerial positions. Onshore, women represent 37% of our workforce. Female leaders made up 23% of our onshore leadership in 2019 compared to 24% in 2018. Our ambition is to ensure that more women progress into senior leadership positions.

We believe that strengthening our pipeline of female talent and leadership, on- and offshore, will increase diversity. In order to achieve this, we aim to address structural and cultural barriers by:

- Enhancement of recruitment – through awareness of biases in candidate selection and by applying a structured assessment process.
- Promotions – through consideration of a broader and more diverse candidate field for leadership positions.
- Succession planning – through identifying diverse successors with a special view to senior management positions.
- Acceleration programmes – through putting a diverse selection of employees on a targeted career path.

n 2020, we will initiate a process to further explore the cultural and behavioural barriers to diversity in the Company’s leadership on- and offshore, with the aim of identifying additional responses to the diversity challenges. Our ambition extends beyond gender to include other diversity parameters, such as nationality and age. Alongside these efforts, we will continue to build awareness of the benefits of an inclusive culture through training and communication.

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 Maersk Drilling’s future profitability.

Financial statements 1 January – 31 December

Income statement

USD'000	Note	2019	2018
Revenue	2	263,799	303,629
Other operating income		9,535	19,499
Other external costs		-148,006	-184,413
Gross profit		125,328	138,715
Staff costs	3	-109,310	-91,779
Depreciation, amortisation and impairment losses		-26,844	-70,073
Operating profit/loss		-10,826	-23,137
Income from equity investments in subsidiaries		-19,415	989,233
Financial income	4	17,874	18,417
Financial expenses	5	-52,485	-53,233
Profit/loss before tax		-64,852	931,280
Tax on profit/loss for the year	6	14,657	10,760
Profit/loss for the year	7	-50,195	942,040

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Intangible assets	8		
Software		7,020	18,578
Development projects in progress		0	817
		7,020	19,395
Property, plant and equipment	9		
Rigs		143,275	120,848
Fixtures and fittings, tools and equipment		105,029	105,600
Property, plant and equipment in progress		7,935	22,055
		256,239	248,503
Investments	10		
Equity investments in subsidiaries		5,436,245	5,493,581
Total fixed assets		5,699,504	5,761,479
Current assets			
Receivables			
Trade receivables		17,822	22,826
Receivables from group entities		265,335	109,249
Other receivables		12,461	11,476
Prepayments	11	3,639	6,244
		299,257	149,795
Cash at bank and in hand		145,253	327,176
Total current assets		444,510	476,971
TOTAL ASSETS		6,144,014	6,238,450

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	12	88,354	88,354
Retained earnings		4,135,064	4,184,538
Total equity		4,223,418	4,272,892
Provisions			
Provisions for deferred tax	13	1,693	8,689
Other provisions	14	13,413	22,964
Total provisions		15,106	31,653
Liabilities other than provisions			
Non-current liabilities other than provisions	15		
Payables to group entities		1,800,638	1,819,746
Current liabilities other than provisions			
Current portion of non-current liabilities	15	16,260	17,706
Trade payables		25,483	36,060
Payables to group entities		21,235	20,558
Corporation tax		11,134	13,316
Other payables		29,986	26,393
Deferred income	16	754	126
		104,852	114,159
Total liabilities other than provisions		1,905,490	1,933,905
TOTAL EQUITY AND LIABILITIES		6,144,014	6,238,450

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	88,354	5,082,622	5,170,976
Dividend to shareholder	0	-1,837,000	-1,837,000
Other equity movements	0	-1,220	-1,220
Fair value adjustment of hedging instruments	0	-1,904	-1,904
Transferred over the profit appropriation	0	942,040	942,040
Equity at 1 January 2019	88,354	4,184,538	4,272,892
Share based payments	0	3,228	3,228
Other equity movements	0	-2,276	-2,276
Fair value adjustment of hedging instruments	0	-231	-231
Transferred over the distribution of loss	0	-50,195	-50,195
Equity at 31 December 2019	88,354	4,135,064	4,223,418

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Maersk Drilling A/S for 2019 has been prepared in accordance with the provisions applying to reporting class C large 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 consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of Maersk Drilling A/S and group entities are included in the consolidated financial statements of The Drilling Company of 1972 A/S, CVR no. 40404716.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statements have 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.

Omission of audit fee disclosure

Pursuant to section 96(3) of the Danish Financial Statements Act, audit fee disclosures have been ombittes as this information is included in the consolidated financial 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).

Share based payment

Equity settled restricted shares allocated to employees as part of Maersk Drilling A/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.

At the end of each reporting period, Maersk Drilling A/S 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.

Financial statements 1 January – 31 December

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1 **Accounting policies (continued)**

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 operating income

Other operating income comprises income from activities that are not undertaken in the ordinary course of the main drilling business, mainly income from recharges of staff costs to subsidiaries.

Other external costs

Other external costs comprise expenses incurred during the year for bareboat hire of the rigs (operating lease), repair and maintenance, catering, hired crew and administrative expenses.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Income from equity investments in subsidiaries

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the Parent Company's income statement after full elimination of intra-group gains/losses and amortisation of goodwill.

Financial income and expenses

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

Tax on profit/loss for the year

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

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Capitalised development costs are amortised from the date of completion on a straight-line basis over the period when the development work is expected to generate economic benefits.

IT software is amortised over a useful life of 3-5 years.

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
Fixtures and fittings, tools and equipment	5-10 years

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

Fixed assets under construction are 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.

Investments

Equity investments in subsidiaries are measured at the proportionate share of the entities' net asset value calculated in accordance with the Group's accounting policies plus or minus unrealised intra-group gains or losses and plus or minus the residual value of positive and negative goodwill calculated in accordance with the acquisition method.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Equity investments in subsidiaries with negative net asset values are measured at DKK 0, and any receivables from these entities are written down by an amount equivalent to the negative net asset value. To the extent that the negative net asset value exceeds the receivable, the residual amount is recognised as provisions.

Net revaluation of equity investments in subsidiaries is tied as a net revaluation reserve under equity according to the equity method to the extent that the carrying amount exceeds cost. Dividends from group entities expected to be adopted in the group entities prior to the approval of the Company's annual report are not tied up in the revaluation reserve.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in subsidiaries 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.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

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.

Cash at bank and in hand

Cash at bank and in hand comprise cash.

Equity

Dividends

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

Provisions

Provisions are recognised when Maersk Drilling A/S 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

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

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

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

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

Liabilities other than provisions

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

Deferred income

Deferred income comprises progress billing regarding income in subsequent years.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Segment information

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

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USD'000	2019	2018

2 Revenue

Revenue, Azerbaijan	184,551	104,749
Revenue, Denmark	79,248	198,880
	263,799	303,629

3 Staff costs

Wages and salaries	98,004	86,009
Pensions	12,997	12,179
Other social security costs	363	335
Capitalised staff costs	-2,054	-6,744
	109,310	91,779
Average number of full-time employees	704	795

The Board of Directors has not been remunerated. The Executive Board serves as Executive Management of a number of Maersk Drilling entities. For their services to the Maersk Drilling Group overall, the Executive Board received total remuneration of USD 5.6 million. In 2018, Executive Management comprised one individual only, and remuneration of the Executive Management is therefore not separately disclosed in accordance with section 98b of the Danish Financial Statements Act.

The compensation of the Executive Board consists of a combination of fixed pay and short-term and long-term incentive pay. In addition, in 2019 the Executive Board received a one-time cash-based bonus related to the demerger and listing of Maersk Drilling (The Drilling Company of 1972 A/S).

Under the Short-term Incentive Plan, the target annual cash-based bonus payable can constitute an amount of up to 50% of the member of the Executive Board's fixed pay at the end of the performance period of earning the cash incentive. Maximum bonus is 200% of the individual target.

Under the Long-term Incentive Programme, the Executive Board was awarded an annual grant of restricted share units with a three-year vesting period and a further two-year holding period amounting to 100% (CEO) and 65% (CFO) of the fixed pay. In addition, a transition award in lieu of unvested A.P. Møller - Mærsk A/S' shares and options of twice the annual grant level was awarded.

In addition, for information on remuneration in Maersk Drilling, reference is made to the 2019 Annual Report of The Drilling Company of 1972 A/S and the Annual Remuneration Report for the Financial Year 2019 both available on maerskdrilling.com

4 Financial income

USD'000	2019	2018
Interest income from group entities	11,596	16,234
Exchange adjustments from group entities	6,278	2,183
	17,874	18,417

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USD'000	2019	2018

5 Financial expenses

	2019	2018
Other financial costs to group entities	52,479	52,035
Exchange losses to group entities	6	1,198
	52,485	53,233

6 Tax on profit/loss for the year

	2019	2018
Current tax for the year	-8,861	12,120
Current tax for the year, wht paid in Brunei (no tax credit relief)	665	0
Deferred tax for the year	-4,440	-17,218
Adjustment of tax provisions, current year	1,300	0
Adjustment of tax provisions, previous year	10,000	0
Adjustment of tax concerning previous years	-10,901	-4,433
Adjustment of tax concerning previous years (2014 and 2015)	232	0
Adjustment of tax concerning previous years (other adjustments)	-96	0
Adjustment of deferred tax concerning previous years	-2,556	-1,229
	-14,657	-10,760

7 Proposed profit appropriation/distribution of loss

	2019	2018
Retained earnings	-50,195	942,040

8 Intangible assets

USD'000	Software	Development projects in progress	Total
Cost at 1 January 2019	66,539	817	67,356
Additions for the year	833	0	833
Disposals for the year	0	-817	-817
Cost at 31 December 2019	67,372	0	67,372
Amortisation and impairment losses at 1 January 2019	-47,961	0	-47,961
Amortisation for the year	-12,391	0	-12,391
Amortisation and impairment losses at 31 December 2019	-60,352	0	-60,352
Carrying amount at 31 December 2019	7,020	0	7,020

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9 Property, plant and equipment

USD'000	Rigs	Fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2019	367,198	192,806	22,055	582,059
Additions for the year	0	1,654	22,078	23,732
Disposals for the year	-52,479	-1,544	0	-54,023
Transfers for the year	36,198	0	-36,198	0
Cost at 31 December 2019	350,917	192,916	7,935	551,768
Depreciation and impairment losses at 1 January 2019	-246,350	-87,206	0	-333,556
Depreciation for the year	-13,771	-681	0	-14,452
Reversed depreciation and impairment losses on assets sold	52,479	0	0	52,479
Depreciation and impairment losses at 31 December 2019	-207,642	-87,887	0	-295,529
Carrying amount at 31 December 2019	143,275	105,029	7,935	256,239

10 Investments

USD'000	Equity investments in subsidiaries
Cost at 1 January 2019	6,898,341
Additions for the year	4,224
Cost at 31 December 2019	6,902,565
Revaluations at 1 January 2019	-1,404,759
Net share of result for the year	-19,415
Other adjustments	-2,276
Dividend	-40,477
Revaluations 31 December 2019	-1,466,927
Subsidiaries with negative equity transferred to be set off against receivables at 1 January 2019	0
Corrections for the year	607
Subsidiaries with negative equity transferred to be set off against receivables at 31 December 2019	607
Carrying amount at 31 December 2019	5,436,245

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Name/legal form	Registered office	Voting rights and ownership interest
Subsidiaries:		
Maersk Drilling Australia Pty. Ltd.	Australia	100%
Maersk Drilling Deepwater A/S	Denmark	100%
Maersk Drilling Holdings Singapore Pte. Ltd.	Singapore	100%
Maersk Drilling International A/S	Denmark	100%
Maersk Drilling Norge AS	Norway	100%
Maersk Drilling North Sea A/S	Denmark	100%
Maersk Drilling Services A/S	Denmark	100%
Maersk Inspirer Operations AS	Norway	100%
Maersk Integrator Operations AS	Norway	100%
Maersk Interceptor Norge A/S	Denmark	100%
Maersk Intrepid Operations AS	Norway	100%
Maersk Invincible Norge A/S	Denmark	100%
Maersk Reacher Operations AS	Norway	100%
MD Viking Company Limited	Myanmar	100%

Only significant subsidiaries (total assets above USD 5 million) have been listed. A comprehensive list of companies is included in the Annual Report for 2019 for The Drilling Company of 1972 A/S which is available on https://www.maerskdrilling.com/financials

11 Prepayments

Prepayments of USD 3,639 thousand (2018: USD 6,244 thousand) include advance payments for next year for insurance, training and rent etc.

12 Contributed capital

The contributed capital consists of 500,000 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.

13 Deferred tax

Deferred tax relates to deferred tax on the carrying amount of the rigs, provisions and fair value adjustments of derivatives.

USD'000	31/12 2019	31/12 2018
Deferred tax at 1 January	8,689	27,685
Deferred tax adjustment for the year in the income statement	-6,996	-18,996
	1,693	8,689

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14 Other provisions

Provisions relate to operating costs and claims, pensions, etc. for occurred events, but where the costs are subject to uncertainty. Provisions are recognised at Management's best estimate.

15 Non-current liabilities other than provisions

USD'000	31/12 2019	Repayment, first year	Outstanding debt after five years
Loan from group entities	1,816,898	16,260	0
Total	1,816,898	16,260	0

16 Deferred income

Deferred income of USD 754 thousand (2018: USD 126 thousand) comprises payments received from customers for revenue relating to future financial years.

17 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.

Operating lease obligations

The Company has entered into operating lease contracts with an annual lease payment within 1 year of USD 21 million (2018: USD 22 million). The lease contract's duration is up to 21 months and includes total nominal remaining payments of USD 35 million (2018: USD 56 million).

USD'000	2019	2018
Rental commitments (office building and warehouse)		
Within 1 year	3,870	3,263
Between 1 and 5 years	13,971	13,129
After 5 years	656	4,238
	18,497	20,630

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18 Pledges and guarantees

Jointly with other Maersk Drilling entities, the Company has guaranteed a total of USD 1,803 million related to Term and Revolving Facilities Agreements held by The Drilling Company of 1972 A/S. As of 31 December 2019, USD 400 million of the facilities were undrawn.

Property, plant and equipment with a carrying amount of USD 256 million (the collateral rigs) has been provided as collateral for these borrowings. 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 in respect of drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreements.

Shares in subsidiaries being owners or operators of collateral rigs are provided as collateral.

19 Derivatives

The Company enters into derivatives as part of hedging the currency risk related to other recognised and unrecognised transations (primarily overhead and administrative expenses). The notional of currency derivative contracts at December 31 amounts to:

	2019		2018	
MIllion	Foreign currency	USD	Foreign currency	USD
DKK/USD	551	84	725	113
NOK/USD	50	6	0	0

The majority of currency derivative contracts hedge future cash outflows, hence the respective foreign currencies are purchased and USD is sold.

20 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 control:

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

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Other related parties

The Board of Directors and the Executive Management of the entities listed above having a controlling interest in Maersk Drilling Holding 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.

21 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 Maersk Drilling's future profitability.