Maersk Drilling North Sea A/S

Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no. 38 28 12 83

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

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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 North Sea 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	Klaus Greven Kristensen	Morten Kelstrup

Independent auditor's report

To the Shareholder of Maersk Drilling North Sea 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 North Sea 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 the Management's Review.

Our opinion on the financial statements does not cover the 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 the 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 judgement and maintain professional scepticism 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 North Sea A/S
Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no.:	38 28 12 83
Established:	13 December 2016
Registered office:	Lyngby
Financial year:	1 January – 31 December

Board of Directors

Jesper Ridder Olsen, Chairman
Klaus Greven Kristensen
Morten Kelstrup

Executive Board

Morten Kelstrup

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's review

Financial highlights

USD'000	2019	2018	2017**	2016**
Key figures				
Revenue	23,951	52,365	64,862	177,924
Gross profit	2,765	31,086	44,939	143,075
Operating profit/loss	-22,760	-19,326	-27,146	39,799
Profit/loss from financial income and expenses	-1,373	912	-96	53
Profit/loss before tax	-24,133	-18,414	-27,242	39,852
Profit/loss for the year	-26,674	-14,060	-23,344	61,478
Total assets	325,077	284,365	346,611	371,339
Equity	208,015	234,689	282,393	305,737
Investment in property, plant and equipment*	58,181	44,608	2,268	0
Ratios				
Operating margin	-95%	-37%	-42%	22%
Return on invested capital	-8%	-6%	-7%	10%
Current ratio	16%	22%	199%	63%
Return on equity	-12%	-5%	-8%	20%
Solvency ratio	64%	83%	82%	82%

*) Does not include fixed assets taken over as part of the non-cash contribution at 1 January 2017 from A.P. Møller - Mærsk A/S, net USD 347 million in fixed assets.

**) Comparative figures for 2017 and 2016 have not been restated after the merger with Maersk Volve A/S.

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

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

Management's review

Operating review

Principal activities

The Company is a leading global operator of high-technology drilling rigs and provides offshore drilling services to oil and gas companies with one of the world's youngest and most advanced fleets. The Company's main activities is lease of the rigs Mærsk Innovator, Mærsk Inspirer and Mærsk Gallant.

Development in activities and financial position

The result for the year was negative with USD 26,674 thousand (2018: negative with USD 14,060 thousand), which was below Management expectations.

In June 2019, the Company sold the jack-up rig Mærsk Giant and realised a net income of USD 7.5m. However, the result for the year was negatively impacted by the drilling contract for Mærsk Innovator which was concluded during 2019."

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 towards 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.

Management's review

Operating review

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.

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 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 to be 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 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 risk, 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.

Management's review

Operating review

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 Company adheres to the Policy on Diversity and Inclusion in Maersk Drilling, 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 improve diversity. In order to achieve this, we aim to address structural and cultural barriers by:

- Enhanced 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.

In 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 the Company's future profitability.

Management's review

Operating review

The restrictions imposed by the COVID-19 pandemic have affected the Egersund yard where the Mærsk Inspirer is being retrofitted. The onshore modifications to the Mærsk Inspirer are currently scheduled to be completed in the fourth quarter of 2020, whereafter the rig will move offshore for hook-up and commissioning. COVID-19-related restrictions may further affect the project.

The Company has received notification from CNOOC Petroleum Europe that the final well under the work scope for Mærsk Innovator would not be drilled. The contract, which was originally scheduled to conclude in June 2020, therefore ended early, and the rig has been mobilised to Denmark where it will be warm-stacked and marketed for opportunities.

Following the oil price downturn, and the reduction in oil and gas companies' E&P spending, the Company has decided to cold-stack Maersk Gallant, as the prospects for it to secure contracts have been drastically reduced.

Financial statements 1 January – 31 December

Income statement

USD'000	Note	2019	2018
Revenue	3	23,951	52,365
Other operating income		7,500	0
Other external costs		-28,686	-21,279
Gross profit		2,765	31,086
Depreciation, amortisation and impairments		-25,525	-50,412
Operating loss		-22,760	-19,326
Financial income	4	30	914
Financial expenses	5	-1,403	-2
Loss before tax		-24,133	-18,414
Tax on loss for the year	6	-2,541	4,354
Loss for the year	7	-26,674	-14,060

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		302,442	252,321
Assets under construction		8,570	26,035
		311,012	278,356
Total fixed assets		311,012	278,356
Current assets			
Receivables			
Receivables from group entities		2,924	5,617
Other receivables		2,655	112
Corporation tax		8,486	0
Prepayments		0	280
		14,065	6,009
Total current assets		14,065	6,009
TOTAL ASSETS		325,077	284,365

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	9	1,579	1,579
Retained earnings		206,436	233,110
Total equity		208,015	234,689
Provisions			
Provisions for deferred tax	10	31,437	22,665
Total provisions		31,437	22,665
Liabilities other than provisions			
Current liabilities other than provisions			
Current share of borrowings from group entities		0	4,417
Trade payables		6,485	1,744
Payables to group entities		78,853	12,948
Corporation tax		0	5,737
Other payables		54	0
Deferred income		233	2,165
		85,625	27,011
Total liabilities other than provisions		85,625	27,011
TOTAL EQUITY AND LIABILITIES		325,077	284,365

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	1,418	280,975	282,393
Merger, Maersk Volve A/S	161	16,195	16,356
Extraordinary dividends paid	0	-50,000	-50,000
Transferred over the profit appropriation	0	-14,060	-14,060
Equity at 1 January 2019	1,579	233,110	234,689
Transferred over the profit appropriation	0	-26,674	-26,674
Equity at 31 December 2019	1,579	206,436	208,015

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Maersk Drilling North Sea 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 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 day.

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.

Revenue from sale of goods is recognised upon the transfer of risk to the buyer.

Other operating income

Other operating income comprises income from the sale of the rig Mærsk Giant and additional compensation received.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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 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.

Costs of yard stay for rigs are recognised when incurred in the value af 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 annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 are determined on the basis of an individual assessment of each receivable.

Prepayments

Prepayments comprise prepayment of costs incurred concerning rent, insurance premiums, subscriptions and interest relating to subsequent financial years.

Equity

Dividends

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

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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 character 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 these financial statements 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 continues.

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USD'000	2019	2018
3 Revenue		
Revenue, Norway	0	52,365
Revenue, United Kingdom	23,951	0
4 Financial income		
Interest income from group entities	0	768
Other financial income	0	1
Exchange gains from group entities	30	145
	30	914
5 Financial expenses		
Interest expense to group entities	878	0
Other financial costs	14	2
Exchange losses to group entities	511	0
	1,403	2
6 Tax on profit/loss for the year		
Current tax for the year	-8,486	0
Deferred tax for the year	11,935	-4,124
Adjustment of tax concerning previous years	2,254	858
Adjustment of current tax concerning previous years	-3,162	-1,088
	2,541	-4,354
7 Proposed distribution of loss		
Retained earnings	-26,674	-14,060

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8 Property, plant and equipment

USD'000	Rigs	Assets under construction	Total
Cost at 1 January 2019	1,198,539	26,035	1,224,574
Additions for the year	10,073	48,108	58,181
Disposals for the year	-236,665	0	-236,665
Transfers for the year	65,573	-65,573	0
Cost at 31 December 2019	1,037,520	8,570	1,046,090
Depreciation and impairments at 1 January 2019	-946,218	0	-946,218
Depreciation for the year	-25,525	0	-25,525
Reversed depreciation on disposals	236,665	0	236,665
Depreciation and impairments at 31 December 2019	-735,078	0	-735,078
Carrying amount at 31 December 2019	302,442	8,570	311,012

9 Contributed capital

The contributed capital consists of 11,000 shares of DKK 1,000.

No shares hold special rights.

10 Deferred tax

Deferred tax relates to deferred tax on the carrying amount of rigs and provisions.

USD'000	31/12 2019	31/12 2018
Deferred tax at 1 January	22,665	34,457
Deferred tax adjustment for the year in the income statement	8,772	-11,792
	31,437	22,665

11 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.

12 Pledges and guarantees

Jointly with other Maersk Drilling entities, the Company has guaranteed a total of USD 1,471 million related to a Term and Revolving Facilities Agreement held by The Drilling Company of 1972 A/S. As at 31 December 2019, USD 400 million of the facility was undrawn.

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Property, plant and equipment with carrying amount of USD 311 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 pledged as security. In certain circumstances, earnings in respect of drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreement.

13 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 a 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)
- 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 with a controlling interest in Maersk Drilling North Sea 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.

14 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.

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The restrictions imposed by the COVID-19 pandemic have affected the Egersund yard where the Mærsk Inspirer is being retrofitted. The onshore modifications to the Mærsk Inspirer are currently scheduled to be completed in the fourth quarter of 2020, whereafter the rig will move offshore for hook-up and commissioning. COVID-19-related restrictions may further affect the project.

The Company has received notification from CNOOC Petroleum Europe that the final well under the work scope for Mærsk Innovator would not be drilled. The contract, which was originally scheduled to conclude in June 2020, therefore ended early, and the rig has been mobilised to Denmark where it will be warm-stacked and marketed for opportunities.

Following the oil price downturn, and the reduction in oil and gas companies' E&P spending, the Company have decided to cold-stack Maersk Gallant, as the prospects for it to secure contracts have been drastically reduced.