Constellation Oil Services Holding S.A.

Consolidated Financial
Statements for the Year Ended
December 31, 2019 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors and Shareholders of
Constellation Oil Services Holding S.A.

Disclaimer of opinion

We were engaged to audit the consolidated financial statements of Constellation Oil Services Holding S.A. (the “Company”, or together with its subsidiaries, the “Group”), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations, of comprehensive income, of changes in shareholders’ equity and of cash flows for the year then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance and aggregation of the matters described in the “Basis for disclaimer of opinion” section of our report, we have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

Basis for disclaimer of opinion

Material uncertainty related to the Group’s ability to continue as a going concern

We draw attention to Notes 1.k), 14.c) and 28 to the consolidated financial statements, which describes that the Group presents the following conditions as at December 31, 2019, and for the year then ended:

(i) an uncertainty on whether the Group would be able to maintain certain unrestricted cash levels throughout the year-ending December 31, 2020, as required under certain restrictive financial covenants set forth in its loans and financing agreements, as a result of the financial impacts arising from the recent negotiations with a particular client (deferral of revenues that would be earned in 2020 for the years 2021 to 2023, thus postponing the corresponding cash inflows).

(ii) in the event that the Group is not able to maintain the aforementioned unrestricted cash levels, there is an uncertainty on whether the Company and certain of its subsidiaries would be able to comply with and achieve certain loans and financing terms and conditions set forth in the Second Amended and Restated Plan Support and Lock-Up Agreement (the “Second Amended and Restated PSA”), in the context of the joint Judicial Recovery Plan (the “RJ Plan”) that was filed in December 2018 at the First Corporate Court of the Judicial District of the State Capital of Rio de Janeiro, pursuant to the terms of the Brazilian Bankruptcy Law (Law No. 11,101/2005), and that was approved by the General Creditors Meeting of the Group in late June 2019 and ratified by the judge of said court on July 1, 2019.

(iii) an uncertainty on whether the current COVID-19 pandemic combined with the unprecedented drop in oil prices would likely impact the Group's operations.

The operational continuity of the Group will depend substantially on its ability to (i) comply with the restrictive financial covenants set forth in its loans and financing agreements and repay its long term loans and financing amortizations that are scheduled as described in Note 14.b); (ii) as a result of the potential noncompliance with the aforementioned restrictive financial covenants, comply with and achieve the loans and financing terms and conditions set forth in the Second Amended and Restated PSA, in the context of the RJ Plan; (iii) successfully implement and achieve its operational and commercial strategy goals, as described in Note 1.j), despite the current uncertainty involving the COVID–19 outbreak combined with the unprecedented drop in oil prices; and (iv) renew the current charter and service-rendering agreements or to enter into new medium or long-term charter and service-rendering agreements, upon expiration of current ones, thus enabling the Group to comply with its long-term loans and financing amortization schedule.

Considering this set of conditions and the pervasiveness involved in the context of the consolidated financial statements, which refers to a scenario of significant uncertainties, we have been unable, at the date of this report, to conclude that the going concern assumption used by Management in the preparation of the consolidated financial statements was appropriate or to determine whether any adjustments to the consolidated financial statements and accompanying notes were due necessary.

Amaralina Star Ltd. and Laguna Star Ltd. share transfer from Alperton Capital Ltd. to Constellation Overseas Ltd.

We draw attention to Note 11.a) to the consolidated financial statements, which describes that Constellation Overseas Ltd. ("Constellation Overseas"), one of the Company's subsidiaries, has entered into an arbitration process against Alperton Capital Ltd. ("Alperton"), under the parties' Shareholders' Agreements for Amaralina Star Ltd. ("Amaralina") and Laguna Star Ltd. ("Laguna"), both entities being subsidiaries of the Company. The said arbitration process was initiated in 2018 due to the existence of a deadlock between the parties.

As at December 31, 2017 and for the year then ended, the Group presented non-current assets (loans receivables) and non-current liabilities (intercompany loans payable) balances with Alperton related to shareholders' and project financing loan agreements aiming the construction of the Amaralina Star and Laguna Star drillships in the amounts of US$381,125 thousand and US$345,042 thousand, respectively, and a net financial income as a result of these related-party transactions totaling US$7,950 thousand, which we have been unable to obtain the external confirmation from Alperton in order to corroborate these accounting balances and the results of transactions between the parties.

On September 30, 2018, pursuant to the terms and conditions set forth in the aforementioned Shareholders' Agreement and based on the Group's legal interpretation of its clauses, Constellation Overseas invoked its right to acquire the shares of Amaralina and Laguna then owned by Alperton and, as a consequence, the unaudited assets and liabilities accounting balances held with Alperton were extinguished. Following these terms and conditions, the Group recorded a negative amount of US$85,555 thousand as acquisition of non-controlling interests reserve in the shareholders' equity, and as a counterpart a reversion in the amount of US$43,149 thousand in the non-controlling interests group, also in the shareholders' equity.

As a consequence of these unaudited accounting balances recorded by Constellation Overseas as at September 30, 2018 (and the previous ones as at December 31, 2017), we have been unable, under the aforementioned circumstances, to conclude on the accounting balances of said share transfer accounting entries in the Group's consolidated financial statements as at December 31, 2019 and 2018.

We also draw attention to Note 28 to the consolidated financial statements, which describes that the parties reached a settlement agreement dated May 23, 2020, which is still subject to formalities in certain jurisdictions in which the Group operates.

Partnership with Sete Brasil Participações S.A. and its subsidiaries - Investments in associate entities

The Group, through its subsidiary Angra Participações B.V., is a non-controlling shareholder in the associate entities Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. (hereinafter together referred to as the "Investees"). The controlling shareholder of the Investees is Sete International One GmbH, a subsidiary of Sete Brasil Participações S.A. ("Sete Brasil"). Since the year ended December 31, 2016, the Group's accounting balances corresponding to the fifteen percent equity participation in the Investees were reduced to zero. As disclosed in Note 12 to the consolidated financial statements, as at December 31, 2019, the Investees present shareholders' equity deficiency and comprehensive loss in the total aggregate amounts of US$1,343,535 thousand and US$7,836 thousand, respectively, for the year then ended. Such Investees balances have not been audited by us or by any other independent auditor.

Due to the funding and liquidity difficulties in meeting its operational and financial commitments, aiming the construction completion of its semi-submersible offshore drilling rigs (including those related to the aforementioned Investees), Sete Brasil has filed a Judicial Recovery proceeding in April 2016, which has been approved by the General Creditors Meeting of Sete Brasil and ratified in court in November 2018.

Until the date of this report, we were unable to obtain sufficient appropriate audit evidence and, therefore, unable to conclude on the Group's financial position on the Investees as at December 31, 2019, the Group's share of results on the Investees for the year then ended or to determine whether any adjustments to Note 12 to the consolidated financial statements were due necessary.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing ("ISAs") and to issue an auditor's report. However, because of the significance and aggregation of the matters described in the "Basis for disclaimer of opinion" section of our report, we have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Deloitte.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Rio de Janeiro, June 5, 2020

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

John Alexander Harold Auton
Engagement Partner

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000)

ASSETS	Note	December 31, 2019	December 31, 2018
CURRENT ASSETS			
Cash and cash equivalents	6	127,903	109,406
Short-term investments	7	4,280	26,047
Restricted cash	8	118,281	42,553
Trade and other receivables	9	29,557	32,410
Inventories	10	59,240	39,883
Receivables from related parties	11	1,015	974
Recoverable taxes	22.a	7,064	12,816
Deferred mobilization costs		3,817	2,264
Other current assets		13,821	10,436
Total current assets		364,978	276,789
NON-CURRENT ASSETS			
Inventories	10	122,078	125,866
Receivables from related parties	11	-	17
Recoverable taxes	22.a	643	3,059
Deferred tax assets	22.c	13,193	12,168
Deferred mobilization costs		1,369	2,368
Other non-current assets		2,256	2,368
Investments	12	-	198,503
Property, plant and equipment, net	13	2,945,945	2,442,049
Total non-current assets		3,085,484	2,786,398
TOTAL ASSETS		3,450,462	3,063,187

The accompanying notes are an integral part of these consolidated financial statements.

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000)

		December 31,	
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2019	2018
CURRENT LIABILITIES			
Loans and financing	14	-	1,475,200
Payroll and related charges		14,289	12,284
Trade and other payables		42,639	33,150
Payables to related parties	11	543	188
Taxes payables	22.b	2,339	2,479
Provisions	15	995	1,035
Deferred revenues		3,432	3,423
Deficit in investments	12	-	48,503
Provision for onerous contract		61,763	38,362
Other current liabilities		10,760	8,758
Total current liabilities		136,760	1,623,382
NON-CURRENT LIABILITIES			
Loans and financing	14	1,707,389	-
Deferred revenues		94	3,526
Provision for onerous contract		48,168	15,556
Other non-current liabilities		1,881	1,220
Total non-current liabilities		1,757,532	20,302
TOTAL LIABILITIES		1,894,292	1,643,684
SHAREHOLDERS' EQUITY			
Share capital	17.a	981,200	63,200
Share premium	17.a	-	766,561
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	17.b/c/e	(107,216)	(100,371)
Retained earnings		691,907	699,834
TOTAL SHAREHOLDERS' EQUITY		1,556,170	1,419,503
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,450,462	3,063,187

The accompanying notes are an integral part of these consolidated financial statements.

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000, except per share amounts)

		Year-ended December 31,	
	Note	2019	2018
NET OPERATING REVENUE	18	122,409	507,932
COST OF SERVICES	19	(350,260)	(380,783)
GROSS PROFIT/(LOSS)		(227,851)	127,149
General and administrative expenses	19	(97,946)	(80,549)
Other income	20	735,280	291,677
Other expenses	20	(99,734)	(162,432)
OPERATING PROFIT		309,749	175,845
Financial income	21	4,381	16,559
Financial expenses	21	(203,619)	(124,519)
Foreign exchange variation income, net	21	2,803	77
FINANCIAL EXPENSES, NET		(196,435)	(107,883)
Share of results of investments	12	4,616	7,683
PROFIT BEFORE TAXES		117,930	75,645
Taxes	22.d	(1,418)	1,175
PROFIT FOR THE YEAR		116,512	76,820
Profit attributable to:			
Controlling interests		116,512	71,008
Non-controlling interests		-	5,812
Profit per share (in U.S. dollars - US$)			
Basic	17.g	0.42	0.25
Diluted	17.g	0.42	0.25

The accompanying notes are an integral part of these consolidated financial statements.

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000)

		Year-ended December 31,	
	Note	2019	2018
PROFIT FOR THE YEAR		116,512	76,820
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges fair value adjustments	17.e	-	(1,208)
Share of investments' other comprehensive income/(loss)	12/17.e	(3,314)	8,505
Foreign currency translation adjustments	17.e	(3,531)	(11,040)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		109,667	73,077
Comprehensive income attributable to:			
Controlling interests		109,667	66,889
Non-controlling interests		-	6,188

The accompanying notes are an integral part of these consolidated financial statements.

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR-ENDED DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000)

					Reserves							Equity attributable to		
	Note	Share capital	Share premium	Transaction costs on issuance of shares	Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive income/(loss)	Acquisition of non-controlling interests in subsidiaries	Foreign currency translation adjustments	Total reserves	Retained earnings	Controlling interests	Non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2017		63,200	766,561	(9,721)	5,683	1,584	(7,627)	-	(10,337)	(10,697)	628,826	1,438,169	(49,337)	1,388,832
Profit for the year		-	-	-	-	-	-	-	-	-	71,008	71,008	5,812	76,820
Other comprehensive loss for the year	17.e	-	-	-	-	(1,584)	8,505	-	(11,040)	(4,119)	-	(4,119)	376	(3,743)
Total comprehensive income for the year		-	-	-	-	(1,584)	8,505	-	(11,040)	(4,119)	71,008	66,889	6,188	73,077
Acquisition of non-controlling interests	11.a	-	-	-	-	-	-	(85,555)	-	(85,555)	-	(85,555)	43,149	(42,406)
BALANCE AS OF DECEMBER 31, 2018		63,200	766,561	(9,721)	5,683	-	878	(85,555)	(21,377)	(100,371)	699,834	1,419,503	-	1,419,503
Profit for the year		-	-	-	-	-	-	-	-	-	116,512	116,512	-	116,512
Other comprehensive loss for the year	17.e	-	-	-	-	-	(3,314)	-	(3,531)	(6,845)	-	(6,845)	-	(6,845)
Total comprehensive income for the year		-	-	-	-	-	(3,314)	-	(3,531)	(6,845)	116,512	109,667	-	109,667
Capital increase	17.a	27,000	-	-	-	-	-	-	-	-	-	27,000	-	27,000
Conversion of share premium to share capital	17.a	766,561	(766,561)	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings	17.a	124,439	-	-	-	-	-	-	-	-	(124,439)	-	-	-
BALANCE AS OF DECEMBER 31, 2019		981,200	-	(9,721)	5,683	-	(2,436)	(85,555)	(24,908)	(107,216)	691,907	1,556,170	-	1,556,170

The accompanying notes are an integral part of these consolidated financial statements.

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR-ENDED DECEMBER 31, 2019
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2019	Year-ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		116,512	76,820
Adjustments to reconcile profit for the year to net cash provided by/(used in) operating activities:			
Depreciation of property, plant and equipment	13/19	190,411	174,402
Loss/(gain) on disposal of property, plant and equipment, net	20	(18)	258
Reversal of impairment loss recognised on property, plant and equipment, net	13/20	(687,881)	(219,437)
Impairment loss recognised on investments, net	20	(223)	98,860
Share of results of investments	12	(4,616)	(7,683)
Recognition of deferred mobilization costs		2,520	8,795
Recognition of deferred revenues, net of taxes levied		(3,423)	(35,831)
Financial expenses on loans and financing	14.a/21	201,820	117,795
Financial income from related parties, net	11/21	-	(5,878)
Fair value loss on derivatives	21	-	513
Provision for onerous contract, net	20	58,330	17,279
Other financial income, net	21	(6,023)	(4,543)
Reversal of provisions		-	(21,857)
Taxes	22.d	1,418	(1,175)
Decrease/(increase) in assets:			
Short-term investments		-	(15,386)
Trade and other receivables		2,853	32,906
Receivables from related parties		(24)	283
Inventories		(15,569)	3,388
Recoverable taxes		8,168	1,149
Deferred taxes		-	149
Deferred mobilization costs		(3,074)	(709)
Other assets		(3,273)	15,088
Increase/(decrease) in liabilities:			
Payroll and related charges		2,005	(7,774)
Trade and other payables		9,489	(2,601)
Payables to related parties		355	-
Taxes payables		(140)	(1,007)
Deferred revenues		-	10,218
Provisions		(40)	(3,179)
Other liabilities		933	(4,250)
Cash provided by/(used in) operating activities		(129,490)	226,593
Income tax and social contribution paid		(3,065)	(4,163)
Net cash provided by/(used in) operating activities		(132,555)	222,430
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital decrease in investments	12	2,826	4,708
Proceeds from disposal of investments	12	148,721	-
Short-term investments		21,767	-
Restricted cash	8	(75,728)	-
Acquisition of property, plant and equipment	13	(6,676)	(30,000)
Proceeds from disposal of property, plant and equipment	20	25	27
Net cash provided by/(used in) investing activities		90,935	(25,265)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to related parties		-	(1,750)
Proceeds from related parties		-	954
Interest paid on loans and financing	14.a	-	(67,287)
Cash payments on derivatives		-	(2,494)
Proceeds from loans and financing	14.a	76,712	-
Capital increase	17.a/26	27,000	-
Restricted cash	~~8~~	-	(3,518)
Repayment of loans and financing	14.a	(46,344)	(230,491)
Net cash used in financing activities		57,368	(304,586)
Increase/(decrease) in cash and cash equivalents		15,748	(107,421)
Cash and cash equivalents at the beginning of the year	6	109,406	216,263
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,749	564
Cash and cash equivalents at the end of the year	6	127,903	109,406

The accompanying notes are an integral part of these consolidated financial statements.

(Amounts expressed in thousands of U.S. dollars - US$ '000, unless otherwise stated)

1. GENERAL INFORMATION

Constellation Oil Services Holding S.A. (the "Company", or together with its subsidiaries, the "Group") was incorporated in Luxembourg on August 30, 2011, as a "*société anonyme*" (i.e., public company limited by shares) and is indirectly controlled by members of the Queiroz Galvão family. The Company has its registered address at 8-10, Avenue de la Gare, L-1610 Luxembourg.

The Company's objectives are: (i) to hold investments in Luxembourg or foreign countries; (ii) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as deemed necessary, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as deemed necessary, and in particular for shares or securities of any entity purchasing the same; (iii) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding entity, subsidiary, or fellow subsidiary, or any other entity associated in any way with the Company, or the said holding entity, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance, loans, advances or guarantees; (iv) to borrow and raise funds in any manner and to secure the repayment of any funds borrowed; and (v) to perform any operation that is directly or indirectly related to its purpose. The Company's fiscal year is from January 1 to December 31.

The Company holds investments in subsidiaries that own, charter and operate onshore and offshore drilling rigs for exploration and production companies, most of them operating in Brazil. The Group currently charters its drilling rigs to a variety of multinational companies, such as Petróleo Brasileiro S.A. ("Petrobras"), Shell Brasil Petróleo Ltda. ("Shell") and Oil and National Gas Corporation ("ONGC"), an Indian oil and gas exploration and production state-owned company.

a) Fleet of offshore and onshore drilling rigs

Offshore drilling units

Drilling unit	Type	Start of operations	Contract expiration date (current or previous)	Customer (current or previous)
Atlantic Star (*)	Semi-submersible	1997	October 2023 (Note 28)	Petrobras
Olinda Star	Semi-submersible	2009	January 2021 (Note 1.b)	ONGC
Gold Star	Semi-submersible	2010	February 2022 (Note 1.h)	Petrobras
Lone Star	Semi-submersible	2011	April 2022 (Note 1.i)	Petrobras
Alpha Star	Semi-submersible	2011	August 2022 (Note 1.g)	Petrobras
Amaralina Star	Drillship	2012	April 2022 (Notes 1.c/28)	Petrobras
Laguna Star	Drillship	2012	December 2021 (Note 1.e)	Petrobras
Brava Star	Drillship	2015	September 2020 (Note 1.d)	Shell

Onshore drilling units

Drilling unit	Type	Start of operations	Contract expiration date (current or previous)	Customer (current or previous)
QG-I (*)	Onshore drilling rig	1981	June 2018	Zeus ÖL S.A.
QG-II (*)	Onshore drilling rig	1981	August 2018	Ouro Preto Óleo e Gás S.A.
QG-III (*)	Onshore drilling rig	1987	April 2016 (Note 28)	Petrobras
QG-IV (*)	Onshore drilling rig	1996	June 2015	Petrobras
QG-V (*)	Onshore drilling rig	2011	April 2015	Petrobras
QG-VI (*)	Onshore drilling rig	2008	May 2016	Petrobras
QG-VII (*)	Onshore drilling rig	2008	July 2015	Petrobras
QG-VIII	Onshore drilling rig	2011	February 2020 (Note 1.f)	Eneva S.A.
QG-IX (*)	Onshore drilling rig	2011	June 2014	HRT O&G Exploração e Produção de Petróleo Ltda.

(*) As of December 31, 2019, these drilling rigs were not hired under charter and service-rendering agreements. The Group is continuously seeking for new customers. Please refer to Note 28 for additional information regarding Atlantic Star, Amaralina Star and QG-III drilling units.

b) Olinda Star offshore drilling rig charter and service-rendering agreements

On April 25, 2017, the Group announced that the Olinda Star offshore drilling rig had been awarded a three-year contract with ONGC. Operations started on January 12, 2018, and the drilling activities are being performed offshore the Indian coast.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$20,688 (US$30,947 as of December 31, 2018), related to the aforementioned contract.

c) Amaralina Star offshore drilling rig charter and service-rendering agreements

On February 11, 2019, the Group announced that the Amaralina Star drillship had been awarded a contract with Total E&P do Brasil Ltda. ("Total"), a subsidiary of Total S.A., for one well intervention with an option for an interception well. The contract had a maximum estimated duration of 140 days. Operations were performed offshore the Brazilian coast, at the Lapa field. The contract was signed in early February 2019, with operations starting on February 28 and expiring on April 25, 2019.

On February 28, 2019, the Group recognized a provision for onerous contract in the amount of US$1,134, related to the aforementioned contract. Such provision was fully reverted upon the contract expiration.

On January 2, 2020, the Group announced that the Amaralina Star drillship has been awarded a contract with the consortiums of BM-S-11, BM-S-11A and Production Individualization Agreement (*Acordo de Individualização de Produção* - AIP) of Lula field, operated by Petrobras. The contract has an estimated duration of 730 days. Operations started on April 15, 2020, and are being performed offshore the Brazilian coast, at the Santos Basin.

d) Brava Star drillship charter and service-rendering agreements

On August 1, 2018, the Group announced that the Brava Star drillship had been awarded a contract with Shell, a Brazilian subsidiary of Royal Dutch Shell Plc. The contract aimed to drill four firm wells with options for up to an additional period of 810 days at the BC-10, Sul de Gato do Mato and Alto de Cabo Frio Oeste fields (offshore the Brazilian coast). The contract was signed in late July 2018, and operations started on March 7, 2019.

On August 16, 2019, Shell exercised its first right to extend the agreement for an estimated period of 90 days.

On November 19, 2019, Shell exercised its second right to extend the agreement for an estimated period of 90 days.

On March 6, 2020, Shell exercised its third right to extend the agreement for an estimated period of 90 days.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$10,061 (US$18,673 as of December 31, 2018), related to the aforementioned contract and its extensions. Part of the provision existing as of December 31, 2018, related to the first contract with Shell, was reverted in 2019 due to its expiration.

e) Laguna Star drillship charter and service-rendering agreements

On September 17, 2018, the Group announced that the Laguna Star drillship had been awarded a contract with Enauta Energia S.A. ("Enauta"), a related party, for a campaign of one firm well up to 90 days, with two additional options for well interventions of 45 days each. Operations were performed offshore the Brazilian coast, at the Atlanta field. The contract was signed in early September 2018, with operations starting on February 18 and expiring on September 20, 2019.

As of December 31, 2018, the Group recognized a provision for onerous contract in the total amount of US$3,643, related to the aforementioned contract. Such provision was fully reverted upon the contract termination.

On July 4, 2019, the Group announced that the Laguna Star drillship had been awarded a contract with the consortiums of BM-S-11, BM-S-11A and Production Individualization Agreement (*Acordo de Individualização de Produção* - AIP) of Lula field, operated by Petrobras. The contract has a 2-year estimated duration. Operations started on October 30, 2019, and are being performed offshore the Brazilian coast, at the Santos Basin.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$24,109 (US$3,643 as of December 31, 2018), related to the aforementioned contract.

f) QG-VIII onshore drilling rig charter and service-rendering agreements

On July 4, 2019, the Group signed an agreement to render drilling services for Eneva S.A., using the onshore drilling rig QG-VIII. The purpose of the agreement was to drill three oil wells in the Azulão Field, with an estimated duration of 90 days. Operations started on September 30, 2019 and expired on February 17, 2020.

g) Alpha Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Alpha Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. The drilling activities will be performed offshore the Brazilian coast and operations are expected to start in August 2020.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$19,088, related to the aforementioned contract.

h) Gold Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Gold Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. Operations started on February 11, 2020, and the drilling activities are being performed offshore the Brazilian coast.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$26,975, related to the aforementioned contract.

i) Lone Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Lone Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. Operations started on April 24, 2020, and are being performed offshore the Brazilian coast, at the Campos Basin.

As of December 31, 2019, the Group has a provision for onerous contract in the total amount of US$9,010, related to the aforementioned contract.

j) Operational and commercial strategies

As from July 2018, and in accordance with Brazilian Federal Law No. 13,303/16 and Petrobras' Bidding and Contracts Regulation (*Regulamento de Licitações e Contratos da Petrobras* - RLCP), the new Petrobras contracting rules became effective. This new regulation determines that all contracting must be carried out through public bidding, meaning that the contracting process takes place through bids that are open to any interested party, provided that they meet the bidding requirements, which are published by Petrobras and are accessible on the "Petronect Portal".

When under consortium with other operators, Petrobras is also entitled to invite companies to tender. In the case of a consortium, the decision to invite participants or not is solely dependent upon the discretionary decision of Petrobras and its partners, based on the consortium criteria such as compliance, operational, commercial, technical and economic background, among others. The Group has taken the necessary actions and measures to comply with Petrobras' requirements, enabling it to participate in Petrobras' tenders. Additionally, the Group is currently exploring other commercial opportunities with global oil and gas industry players.

The Group's operations are dependent upon conditions in the oil and gas industry and, specifically, on the capital expenditures of exploration and production companies. The demand for charter and service-rendering agreements for drilling and related services provided by the Group is influenced by, among other factors, oil and gas prices, expectations about future prices, the cost of producing and delivering oil and gas, government regulations and local and international political and economic conditions.

The Group is continuously pursuing opportunities to expand and diversify its client portfolio, including new locations. Accordingly, subsidiaries/offices were established in important international markets, such as Mumbai (India), Houston (USA) and Panama City (Panama), specifically focusing on strategic markets such as India, West Africa and the Gulf of Mexico. As a result of these actions, the Group has participated in some international bids and was awarded with a three-year contract with ONGC.

Additionally, the Group is prepared to take advantage of the opportunities that will arise in the Brazilian market as a result of the changes in Brazil's oil and gas regulation issued by the National Petroleum Agency (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis* - ANP), such as opening of pre-salt oil fields to non-Petrobras operators, new local content rules and Petrobras divestiture plans.

Management believes that the aforementioned strategies, combined with cost containment measures, capital expenditures discipline and its strong operational track record, will position the Group to benefit from the oil and gas industry recovery that is expected to occur in the middle term. Certain commercial actions were already successfully implemented, thus reflecting the obtainment of new charter and service-rendering agreements entered into during 2019 and 2020 (Notes 1 and 28, respectively).

k) Liquidity and financial restructuring aspects

In addition to the aforementioned ongoing operational and commercial strategies, the Group has taken a series of financial restructuring measures aiming at improving its liquidity position by extending the maturity of its debt through a liability management process. By the end of 2017, the Group began to engage in discussions with its financial creditors regarding the terms of a comprehensive financial restructuring with the objective of achieving a sustainable capital structure. The Group intended to reach this goal by extending debt maturities, postponing fixed amortization, amending financial covenants and raising new capital. The first phase of this liability management process was successfully initiated through the issuance of Senior Secured Notes maturing in November 2024 (the "New Notes"), extension of the Amaralina Star project financing balloon payment maturity from September 28 to December 8, 2018, and extension of working capital loans maturities from September 21 to December 8, 2018 (Note 14). These maturity extensions provided additional time for the Group to continue advancing in the negotiations with its financial creditors.

After considering the challenges of its economic and financial situation and the maturity schedule of its financial debts, Management recognized the need to adopt protective measures to the business, and concluded that (i) the Company did not meet the insolvency test under Luxembourg law, and therefore no insolvency proceedings would be required in that jurisdiction; and (ii) filing a request for a Judicial Recovery proceeding in Brazil (the "RJ"), on a partially consensual basis, would be the most appropriate action to be taken. Accordingly, on November 29, 2018, the Group executed a Plan Support and Lock-Up Agreement (the "PSA"), under which financial creditors holding approximately 50% of the Group's funded debt agreed to support the approval of a consensual and comprehensive RJ plan (the "RJ Plan"), provided that certain precedent conditions had been met, including an agreement on definitive documentation, approval of the RJ Plan by financial creditors and the Brazilian court and filing of an order enforcing the RJ Plan in a U.S. court. As part of the PSA, the engaged shareholders and certain financial creditors committed to provide new capital to the Group, as further disclosed in Note 17.a.

On December 5, 2018, the Company's Board of Directors authorized the filing of a RJ consistent with the PSA, and on December 6, 2018, the Company and certain of its subsidiaries (hereinafter together referred to as the "RJ Debtors") filed a request for a RJ under the terms of the Brazilian Bankruptcy Law (Law No. 11,101/2005) with the First Corporate Court of the Judicial District of the State Capital of Rio de Janeiro (the "RJ Court"), thus commencing an RJ for the RJ Debtors (the "RJ Proceeding").

In accordance with Brazilian Bankruptcy Law, the RJ Debtors are required to submit to the RJ Court a list of their financial creditors (the "First List of Creditors") for publication. The First List of Creditors was submitted by the RJ Debtors to the RJ Court on December 6, 2018, and was published in the Electronic Court Gazette (*Diário da Justiça Eletrônico*) of the State of Rio de Janeiro on December 18, 2018. In accordance with the PSA, and prior to the closing of the term provided for in the Brazilian Bankruptcy Law, on February 11, 2019, the RJ Debtors presented their RJ Plan to the RJ Court.

After the commencement of the RJ Proceeding, the Group continued to negotiate with key stakeholders, which included not only the parties to the PSA, but also a group of certain bondholders holding the majority of the New Notes (the "Ad Hoc Group"). On February 12, 2019, the Company's Board of Directors approved the signing of amendments to the PSA, as well as a Backstop Commitment Agreement (the "BCA") to reflect updated negotiations with all stakeholders. Accordingly, on February 21, 2019, the Group entered into an amendment to the PSA (the "Amended and Restated PSA") with (i) the financial creditors of the project financing of the Amaralina Star, Laguna Star and Brava Star drillships, (ii) Banco Bradesco S.A. as lender of working capital loans agreements and (iii) the Ad Hoc Group. In addition, and as provided under the terms of the Amended and Restated PSA, the Group entered into the BCA with the Ad Hoc Group, whereby the Ad Hoc Group members undertook to provide new capital to be invested in the Group. An amended RJ Plan was presented to the RJ Court, reflecting the modified terms set forth in the Amended and Restated PSA and BCA.

Pursuant to the Brazilian Bankruptcy Law, a General Creditors Meeting ("GCM") was held on June 27 and 28, 2019, in which the Group's creditors, including its financial creditors, deliberated and voted on the RJ Plan. During the GCM, on June 28, 2019, following further negotiations with the parties to the PSA and BCA, the Group entered into a further revised PSA (the "Second Amended and Restated PSA") and BCA Agreement (the "Amended and Restated BCA"), and proposed further amendments to the RJ Plan. After the submission of the amended RJ Plan (the "Amended and Restated RJ Plan") by the Group to the financial creditors on June 28, 2019, approximately 90% of the financial creditors, in value, approved the Amended and Restated RJ Plan. On July 1, 2019, the RJ Court confirmed the Amended and Restated RJ Plan approved by the creditors in the GCM (the "Confirmation Order"), thus granting full force and effect to the Amended and Restated RJ Plan. Certain dissident creditors of the Group appealed the confirmation of the Amended and Restated RJ Plan by the RJ Court, and on October 22, 2019, the Brazilian Court of Appeals upheld the Confirmation Order.

Labor creditors and suppliers, whose balances were held for payment due to the Amended and Restated RJ Plan confirmed on July 1, 2019, were fully paid during the second semester of 2019, totaling approximately US$10,500. The secured and unsecured creditors' payment schedule is disclosed in Note 14.

The Company also filed a motion with the Bankruptcy Court for the Southern District of New York (the “U.S. Court”) to have its Amended and Restated RJ Plan enforced in the United States of America. Two objections were filed against the Group’s motion, one of which was withdrawn. A hearing on the motion and remaining objection was held on December 4, 2019. At the hearing, the U.S. Court rejected the second and remaining objection and granted full force and effect to the Amended and Restated RJ Plan in the U.S. territory. Details of the settlement agreement related to the current arbitration process are disclosed in Notes 11.a) and 28.

After the U.S. Court entered the order for full force and effect, and as provided under the Amended and Restated RJ Plan, on December 18, 2019, the Group entered into amended and restated credit agreements as well as new credit agreements with its financial creditors, and issued new senior secured and senior unsecured notes, pursuant to new indentures (the “RJ Closing”). With the RJ Closing, the Group concluded its debt restructuring and was able to obtain a capital contribution of approximately US$105 million from the shareholders and certain financial creditors. The new capital is being invested in the Group’s drilling units, in order to meet the requirements of new charter and service-rendering contracts obtained by the Group during 2019 and 2020. Furthermore, as part of the Amended and Restated RJ Plan, the Group carried out a divestment of its investments in FPSO assets through a judicial auction, resulting in proceeds of approximately US$149 million, which also contributed to the Group’s current sustainable capital structure (Notes 1.k and 12).

Following the RJ Closing, the subsidiary Olinda Star Ltd. (“Olinda”) filed a Scheme of Arrangement in the British Virgin Islands (“BVI”) to restructure its own debt in similar terms to the Amended and Restated RJ Plan, which was approved by its creditors and confirmed by the BVI Court. Shortly thereafter, Olinda filed a motion with the U.S. Court to enforce the Scheme of Arrangement in the U.S. territory. At a hearing held on March 30, 2020, the U.S. Court granted full force and effect to Olinda’s Scheme of Arrangement in the U.S. territory.

The RJ Proceeding filing, the submission of the Amended and Restated RJ Plan, the entry into the Second Amended and Restated PSA with a majority of the Group’s financial creditors, the entry into the Amended and Restated BCA, as well as the approval by the financial creditors, the ratification of the Amended and Restated RJ Plan submitted in the General Creditors Meeting by the applicable Courts and the RJ Closing correspond to the most significant measures towards the Group’s comprehensive debt financial restructuring.

l) FPSO assets divestment

On May 28, 2019, following the approval of its business plan, the Group confirmed its intention to divest in the FPSO assets segment in order to be prepared for future potential investments. Therefore, since that date the investment in the related associates and joint ventures has been accounted for as available for sale.

On November 4, 2019, the Group announced that it had offered its investments in FPSO assets for sale through a public auction held on September 27, 2019. SBM Offshore N.V. (“SBM”) qualified as a bidder, and on October 8, 2019, submitted an offer in the amount of US$148,721 for the investments in FPSO assets acquisition in a public hearing before the RJ Court. The RJ Court declared SBM as the successful bidder, thus issuing a letter of award, authorizing the transfer of the investments in FPSO assets to SBM. Furthermore, the Company obtained approval from the Brazilian antitrust authority (*Conselho Administrativo de Defesa Econômica* - CADE) to consummate the transaction as soon as November 7, 2019.

On November 22, 2019, the Group and SBM jointly confirmed that they had successfully completed the investments in FPSO assets sale transaction. Upon completion of said transaction, SBM paid a total cash consideration of approximately US$149 million. The proceeds of the investments in FPSO assets sale were released to the Group and will be applied in accordance with participating notes indenture, to make capital expenditures in respect of the New Notes collateral drilling units and operating and maintenance expenses of the drilling units.

m) Operational continuity of the Group

The Group's operational continuity will substantially depend on its ability to implement its ongoing operational and commercial strategies and to comply with the terms of the Amended and Restated RJ Plan. The Group's Management understands that the measures taken so far, in addition to the Amended and Restated RJ Plan approval, the successful implementation of the measures set forth in the Amended and Restated RJ Plan and the RJ Closing will enable the Group to comply with its financial commitments and maintain its operational continuity.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1. New and amended IFRS that are mandatorily effective for the current year

During the year, the Group has applied a number of new and amended IFRS Standards issued by the International Accounting Standards Board (IASB), which are mandatorily effective for an accounting period that begins on or after January 1, 2019. The following new and amended IFRS have been applied by the Group, but had no significant impact on its consolidated financial statements, except for supplementary disclosures provided for in the explanatory notes.

Standard	Description	Effective date
IFRS 16 (New)	Leases	January 1, 2019
IFRS 9 (Amendments)	Financial Instruments	January 1, 2019
IAS 28 (Amendments)	Investments in Associate and Joint Ventures	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 (Amendments)	Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs	January 1, 2019
IAS 19 (Amendments)	Employee Benefits	January 1, 2019
IFRIC 23 (New)	Uncertainty over Income Tax Treatments	January 1, 2019

Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3.11.

Since the revenue recognition policy for charter contracts when the Group acts as a lessor was the same of the accounting treatment for Operating Leases, Management understands that the adoption of IFRS 16 do not have a significant impact on the Group's consolidated financial statements.

In cases where the Group is the customer (lessee), all contracts have been evaluated and due to their characteristics, such as low-value items and short-term contracts, Management has concluded that the adoption of IFRS 16 has no impacts on the Group's consolidated financial statements (Note 3.11).

Impact of initial application of IFRIC 23 - Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- ✓ determine whether uncertain tax positions are assessed separately or as a group; and
- ✓ assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Management has concluded that this interpretation has no impacts in the Group's consolidated financial statements.

2.2.New and revised IFRS in issue but not yet effective

At the date of approval of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New or revised standards and interpretations

Standard or interpretation	Description	Effective date
IFRS 17 *Insurance Contracts*	The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach.	January 1, 2021
Amendments to IFRS 3 *Definition of a business*	The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.	January 1, 2020

	Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.	
Amendments to IAS 1 and IAS 8 *Definition of material*	The amendments in Definition of Material clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.	January 1, 2020
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.	The effective date of the amendments has yet to be set by the IASB

The Group's Management is currently conducting an analysis of the impacts that may arise from the adoption of aforementioned new and revised or amended IFRS Standards on its consolidated financial statements. Based on the analysis carried out so far, the Group does not expect significant impacts on its consolidated financial statements due to the adoption of these new and revised or amended IFRS Standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. These policies have been applied consistently for all reporting periods.

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS, as issued by the IASB.

3.2 Basis of preparation and consolidation

Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as further explained below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group considers the characteristics of the asset or liability, and if market participants would consider those characteristics when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 - *Inventories* or value in use in IAS 36 - *Impairment of Assets*.

Consolidation

The consolidated financial statements incorporate the Company and its subsidiaries (Note 5).

All intra-group transactions, balances, income and expenses are eliminated for consolidation purposes.

Continuity as a going concern

The Group's consolidated financial statements were prepared on the going concern basis of accounting. Management assessed the Group's ability to continue as a going concern in light of the assumptions and matters disclosed in Note 1.m.

The significant accounting policies are set out below:

3.3 Functional currency and foreign currencies

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates (i.e., the "functional currency"). The Company's functional currency and most part of its subsidiaries is the U.S. dollar, since majority of revenues and costs, debt and capital expenditures are denominated in this currency. The consolidated financial statements are presented in thousands of U.S. dollars, which is the reporting currency of the Group.

Additionally, the Group has determined that the Brazilian real is the functional currency of Serviços de Petróleo Constellation S.A. ("Serviços de Petróleo"), Serviços de Petróleo Constellation Participações S.A. ("Serviços de Petróleo Participações"), Tarsus Serviços de Petróleo Ltda. ("Tarsus") and Manisa Serviços de Petróleo Ltda. ("Manisa"), since these subsidiaries' operations are located in Brazil and the majority of their revenues and costs are denominated in Brazilian reais. Consequently, in preparing these consolidated financial statements, Management has translated the financial statements of these subsidiaries into U.S. dollars as follows:

- ✓ The assets and liabilities for each balance sheet presented are translated at the closing rate on the respective balance sheet date;

- ✓ Income and expenses for each statement of operations are translated at exchange rates at the dates of the transactions; for this purpose, average monthly exchange rates are used as they approximate to the exchange rates in force on the transaction dates; and

- ✓ Shareholders' equity accounts are translated using historical exchange rates.

All resulting exchange differences on currency translation adjustments are recognized as a separate component of other comprehensive income (Note 17.e).

In preparing the consolidated financial statements, transactions in currencies other than the respective entity's functional currency (i.e., foreign currencies) are recognized at the exchange rates prevailing at the transaction dates. At the end of each reporting period, monetary and non-monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Currency translation adjustments of monetary items are recognized in profit or loss in the period in which they arise, while currency translation adjustments of non-monetary items are recognized in shareholder's equity, in the foreign currency translation adjustments reserve.

3.4 Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments, and not for investment or any other purposes. The Group considers as cash and cash equivalents (i) cash on hand; (ii) bank deposits; and (iii) short-term investments promptly convertible into a known amount of cash and subject to a low risk of change in value.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, for example, three months or less from the investment date.

3.5 Short-term investments

Short-term investments are held to meet the Group's short-term commitments and are often settled for this purpose, thus not having a business model for receiving contractual cash flows. Consists primarily of financial investments measured at fair value through profit or loss ("FVTPL"). These financial investments have maturities of more than three months or with no fixed time for redemption.

3.6 Trade and other receivables

Trade accounts receivables are initially measured at their fair value, which generally represents the billed amounts, and subsequently at amortized cost and adjusted for allowances for expected and incurred credit losses and impairment, when due necessary. The allowance for doubtful accounts is recognized considering the individual assessment of receivables, the economic environment analysis and the history of losses recorded in prior years by maturity range, in an amount considered sufficient by Management to cover probable losses on future collections. The carrying amounts represent manly their fair values at the end of the reporting period.

3.7 Inventories

Inventories consist of spare parts, materials and supplies to be applied in the drilling units operations, and are stated at the lower of cost incurred and net realizable value. During periods of high drilling units' utilization, inventories are entirely classified as current assets. Whenever a drilling unit is expected to end its charter agreement within a one-year period, all inventory that will not be consumed until the end of such agreement is reclassified to non-current assets. Inventories' costs are determined by using the average cost method of accounting.

3.8 Prepaid expenses

Refers to financial resources applied in prepaid expenses, such as insurance premiums, whose rights of benefits or services will occur in future periods, recorded on the accrual basis of accounting.

3.9 Legal deposits

There are situations in which Management argues the legitimacy of certain liabilities or lawsuits filed against the Group. Therefore, by a court order or by Management's own strategy, the amounts in dispute are deposited in escrow without characterizing the settlement of liabilities, but allowing the Group to continue challenging the lawsuits. In these situations, although the deposits are still assets of the Group, the amounts are only released upon receipt of a final court decision favorable to the Group. When applicable, legal deposits are recorded in non-current assets and are considered as operating activities for the purposes of the consolidated statement of cash flows.

3.10 Investments in associates

For investments in associates, the Group applies the equity method of accounting. Under such method, an investment is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income or loss of the investees. When the Group's share of losses of an investee exceeds its interest in that investee (which includes any long-term interests that, in essence, form part of the Group's net investment), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The requirements of IAS 36 - *Impairment of Assets* are applied to determine whether it is necessary to recognize any impairment losses with respect to the Group's investees. When deemed necessary, the entire carrying amount of the investee is tested for impairment in accordance with IAS 36, as a single asset by comparing its recoverable amount (higher of value in use, measured by the discounted cash flows, and fair value less costs to sell) with its carrying amount, as disclosed in Note 1.l. Any impairment losses recognized forms part of the carrying amount of the investee. The reversal of an impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investee subsequently increases, except when the impairment loss relates to goodwill, in which case reversal is not allowed under IFRS.

When a Group entity transacts with an investee, profit or loss resulting from such transactions are recognized in the Group's consolidated financial statements only to the extent of interests in the investees that are non-related to the Group.

3.11 Leases

<u>The Group as lessee</u>

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its drilling units.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the lease terms transfer substantially all the risks and ownership benefits to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic return rate on the Group's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 - *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

3.12 Property, plant and equipment ("PP&E")

All PP&E is carried at cost less accumulated depreciation and impairment, when due necessary. PP&E consists primarily of onshore and offshore drilling rigs, drillships and its related equipment.

Costs related to equipment under construction are recognized as PP&E cost, in accordance with the actual construction costs. A provision for corresponding unbilled costs from suppliers is recorded as an accrued liability.

Borrowing costs (including interest and fair value adjustments) are capitalized on equipment under construction, when applicable (Note 3.16).

Repair and maintenance costs related to periodic overhauls of the drilling rigs and drillships are capitalized, when the economic benefits associated with the item inflows to the Group and the costs can be reliable measured. These costs are depreciated over the period extending to the next periodic overhaul. Related costs are mainly comprised by shipyard costs and the costs of employees directly involved in the related project. All other repair and maintenance costs are charged to profit or loss in the period in which they are incurred.

The carrying amounts of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the drilling rigs and drillships. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group computes depreciation using the straight-line method, considering the respective residual value of the related assets. When significant components of a PP&E item have different useful lives, those components are accounted for as separate PP&E items. Estimated useful lives of PP&E range from 5 (five) to 35 (thirty-five) years. At the end of each year, the Group reviews the estimated useful lives and residual values of PP&E.

3.13 Impairment of long-lived assets

Assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (i.e., cash generating units). Non-financial assets that have been impaired are reviewed for possible impairment reversal at each balance sheet date.

A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss that has been recognized for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

Recoverable amounts are substantially determined based on discounted future cash flows calculations and asset price evaluation, both requiring the use of estimates (Note 4.5).

3.14 Trade and other payables

Trade and other payables are stated at known or estimated amounts, plus corresponding charges and monetary and/or foreign exchange rate variations incurred, when applicable, and represent obligations to pay for goods or services acquired in the normal course of the Group's business activities.

3.15 Loans and financing

Loans and financing are carried at amortized cost subject to monetary and/or foreign exchange rate variations incurred, when applicable, plus interest incurred through the end of the reporting period.

When applicable, borrowing costs incurred are measured at amortized cost and recognized in liabilities as a reduction of loans and financing and allocated to profit or loss over the agreement term.

Interest paid is presented as financing activities in the consolidated statement of cash flows.

3.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for its intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.17 Provisions

Provisions are recognized when (i) the Group has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable that the Group will be required to settle the obligation; and (iii) a reliable estimate of the obligation amount can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. Contingent risks assessed as "possible losses" are disclosed in these consolidated financial statements, but not recorded in a specific liability account.

3.18 Current and non-current assets and liabilities

Current and non-current assets and liabilities are stated at their net realizable value and settlement amounts, respectively, and include monetary and/or foreign exchange rate variations incurred, when applicable, plus income earned and expenses incurred, recognized on a pro-rata basis through the balance sheet date.

3.19 Revenue recognition

Charter and service-rendering revenues are recognized when the respective services are rendered based on the contracted day rates and the number of operating days during the period. Some of the charter and service-rendering agreements include uptime bonus payments, depending on performance criteria set forth in the respective agreements. The Group recognizes bonus revenues in the same period that it meets the contractual criteria, renders the related services for which the specific performance criteria is met, and is preapproved by the client. The Group may also earn revenues for the preparation and equipment mobilization (drilling units) and personnel.

Revenue from services rendered is recognized when all of the following conditions are met (performance obligation satisfied over time):

- ✓ The client simultaneously receives and uses the benefits provided by the Group's performance as the Group performs.
- ✓ The Group's performance creates or enhances an asset (e.g., work in progress) that the client controls as the asset is created or enhanced.
- ✓ The Group's performance does not create an asset with an alternative use for the Group and the Group has an enforceable right to payment for performance completed to date.

Mobilization revenues and costs are deferred and recognized on a straight-line basis over the period that the related charter and drilling services are rendered, which is consistent with the general pace of activity, level of services being provided and day rates being earned over the term of the related agreement.

Revenues are presented net of sales taxes levied on the provision of services, after eliminating intercompany sales, when applicable (Note 18).

3.20 Costs and expenses recognition

Costs and expenses are recognized on an accrual basis, based on corresponding revenues earned. Prepaid expenses related to future periods are deferred according to their respective terms (Note 24).

3.21 Financial income and expenses

Financial income and expenses are mainly represented by interest on cash and cash equivalents and short-term investments and interest on loans and financing, respectively, and are recorded on an accrual basis of accounting (Note 21).

3.22 Current and deferred income tax and social contribution

The provision for income tax and social contribution is based on taxable profit for the year. The taxable profit differs from profit before taxes presented in the consolidated statement of operations because it excludes revenues or expenses taxable or deductible in subsequent periods, and excludes non-taxable or non-deductible items. The provision for income tax and social contribution is calculated for each individual entity of the Group, based on the rates prevailing at year-end according to the respective tax regulation in each jurisdiction.

Deferred taxes are recognized for temporary differences and tax loss carryforwards, when applicable. Deferred taxes are recognized only to the extent that their recoverability is considered probable, taking into account Management's assessment regarding the Group's ability to continue as a going concern (Note 1.m).

3.23 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets

that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on their classification.

Classification of financial assets (Note 23.a)

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- ✓ the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ✓ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income ("FVTOCI"):

- ✓ the financial asset is held within a business model whose objective is achieved by both, collecting contractual cash flows and selling the financial assets; and
- ✓ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and ownership benefits of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and ownership benefits and continues to control the transferred financial asset, the Group recognizes its retained interest in the financial asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and ownership benefits of a transferred financial asset, the Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is remeasured at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issuance costs.

Classification of financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected term of the financial liability, or a shorter period (where appropriate), to the amortized cost of a financial liability.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information regarding the grouping is provided internally on that basis.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability.

As of December 31, 2019 and 2018, the Group has no derivative financial instruments.

3.24 Cash flow statement

The cash flow statement is prepared using the indirect method, which separates cash flows from operating activities, investing activities and financing activities and reconciles profit/(loss) for the year to net cash flows to the change in cash and cash equivalents. Investing and financing transactions that do not require the use of cash or cash and cash equivalents have been excluded from the cash flow statement and, when applicable, are disclosed in the consolidated financial statements as "non-cash transactions" (Note 26). When applicable, dividends paid to ordinary shareholders are included in financing activities, while dividends received from subsidiaries are classified as investing activities. Interest paid is also presented as financing activities in the consolidated statement of cash flows.

4 CRITICAL ACCOUNTING ESTIMATES

In applying the significant accounting policies described in Note 3, Management must use judgement and develop estimates for the carrying amounts of assets and liabilities, which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Therefore, future results could differ from those estimates.

The estimates and underlying assumptions are reviewed continuously, and the effects of such reviews are recognized prospectively.

Management has concluded that the most significant judgments and estimates considered during the preparation of these consolidated financial statements are the following:

4.1 Measurement of financial instruments

The Group uses valuation techniques that include the use of inputs that are (or not) based on observable market data to estimate the fair values of certain types of financial instruments. Details of the main assumptions used to measure the fair values of financial instruments are disclosed in Note 23.a (fair value hierarchy).

Management believes that the valuation techniques applied and the assumptions used are appropriate to measure the fair values of its financial instruments.

4.2 Impairment of trade and other receivables

The Group recognizes a loss allowance for expected credit losses on trade and other receivables. The amount of expected credit losses is remeasured at each balance sheet date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both current and forecasted direction of conditions at the balance sheet date, including time value of money where appropriate. As of December 31, 2019 and 2018, no provision for impairment on trade and other receivables was considered required (Note 9).

4.3 Current and non-current inventory segregation

The Group classifies inventories that are expected to be consumed within a twelve-month period as current assets. The Group considers that no inventory would be consumed during a period in which a drilling unit is not hired under a charter agreement in force. Therefore, when a charter agreement is expected to expire within a twelve-month period, the Group reclassifies all inventory that will not be consumed until the end of such agreement to non-current assets. The amount reclassified is based on an estimate derived from the Group's annual budget process.

4.4 Useful lives of PP&E

The carrying amounts of PP&E assets are based on estimates, assumptions and judgments related to capitalized costs and useful lives of the drilling units and its related equipment. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group calculates depreciation using the straight-line method.

As described in Note 3.12, at the end of each fiscal year, the Group reviews the estimated useful lives of PP&E.

4.5 Impairment of long-lived assets

The Group evaluates PP&E for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group also evaluates PP&E for impairment reversal if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The Group substantially uses either discounted future cash flow projections (value in use) or fair value less costs to sell (market approach) techniques for determining the recoverable amount of an asset for the purpose of potential impairment loss provision or reversal.

For the value in use calculation, the Group's assumptions and estimates underlying this analysis includes the following, by drilling unit (i.e., cash generating unit): day rate, occupation rate, efficiency rate, daily operating costs (Opex), residual useful life of the drilling units and estimated proceeds that may be received on disposition.

The underlying assumptions are developed based on historical data for each drilling unit, which considers rated water depth and other attributes and the assessment of its future marketability according to the current and forecasted market environment at the time of assessment. Other assumptions, such as operating costs (Opex), are estimated using historical data adjusted for known developments and future events.

The Group prepares a probable scenario for each drilling unit, which results in a discounted cash flow projection for each drilling unit based on expected operational and macroeconomic assumptions (e.g., inflation indexes, foreign exchange rates, among others) and compare such amount to its carrying amount. Discount rates are derived from the Group's internal Weighted Average Cost of Capital ("WACC").

Management's assumptions are necessarily subjective and are an inherent part of the Group's asset impairment evaluation, and the use of different assumptions could produce results that differ from those being disclosed. The Group's methodology generally involves the use of significant unobservable inputs, representative of a "Level 3" fair value measurement (Note 23.a), which may include assumptions related to future dayrate revenues, costs and drilling units utilization, the long-term future performance of the Group's drilling units and future oil and gas industry conditions. Management's assumptions involves uncertainties regarding future demand for the Group's services, dayrates, expenses and other future events, and Management's expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially modify the Group's analysis in testing an asset for potential impairment loss provision or reversal.

Other events or circumstances that could affect the Group's assumptions may include, but are not limited to, a further sustained decline in oil and gas prices, cancelations of the Group's charter and service-rendering contracts or contracts of the Group's competitors, contract modifications, costs to comply with new governmental regulations, growth in the global oversupply of oil and geopolitical events, such as lifting sanctions on oil-producing nations and potential impacts arising from the new coronavirus pandemic ("COVID-19"), which are unclear at this stage. Should actual market conditions in the future differ significantly from those considered in the Group's projections, the Group's impairment assessment would likely be different.

During the years ended December 31, 2019 and 2018, the Group recognized impairment losses and/or reversals on its drilling units (Notes 13 and 20).

4.6 Provisions for claims and other obligations

Claims against the Group, including unasserted claims or assessments are recognized as a liability and/or are disclosed in these consolidated financial statements, unless the loss probability is considered to be remote. A provision for claim and other obligation is recorded when the loss is probable and the amount can be reliably estimated. Claims and other similar obligations will be settled when one or more future events occur. Normally, the occurrence of such events is not within the Group's control and, therefore, the assessment of these liabilities is subject to varying degrees of legal uncertainty and interpretation, and requires significant estimates and judgments to be made by Management.

Certain conditions may exist as of the date of the consolidated financial statements are issued, which may result in a loss to the Group, but which will only be settled when one or more future events occur or fail to occur. The Group's Management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss will be incurred and the liability amount can be reliably estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, then the nature of the contingent liability is disclosed in the consolidated financial statements.

4.7 Provision for employee profit sharing plan

The profit sharing paid to employees, including key management personnel, is based on the achievement of qualitative and financial performance metrics, as well as the individual objectives of employees, which are determined annually. This provision is set on a monthly basis and is remeasured at the year-end based on the best estimate of the achieved objectives as set forth in the annual budget process.

During the years ended December 31, 2019 and 2018, the Group did not recognize provision for employee profit sharing plan.

4.8 Deferred tax assets

The Group recognizes deferred tax assets arising from tax losses and temporary differences between accounting and taxable profits. Deferred tax assets are recognized to the extent that the Group expects to generate sufficient future taxable income based on projections and forecasts made by Management. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and, if applicable, reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

5 CONSOLIDATED ENTITIES AND INVESTMENTS

		Ownership interest (%)			
		December 31,			
		2019		2018	
Consolidated entities	Country of incorporation	Direct	Indirect	Direct	Indirect
Alaskan & Atlantic Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Alaskan & Atlantic Rigs B.V.	Netherlands	-	100.00	-	100.00
Alaskan Star Ltd. ("Alaskan")	British Virgin Islands	-	100.00	-	100.00
Alpha Star Equities Ltd. ("Alpha") (1)	British Virgin Islands	-	100.00	-	100.00
Amaralina Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Amaralina Star Holdco 1 Ltd.(2)	British Virgin Islands	-	100.00	-	-
Amaralina Star Holdco 2 Ltd.(2)	British Virgin Islands	-	100.00	-	-
Amaralina Star Ltd. ("Amaralina") (1)	British Virgin Islands	-	100.00	-	100.00
Angra Participações B.V. ("Angra")	Netherlands	100.00	-	100.00	-
Arazi S.à.r.l. ("Arazi") (1)	Luxembourg	100.00	-	100.00	-
Becrux B.V.	Netherlands	-	100.00	-	100.00
Bonvie Investments Inc.	British Virgin Islands	-	100.00	-	100.00
Brava Drilling B.V. ("Brava Drilling")	Netherlands	-	100.00	-	100.00
Brava Star Holdco 1 Ltd. (2)	British Virgin Islands	-	100.00	-	-
Brava Star Holdco 2 Ltd. (2)	British Virgin Islands	-	100.00	-	-
Brava Star Ltd. (1) ("Brava")	British Virgin Islands	-	100.00	-	100.00
Centaurus S.à.r.l. ("Centaurus")	Luxembourg	100.00	-	100.00	-
Constellation Africa Inc.	British Virgin Islands	-	100.00	-	100.00
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Overseas Ltd. ("Constellation Overseas") (1)	British Virgin Islands	-	100.00	-	100.00
Constellation Panamá Corp.	Panamá	-	100.00	-	100.00
Constellation Services Ltd. ("Constellation Services") (1)	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. ("Domenica")	Paraguay	-	100.00	-	100.00
Domenica Argentina S.A.	Argentina	-	100.00	-	100.00

Consolidated entities	Country of incorporation	Ownership interest (%) December 31, 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
Eiffel Ridge Group C.V.	Netherlands	-	100.00	-	100.00
Gold Star Equities Ltd. (“Gold”) (1)	British Virgin Islands	-	100.00	-	100.00
Hopelake Services Ltd.	British Virgin Islands	-	100.00	-	100.00
Keam Holdings C.V.	Netherlands	-	100.00	-	100.00
Laguna Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Laguna Star Holdco 1 Ltd. (2)	British Virgin Islands	-	100.00	-	-
Laguna Star Holdco 2 Ltd. (2)	British Virgin Islands	-	100.00	-	-
Laguna Star Ltd. (“Laguna”) (1)	British Virgin Islands	-	100.00	-	100.00
Lancaster Holdco 1 Ltd. (2)	British Virgin Islands	-	100.00	-	-
Lancaster Projects Corp. (“Lancaster”) (1)	British Virgin Islands	-	100.00	-	100.00
London Tower International Drilling C.V.	Netherlands	-	100.00	-	100.00
London Tower Management B.V.	Netherlands	-	100.00	-	100.00
Lone Star Offshore Ltd. (“Lone”) (1)	British Virgin Islands	-	100.00	-	100.00
Manisa Serviços de Petróleo Ltda. (1)	Brazil	-	100.00	-	100.00
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	100.00
Palase C.V.	Netherlands	-	100.00	-	100.00
Palase Management B.V.	Netherlands	-	100.00	-	100.00
Podocarpus C.V.	Netherlands	-	100.00	-	100.00
Podocarpus Management B.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
Positives Investments C.V.	Netherlands	-	100.00	-	100.00
QGOG Atlantic / Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
QGOG Constellation BVI Ltd.	British Virgin Islands	-	-	-	100.00
QGOG Constellation US LLC.	United States of America	-	100.00	-	100.00
QGOG Constellation UK Ltd.	United Kingdom	100.00	-	100.00	-
Servicios Petroleros Constellation S.A. de CV	Mexico	-	100.00	-	-
Serviços de Petróleo Constellation Participações S.A. (1)	Brazil	-	100.00	-	100.00
QGOG Perforaciones S.A.C.	Peru	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Serviços de Petróleo Constellation S.A. (1)	Brazil		100.00		100.00
Queiroz Galvão Óleo e Gás S.A. (“QGOG India”)	India		100.00		100.00
Snover International Inc. (1)	British Virgin Islands	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”) (1)	Cayman Island	-	100.00	-	100.00
Tarsus Serviços de Petróleo Ltda. (1)	Brazil	-	100.00	-	100.00

(1) – In Judicial Recovery, as disclosed in Note 1.j.

(2) – Entities incorporated in 2019, in connection with the debt restructuring process (Note 1.j). These entities were included in the Group’s corporate structure to provide the noteholders and Banco Bradesco S.A. with structural seniority with respect to the assets of Amaralina, Laguna and Brava.

Investments accounted for by the equity method of accounting

Entities	Country of incorporation	Indirect ownership interest (%) December 31, 2019	2018
Associates			
FPSO Capixaba Venture S.A. (“Capixaba”) (1)/(6)	Switzerland	-	20.0
SBM Espírito do Mar Inc. (“Espírito do Mar”) (1)/(6)	Switzerland	-	20.0
Urca Drilling B.V.	Netherlands	15.0	15.0
Bracuhy Drilling B.V.	Netherlands	15.0	15.0
Mangaratiba Drilling B.V.	Netherlands	15.0	15.0
Joint Ventures			
Tupi Nordeste Ltd. (2)/(6)	Bermudas	-	20.0
Tupi Nordeste S.à.r.l. (2)/(6)	Luxembourg	-	20.0
Guará Norte S.à.r.l (3)/(6)	Luxembourg	-	12.75
Guará Norte Holding Ltd. (3)/(6)	Bermuda	-	12.75
Alfa Lula Alto S.à.r.l. (4)/(6)	Luxembourg	-	5.00
Alfa Lula Alto Holding Ltd. (4)/(6)	Bermuda	-	5.00
Beta Lula Central S.à.r.l. (5)/(6)	Luxembourg	-	5.00
Beta Lula Central Holding Ltd. (5)/(6)	Bermuda	-	5.00

(1) These entities refer to the FPSO Capixaba's structure (Note 12).
(2) These entities refer to the FPSO Cidade de Paraty's structure (Note 12).
(3) These entities refer to the FPSO Cidade de Ilhabela's structure (Note 12).
(4) These entities refer to the FPSO Cidade de Maricá's structure (Note 12).
(5) These entities refer to the FPSO Cidade de Saquarema's structure (Note 12).
(6) Investments accounted for by the equity method of accounting until May 31, 2019 (Note 1.l).

6 CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Cash and bank deposits	11,498	17,556
Time deposits (*)	116,405	91,850
Total	127,903	109,406

(*) Time deposits have original maturities of three months or less. As of December 31, 2019 and 2019, time deposits are comprised as follows:

Financial institution	Currency	Average interest rate (per annum)	December 31, 2019	December 31, 2018
Banco Itaú BBA S.A. (Nassau Branch)	U.S. dollar	0.50%	59,782	55,497
Citibank N.A.	U.S. dollar	0.59%	29,179	17,286
Banco Bradesco S.A.	Brazilian real	0.29%	142	81
HSBC	U.S. dollar	1.00%	27,213	18,701
Preferred Bank	U.S. dollar	-	-	250
Banco do Brasil S.A.	Brazilian real	0.78%	89	35
Total			116,405	91,850

7 SHORT-TERM INVESTMENTS

Financial institution	Type	Currency	Average interest rate (per annum)	December 31, 2019	December 31, 2018
Banco Lafise Panamá	Time deposits (i)	U.S. dollar	2.75%	49	48
Banco Bradesco S.A.	Repurchase agreements (iii)	Brazilian real	99.00% of CDI (ii)	4,231	-
Banco do Brasil S.A.	Repurchase agreements (iii)	Brazilian real	98.75% of CDI (ii)	-	25,999
Total				4,280	26,047

(i) These investments have original maturities of more than three months, or with no fixed time for redemption.

(ii) Brazilian Interbank Deposit Certificate (*Certificado de Depósito Interbancário* - CDI), which average remuneration during the years ended December 31, 2019 and 2018 was 5.94% p.a. and 6.50% p.a., respectively.

(iii) Refers to agreements in which the financial institution (seller) commits to repurchase the asset back from the Group (buyer) in the short-term (i.e., more than three months, but no longer than twelve months).

8 RESTRICTED CASH

Under certain of the Group's project finance arrangements (Note 14), surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to the future debt servicing requirements of the project finance arrangements.

The following accounts, which deposits have original maturities of less than twelve months, currently refer to (i) the project finance agreements related to the construction of the Amaralina Star and Brava Star drillships (Note 14); (ii) cash collateral related to Bid/Performance Bonds; and (iii) cash collateral to make capital expenditures in respect of rigs that are collateralized under the New Notes and operating and maintenance expenses of drilling rigs.

The amounts in these accounts are comprised by time and bank deposits, as follows:

Financial institution	Type	Average interest rate (per annum)	December 31, 2019	December 31, 2018
Citibank N.A.	Time deposits	0.24%	10,290	10,068
HSBC	Time deposits	1.00%	24,893	24,386
HSBC	Bank deposits	-	5,099	5,099
Citibank N.A.	Bank deposits	-	77,999	3,000
Total			118,281	42,553

9 TRADE AND OTHER RECEIVABLES

Trade receivables are related to receivables for charter and service-rendering agreements relating to the drilling units used in the exploration and production activities of oil and gas in Brazil and India. Historically, there have been no defaults on receivables or delays in collections and, consequently, the Group has not recorded an impairment loss provision for trade and other receivables for the years presented. The average collection period is of approximately 45 days. Details of financial risk management related to credit risk are disclosed in Note 23.b.

10 INVENTORIES

Inventories consist of spare parts, materials and supplies to be applied in the drilling units operations. The amounts recognized in the consolidated statement of operations are accounted for as Cost of Services in the sub-account "Materials" (Note 19). As of December 31, 2019, based on the inventories budget consumption for 2020, the Group reclassified the amount of US$122,078 (US$125,866 as of December 31, 2018) to non-current assets, since such inventories were not expected to be consumed within a twelve-month period.

11 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, that are part of the Group, have been eliminated for consolidation purposes and are not disclosed in the table below.

The consolidated intercompany balances as of December 31, 2019 and 2018, and transactions for the years then ended are as follows:

	December 31,				Year-ended December 31,	
	2019		2018		2019	2018
	Assets	Liabilities	Assets	Liabilities	Income/ (expenses)	Income/ (expenses)
Alperton Capital Ltd. [a]	-	-	-	-	-	6,363
Enauta S.A. [b]	-	-	-	-	26,253	-
Queiroz Galvão S.A. [c]	-	543	-	188	(355)	(510)
Tupi Nordeste Operações Marítimas Ltda. [d]	177	-	216	-	883	1,321
Guará Norte Operações Marítimas Ltda. [d]	157	-	162	-	810	1,009
Alfa Lula Alto Operações Marítimas Ltda. [d]	311	-	229	-	935	986
Guará Norte Holding Ltd.[e]	83	-	83	-	458	500
Alfa Lula Alto Holding Ltd. [e]	150	-	150	-	550	600
Beta Lula Central Holding Ltd.[e]	50	-	50	-	550	600
Others	87	-	101	-	13	45
Total	1,015	543	991	188	30,097	10,914
Current	1,015	543	974	188		
Non-current	-	-	17	-		

(a) In 2010, the Group and Alperton Capital Ltd. ("Alperton") signed shareholders' and loan agreements in order to construct, charter and operate two drillships for Petrobras, the Amaralina Star and the Laguna Star drillships, through the Group's 55% equity interest in each of Amaralina and Laguna, the remaining 45% equity interest of these entities' being held by Alperton.

Under these agreements, the Group committed to finance Alperton's 45% capital expenditures share on these projects.

The income for the year ended December 31, 2018, in the amount of US$6,363, is presented net of expenses. The income for the year ended December 31, 2018, in the amount of US$52,817, refer to interest charged on the receivables by Constellation Overseas from Alperton during 2018, while the expenses for the year ended December 31, 2018, in the amount of US$46,454, refer to interest charged on the payables as due by Amaralina and Laguna to Alperton during 2018 (Note 21 – Financial income from related parties).

The Group charged Alperton a fee for being the guarantor of Amaralina Star and Laguna Star drillships project financing and a fee for being the guarantor for importations under the Special Regime of Temporary Admission (*Regime Aduaneiro Especial de Importação e Exportação de Bens Destinados à Pesquisa e Lavra de Petróleo e Gás* - REPETRO). For the year ended December 31, 2018, net fees charged to Alperton totaled US$6,363.

Constellation Overseas request for arbitration against Alperton

On August 7, 2018, Constellation Overseas, as claimant, filed a request for arbitration against Alperton and certain associated entities, as respondents, under the parties' Shareholders' Agreements for Amaralina and Laguna. The dispute arose from the existence of a deadlock under the Shareholders' Agreements. In accordance with the Shareholders' Agreements, the request for arbitration was filed with the International Chamber of Commerce ("ICC") under its 2017 Rules of Arbitration. In said arbitration, Constellation Overseas sought a declaration of the deadlock sale price at which it must purchase Alperton's shares representing a 45% equity participation in Amaralina and Laguna ("Alperton Shares"). On September 21, 2018, further to the existence of an unremedied deadlock and as foreseen in the Shareholders' Agreements, all shares held by Alperton were formally transferred to Constellation Overseas. Alperton and the other respondents in the arbitration also presented counterclaims against Constellation Overseas.

In parallel to the arbitration, Alperton filed several motions and appeals in Brazil regarding the RJ Proceeding, issued claims and an appeal in the BVI (¨BVI Proceedings") and filed objections to the Chapter 15 Proceedings (together with the arbitration "the Proceedings").

On May 23, 2020, the Group and Alperton and certain Alperton affiliates, among other parties, reached an agreement to resolve the disputes between them, and, without recognizing any claim to Alperton, the Group agreed to reimburse certain expenses incurred by Alperton in connection with the Proceedings in the amount of US$2,400 (¨the Settlement Payment"). Such amount is solely for the payment or reimbursement of certain professional fees and expenses incurred by Alperton in connection with the Proceedings (Note 28).

Alperton has agreed that (i) nothing is owed by Constellation to Alperton in connection with the matters described in the settlement agreement; (ii) the Settlement Payment represents the full amount to be paid as reimbursement of their attorneys' fees; and (iii) Constellation Overseas is the 100% legal and beneficial owner of the Amaralina and Laguna shares.

As a condition precedent to the transfer of any installment of the Settlement Payment, Alperton shall within 2 days from the execution of the settlement agreement, jointly with the Group, request the Arbitral Tribunal to issue on an expedited basis a consent award terminating the Arbitration and incorporating the terms of the settlement agreement (the "Consent Award"). Upon issuance by the Arbitral Tribunal of the Consent Award, Alperton shall withdraw the pending appeals and motions in the Brazilian Proceedings and all proceedings pending in the BVI against the Group. The Group shall also support the withdrawal of any such claim, appeal, action or motion in any relevant court or tribunal.

Share transfer effects

In connection with the Shareholders' Agreements and the share transfer from Alperton to Constellation Overseas, the assets and liabilities with Alperton were extinct on September 30, 2018. Due to these extinctions, the Group recorded on its consolidated financial statements a negative amount of US$85,555, as acquisition of non-controlling interests reserve (non-cash investing activity) in the Shareholders' Equity and a reversal of US$43,149 in the non-controlling interests group in the Shareholders' Equity.

(b) Refers to the revenue generated by Laguna Star drillship in 2019 (Note 1.e).

(c) The payable amount refers to a fee charged by Queiroz Galvão S.A. for being the guarantor for importations under the REPETRO tax regime.

(d) As of December 31, 2019 and 2018, the receivable amounts and the income from Tupi Nordeste Operações Marítimas Ltda., Guará Norte Operações Marítimas Ltda. and Alfa Lula Alto Operações Marítimas Ltda. refers to labor costs reimbursement regarding operations of the FPSO Cidade de Paraty, FPSO Cidade de Ilhabela, and FPSO Cidade de Maricá, respectively.

(e) As of December 31, 2019 and 2018, the receivable amounts and the income from Guará Norte Holding Ltd., Alfa Lula Alto Holding Ltd. and Beta Lula Central Holding Ltd. refers to a management fee charged by the Group in respect of the operational services rendered to the FPSO Cidade de Ilhabela, FPSO Cidade de Maricá and FPSO Cidade de Saquarema, respectively.

Key management personnel[(i)] remuneration for the years ended December 31, 2019 and 2018, is as follows:

	Year-ended December 31, 2019	Year-ended December 31, 2018
Short-term benefits [(ii)]	6,505	4,670

(i) Key management personnel is defined as the statutory officers and directors of the Group.

(ii) Short-term benefits mainly refers to salaries, social security contributions, annual leave and employee profit sharing (payable within twelve months from the year-end date), and for the year ended December 31, 2019 also includes indemnity packages for former directors. For the years ended December 31, 2019 and 2018, the Group did not record profit sharing contribution (Note 4.7).

During 2019, the Company granted to a certain board member the right to receive the economic value corresponding to 0.085% of the Company's total outstanding equity securities. The payment will be made in the event (i) dividends are distributed by Company; and (ii) any of the Company's Equity Securities be sold and the shareholders receive cash compensation from such sale.

The Group records the payable amount based on the fair value of the Company as of each reporting period. As of December 31, 2019, the total amount recorded as administrative expenses totaled US$1,311.

The compensation paid to key management personnel is evaluated on an annual basis, considering the following main factors: individual performance during prior year, market rates and movements and the individual's anticipated contribution to the Group's growth. Members of key management are also eligible to participate in the Group's retirement benefit plans (Note 25).

12 INVESTMENTS

	December 31, 2019 (Unaudited)							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates								
Urca Drilling B.V. (1)	90	15.00%	€90k	104	22,006	498,126	249,518	(725,534)
Bracuhy Drilling B.V. (1)	90	15.00%	€90k	1,452	9,002	202,830	273,713	(466,089)
Mangaratiba Drilling B.V. (1)	90	15.00%	€90k	9	1	44,370	107,552	(151,912)

	May 31, 2019 (*) (Unaudited)							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates								
FPSO Capixaba Venture S.A.	100	20.00%	82	34,841	25,212	97,528	141,729	(179,204)
SBM Espírito do Mar Inc.	100	20.00%	88	7,722	262,581	95,102	30,516	144,685
Joint Ventures								
Tupi Nordeste S.à.r.l.	16,020	20.00%	16,020	1,226,807	(58,482)	529,628	-	638,697
Tupi Nordeste Holding Ltd.	12	20.00%	12	13,257	-	86,131	-	(72,874)
Guará Norte S.à.r.l. (2)	50,020	12.75%	50,020	1,572,312	-	752,807	-	819,505
Guará Norte Holding Ltd. (2)	12	12.75%	12	15,895	-	35,709	-	(19,814)
Alfa Lula Alto S.à.r.l. (2)	65,020	5.00%	65,020	1,695,392	-	1,241,584	-	453,808
Alfa Lula Alto Holding Ltd. (2)	5	5.00%	12	16,789	-	22,764	-	(5,975)
Beta Lula Central S.à.r.l. (2)	65,020	5.00%	65,020	1,681,377	-	1,310,676	-	370,701
Beta Lula Central Holding Ltd. (2)	5	5.00%	12	4,027	-	10,331	-	(6,304)

	December 31, 2018							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates								
FPSO Capixaba Venture S.A.	100	20.00%	82	8,931	25,210	86,670	113,218	(165,747)
SBM Espírito do Mar Inc.	100	20.00%	88	6,943	240,990	24,661	76,432	146,840
Urca Drilling B.V. (1) (Unaudited)	90	15.00%	€90k	80	22,005	513,061	256,277	(747,253)
Bracuhy Drilling B.V. (1) (Unaudited)	90	15.00%	€90k	74	9,001	207,241	282,768	(480,934)
Mangaratiba Drilling B.V. (1) (Unaudited)	90	15.00%	€90k	6	1	44,472	111,704	(156,169)
Joint Ventures								
Tupi Nordeste S.à.r.l.	16,020	20.00%	16,020	1,198,397	(37,438)	540,963	-	619,996
Tupi Nordeste Holding Ltd.	12	20.00%	12	10,318	-	71,980	-	(61,662)
Guará Norte S.à.r.l. (2)	50,020	12.75%	50,020	1,621,194	-	819,085	-	802,108
Guará Norte Holding Ltd. (2)	12	12.75%	12	9,047	-	25,119	-	(16,072)
Alfa Lula Alto S.à.r.l. (2)	65,020	5.00%	65,020	1,716,666	-	1,265,681	-	450,985
Alfa Lula Alto Holding Ltd. (2)	5	5.00%	12	11,544	-	29,864	-	(18,320)
Beta Lula Central S.à.r.l. (2)	65,020	5.00%	65,020	1,671,603	-	1,288,052	-	383,551
Beta Lula Central Holding Ltd. (2)	5	5.00%	12	14,121	-	15,248	-	(1,127)

(*) Investments accounted for by the equity method of accounting until May 31, 2019 (Note 1.l)

The amounts presented in the tables above correspond to the investee's accounting balances before applying the Group's equity participation.

	Investees' comprehensive income/(loss) for the year ended December 31,					
	2019			2018		
	Net income/(loss)	Other comprehensive income/(loss)	Total comprehensive income/(loss)	Net income/(loss)	Other comprehensive income/(loss)	Total comprehensive income/(loss)
Associates						
FPSO Capixaba Venture S.A.	(12,760)	(700)	(13,460)	(93,604)	6,227	(87,377)
SBM Espírito do Mar Inc.	(2,153)	-	(2,153)	37,633	-	37,633
Urca Drilling B.V. [1]	549	-	549	(22,169)	-	(22,169)
(Unaudited)	(6,244)	-	(6,244)	(21,089)	-	(21,089)
Bracuhy Drilling B.V. [1]						
(Unaudited)	(2,141)	-	(2,141)	(6,398)	-	(6,398)
Mangaratiba Drilling B.V. [1]						
(Unaudited)						
Joint Ventures						
Tupi Nordeste S.à.r.l.	20,829	(2,129)	18,700	61,356	11,333	72,689
Tupi Nordeste Holding Ltd.	(10,850)	(362)	(11,212)	(46,201)	6,383	(39,818)
Guará Norte S.à.r.l. [2]	32,325	(5,929)	26,396	91,145	8,625	99,770
Guará Norte Holding Ltd. [2]	(3,560)	(182)	(3,742)	(16,263)	2,966	(13,297)
Alfa Lula Alto S.à.r.l. [2]	25,080	(14,257)	10,823	70,968	24,117	95,085
Alfa Lula Alto Holding Ltd. [2]	7,220	758	7,978	(12,740)	(2,636)	(15,376)
Beta Lula Central S.à.r.l. [2]	6,534	(19,384)	(12,850)	73,573	23,493	97,066
Beta Lula Central Holding Ltd. [2]	(120)	(5,057)	(5,176)	(5,829)	(203)	(6,031)

The amounts presented in the tables above correspond to the investee's results and comprehensive income/(loss) before applying the Group's equity participation.

Changes in investments

	December 31, 2018	Capital decrease [3]	Share of results	Share of comprehensive income/(loss)	Impairment	Divestment	December 31, 2019
Associates							
FPSO Capixaba Venture S.A.	(33,149)	-	(2,552)	(140)	-	35,841	-
SBM Espírito do Mar Inc.	29,369	-	(431)	-	-	(28,938)	-
Urca Drilling B.V (unaudited) [1]	-	-	-	-	-	-	-
Bracuhy Drilling B.V (unaudited) [1]	-	-	-	-	-	-	-
Mangaratiba Drilling B.V (unaudited) [1]	-	-	-	-	-	-	-
Joint ventures							
Tupi Nordeste S.à.r.l.	123,999	-	4,166	(426)	-	(127,739)	-
Tupi Nordeste Holding Ltd.	(12,332)	-	(2,170)	(72)	-	14,574	-
Guará Norte S.à.r.l.	102,268	(1,976)	4,121	(756)	-	(103,656)	-
Guará Norte Holding Ltd.	(2,049)	-	(454)	(23)	-	2,526	-
Alfa Lula Alto S.à.r.l.	22,549	(625)	1,254	(713)	-	(22,465)	-
Alfa Lula Alto Holding Ltd.	(916)	-	361	38	-	517	-
Beta Lula Central S.à.r.l.	19,178	(225)	327	(969)	-	(18,311)	-
Beta Lula Central Holding Ltd.	(56)	-	(6)	(253)	-	315	-
Sub-Total	248,860	(2,826)	4,616	(3,314)	-	(247,336)	-
Impairment	(98,860)	-	-	-	245	98,615	-
Total	150,000	(2,826)	4,616	(3,314)	245	(148,721)	-
Total assets (investments)	198,503						
Total liabilities (accumulated deficit in investments)	(48,503)						

In May 2019, as the Group confirmed its intention to divest its non-controlling equity participation in the FPSO assets, an impairment of US$98,860 was recorded in December 2018, in connection with an offer value received for the non-controlling equity participation. Due to changes in investments, an impairment reversal of US$245 was recorded during the year ended December 31, 2019.

Information regarding the investments in FPSO assets sale transaction is disclosed in Note 1.l.

	December 31, 2017	Capital decrease [3]	Share of results	Share of comprehensive income (loss)	Impairment	December 31, 2018
Associates:						
FPSO Capixaba Venture S.A.	(15,674)	-	(18,721)	1,246	-	(33,149)
SBM Espírito do Mar Inc.	21,842	-	7,527	-	-	29,369
Urca Drilling B.V (unaudited) [1]	-	-	-	-	-	-
Bracuhy Drilling B.V (unaudited) [1]	-	-	-	-	-	-
Mangaratiba Drilling B.V (unaudited) [1]	-	-	-	-	-	-
Joint ventures:						
Tupi Nordeste S.à.r.l.	109,861	(400)	12,271	2,266	-	123,999
Tupi Nordeste Holding Ltd.	(4,369)	-	(9,240)	1,277	-	(12,332)
Guará Norte S.à.r.l. [2]	91,206	(1,658)	11,621	1,099	-	102,268
Guará Norte Holding Ltd. [2]	(353)	-	(2,074)	378	-	(2,049)
Alfa Lula Alto S.à.r.l. [2]	18,695	(900)	3,548	1,206	-	22,549
Alfa Lula Alto Holding Ltd. [2]	(147)	-	(637)	(132)	-	(916)
Beta Lula Central S.à.r.l. [2]	16,074	(1,750)	3,679	1,175	-	19,178
Beta Lula Central Holding Ltd. [2]	245	-	(291)	(10)	-	(56)
Sub-Total	237,380	(4,708)	7,683	8,505	-	248,860
Impairment [3]	-	-	-	-	(98,860)	(98,860)
Total	237,380	(4,708)	7,683	8,505	(98,860)	150,000
Total assets (investments)	257,923					198,503
Total liabilities (accumulated deficit in investments)	(20,543)					(48,503)

(1) In 2016, the Group's 15% equity participation in the associate entities Urca, Bracuhy and Mangaratiba was reduced to zero, following Management's understanding of the Group's legal and statutory obligations in respect of such associate entities. Once the investments are reduced to zero, no additional losses will be provided for and no liabilities will be recognized whereas Angra, a subsidiary of the Company, had not incurred legal or constructive obligations or made payments on behalf of such associates.

(2) Until May 31, 2019, the Group jointly controlled the entities within the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners, since all major financial and operational decisions required the unanimous approval of the Directors and Managers representatives of all the shareholders of these entities. The Group actively participated in the organization and execution of the operations by seconding personnel to the operating management team in agreed positions.

(3) In March and June 2019, the Group received the amounts of US$1,148 and US$829, respectively, from Guara Norte S.à.r.l. In January, April and June 2018, the Group received the amounts of US$1,148, US$255 and US$255, respectively, from Guara Norte S.à.r.l. In June 2019, the Group received the amount of US$225 from Beta Lula S.à.r.l. In March, June and September 2018, the Group received the amounts of US$300, US$200 and US$950, respectively, from Beta Lula S.à.r.l.. In April and June 2019, the Group received the amounts of US$400 and US$225, respectively, from Alfa Lula Alto S.à.r.l. In April 2018, the Group received the amount of US$750 from Alfa Lula Alto S.à.r.l. In March and September 2018, the Group received the amounts of US$200 and US$200, respectively, from Tupi Nordeste S.à.r.l, respectively.

The main activities of the Group's in Sete Brasil Group are as follows:

Urca, Bracuhy and Mangaratiba offshore drilling rigs (partnership with Sete Brasil)

- ✓ Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Urca should be chartered to Petrobras until 2031 and Serviços de Petróleo should be its sole operator.

- ✓ Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Bracuhy should be chartered to Petrobras until 2033 and Serviços de Petróleo should be its sole operator.

- ✓ Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Mangaratiba should be chartered to Petrobras until 2034 and Serviços de Petróleo should be its sole operator.

The Company, through its subsidiary Angra, is a non-controlling shareholder in the following associate entities with Sete Brasil's subsidiaries: Urca Drilling B.V. ("Urca"), Bracuhy Drilling B.V. ("Bracuhy") and Mangaratiba Drilling B.V. ("Mangaratiba"). The controlling shareholder is Sete International One GmbH ("Sete International"), a second tier subsidiary of Sete Brasil.

On December 17, 2015, Angra exercised a put option whereby it has formalized its intention to cease its equity participation in the aforementioned associate entities, by transferring its shares to Sete International in accordance to the Shareholders' Agreement. On March 23, 2016, Angra called a binding arbitration in order to settle this matter, which is still in progress, so the shares transfer has not yet occurred. As of December 31, 2019, and on the date of approval of these consolidated financial statements, no new events have occurred that could have changed the progress of said arbitration process.

On April 20, 2016, the Group was informed that Sete Brasil's Extraordinary General Meeting held at that date approved Sete Brasil's petition for a judicial recovery proceeding, which has been approved by the General Creditors Meeting of Sete Brasil and ratified in court in November 2018.

The audited financial statements of Urca, Bracuhy and Mangaratiba for the years ended December 31, 2019 and 2018 have not been issued to date. These financial statements do not meet the necessary requirements for statutory audit purposes, however the audit process of the stand-alone financial statements had been requested through the shareholder's agreement.

13 PROPERTY, PLANT AND EQUIPMENT

	Drillships			Offshore drilling rigs							
	Brava Star	Amaralina Star	Laguna Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star	Onshore drilling rigs, equipment and bases [b]	Corporate	Total
Cost											
Balance as of December 31, 2017	698,757	692,563	677,221	352,313	744,143	591,264	714,728	578,521	165,296	27,015	5,241,821
Additions	914	5,714	18,167	197	-	225	225	4,134	-	424	30,000
Disposals	-	-	-	-	-	-	-	(823)	-	(97)	(920)
Transfer	-	-	1,144	-	3,736	-	-	-	(4,880)	-	-
Currency translation adjustments	-	-	-	-	-	-	-	-	(12,223)	(3,146)	(15,369)
Balance as of December 31, 2018	699,671	698,277	696,532	352,510	747,879	591,489	714,953	581,832	148,193	24,196	5,255,532
Additions	658	580	2,089	8	513	1,405	1,133	198	92	-	6,676
Disposals	(8)	-	-	-	-	-	-	-	-	(77)	(85)
Currency translation adjustments	-	-	-	-	-	-	-	-	(6,319)	(1,963)	(8,282)
Balance as of December 31, 2019	700,321	698,857	698,621	352,518	748,392	592,894	716,086	582,030	141,966	22,156	5,253,841
Accumulated depreciation and Impairment											
Balance as of December 31, 2017	(178,557)	(269,463)	(260,921)	(151,502)	(545,943)	(408,664)	(512,328)	(408,521)	(112,020)	(22,622)	(2,870,541)
Depreciation	(28,099)	(29,362)	(25,410)	(15,253)	(13,692)	(16,108)	(19,533)	(20,390)	(5,787)	(768)	(174,402)
Impairment (provision)/reversal	(18,436)	2,085	(15,437)	-	25,672	53,443	75,875	103,140	(6,905)	-	219,437
Disposals	-	-	-	-	-	-	-	538	222	97	857
Currency translation adjustments	-	-	-	-	-	-	-	-	8,747	2,419	11,166
Balance as of December 31, 2018	(225,092)	(296,740)	(301,768)	(166,755)	(533,963)	(371,329)	(455,986)	(325,233)	(115,743)	(20,874)	(2,813,483)
Depreciation	(27,370)	(29,420)	(27,285)	(15,370)	(14,917)	(18,897)	(23,362)	(29,060)	(4,049)	(681)	(190,411)
Impairment reversal	113,715	115,104	127,966	-	106,765	104,223	103,664	8,014	8,430	-	687,881
Disposals	2	-	-	-	-	-	-	-	-	75	77
Currency translation adjustments	-	-	-	-	-	-	-	-	6,356	1,684	8,040
Balance as of December 31, 2019	(138,745)	(211,056)	(201,087)	(182,125)	(442,115)	(286,003)	(375,684)	(346,279)	(105,006)	(19,796)	(2,307,896)
Property, plant and equipment, net [a]											
December 31, 2018	474,579	401,537	394,764	185,755	213,916	220,160	258,967	256,599	32,450	3,322	2,442,049
December 31, 2019	561,576	487,801	497,534	170,393	306,277	306,891	340,402	235,751	36,960	2,360	2,945,945
Useful life range (years)	5 - 35	5 - 35	5 - 35	5 - 35	5 - 35	5 - 35	5 - 35	5 - 35	5 – 25	5 – 25	

(a) The Group's assets that are pledged as security for financing agreements are disclosed in Note 14.

(b) As of December 31, 2019 and 2018, the amounts of US$42,839 and US$36,114, respectively, refers to the onshore drilling rigs.

Impairment

During the year ended December 31, 2019, due to the new charter and service-rendering agreements disclosed in Note 1 the Group evaluated its drilling units for impairment. During such evaluation, the Group has identified that the impairment loss provision of some drilling units previously recognized has decreased. Consequently, an impairment reversal was recorded.

Onshore drilling rigs

The Group estimated the recoverable amount of its onshore drilling rigs based on the revaluated historical cost. In calculating the recoverable amount of these drilling units as of December 31, 2019, the Group recognized a net impairment reversal related to the aggregated result of seven onshore drilling rigs in the amount of US$8,430. As of December 31, 2018, the Group recognized a net impairment loss provision related to the aggregated result of three onshore drilling rigs in the amount of US$6,905.

Offshore drilling rigs and drillships

The Group estimated the recoverable amount of each one of its offshore drilling rigs and drillships based on a value in use calculation, which uses a discounted projected net cash flow analysis over the remaining economic useful life of each drilling unit, considering an 11.52% discount rate, and utilized significant unobservable inputs. As of December 31, 2019, the Group recognized an impairment reversal in the aggregate net amount of US$679,451 in all offshore drilling rigs and drillships. As of December 31, 2018, the Group recognized impairment losses related to the Brava Star and Laguna Star drillships, in the total aggregate amount of US$33,873 and an impairment loss reversal related to the Amaralina Star drillship, Alpha Star, Gold Star, Lone Star and Olinda Star offshore drilling rigs in the total aggregate amount of US$260,215, thus corresponding to a net reversal effect of US$226,342.

14 LOANS AND FINANCING

Financial institution/ Creditor	Funding type	Objective	Beginning period	Maturity	Contractual interest rate (per annum)	Effective interest rate (per annum)	Currency	December 31, 2019	December 31, 2018[1]
Bondholders	Senior Unsecured Notes (“2019 Corporate Bond”)	Prepay working capital loans	Nov/2012	Nov/2019	6.25%	6.86%	U.S. dollar	-	98,970
Bondholders	Senior Secured Notes (“Existing 2024 Notes)	Refinance Corporate Bond	Jul/2017	Nov/2024	9.00% + 0.50% (PIK)	10.6%	U.S. dollar	-	625,411
Bondholders[2]	Senior Secured Notes (“Participating Notes”)	Debt restructuring	Dec/2019	Nov/2024	10.00% (PIK)	10.58%	U.S. dollar	609,742	-
Bondholders[2]	Senior Secured Notes (“Third Lien Notes”)	Debt restructuring	Dec/2019	Nov/2024	10.00% (PIK)	10.62%	U.S. dollar	34,716	-
Bondholders[3]	Senior Secured Notes (“Fourth Lien Notes”)	Debt restructuring	Dec/2019	Nov/2024	10.00% (PIK)	10.60%	U.S. dollar	57,271	-
Bondholders	Senior Unsecured Notes (“2030 Notes”)	Debt restructuring	Dec/2019	Nov/2030	6.25%	6.25%	U.S. dollar	98,927	-
							Subtotal – fixed interest rate loans	800,656	724,381
Banco Bradesco S.A.	Loan	Working capital	Sep/2014	Dec/2018	Libor+6.80%	9.16%	U.S. dollar	-	102,568
Banco Bradesco S.A.	Loan	Working capital	Jan/2015	Dec/2018	Libor+6.50%	8.86%	U.S. dollar	-	51,242
Banco Bradesco S.A. [4]	Loan	Debt restructuring	Dec/2019	Nov/2025	Libor+2.00%	3.74%	U.S. dollar	156,961	-
							Subtotal - variable interest rate loans	156,961	153,810
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [5]	Financing	Debt restructuring	Dec/2019	Nov/2023	14% (PIK)	6.79%	U.S. dollar	167,542	-
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [5]	Financing	Debt restructuring	Dec/2019	Nov/2023	14% (PIK)	6.79%	U.S. dollar	173,855	-
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [6]	Financing	Debt restructuring	Dec/2019	Nov/2023	14% (PIK)	6.07%	U.S. dollar	408,375	-
							Subtotal – fixed interest rate financing	749,772	-
BNP, Citi and ING and The Norwegian Ministry of Trade and Industry (“MTI”)	Financing	Amaralina Star drillship construction	May/2012	Dec/2018	Libor+2.75%	3.59%	U.S. dollar	-	129,484
BNP, Citi and ING and The Norwegian Ministry of Trade and Industry (“MTI”)	Financing	Laguna Star drillship construction	May/2012	Dec/2018	Libor+2.75%	3.50%	U.S. dollar	-	133,716
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”)	Financing	Brava Star drillship construction	May/2015	Sep/2020	Libor+2.00%	3.97%	U.S. dollar	-	333,809
							Subtotal - variable interest rate financing	-	597,009
							Total	1,707,389	1,475,200
							Current	-	1,475,200
							Non-current	1,707,389	-

(1) As described in Note 1.j, on December 6, 2018, the RJ Debtors filed for a RJ, which in accordance with the terms of the loans and financing agreements represented an event of default. Accordingly, the amounts owed to the lenders became fully due and payable as of December 31, 2018, being the payments suspended by the RJ until the approval of the debt restructuring plan, which established new maturity dates.

(2) 10% Payment-in-Kind ("PIK") as from December 18, 2019 (the "Effective Date") to, but excluding, November 9, 2021 and 9% cash + 1% PIK from November 9, 2021 until the maturity date.

(3) 10% PIK from the Effective Date to, but excluding, November 9, 2021 and 7% cash + 3% PIK from November 9, 2021 until the maturity date.

(4) Libor + 2.00% to be paid on Maturity Date until January 2021, from this date on 2.75% cash payment plus the difference between Libor + 2.00% minus 2.75%.

(5) 14% PIK from the Effective Date until December 2019 and Libor + 3.12% cash and 1.50% PIK from December 2019 until the Maturity Date

(6) 14% PIK from the Effective Date until December 2019 and Libor + 2.45% cash and 1.50% PIK from December 2019 until the Maturity Date.

a) Changes in loans and financing

	Year-ended December 31,	
	2019	2018
Balance as of January 1	1,475,200	1,655,183
Additions	76,074	-
Net proceeds from loans and financing	76,074	-
Principal repayment	(46,344)	(230,491)
Interest payment	-	(67,287)
Total payments	(46,344)	(297,778)
Interest charged through profit and loss	163,515	109,125
Transaction costs amortized (*)	36,232	8,020
Debt discounts charged through profit and loss	2,711	650
Financial expenses on loans and financing (Note 21)	202,458	117,795
Balance as of December 31,	1,707,389	1,475,200

(*) Transactions costs in 2019 are mainly related to debt extinguishment.

Working capital

In January 2015, the Group used the remaining balance of the credit line with Banco Bradesco S.A. amounting to US$95 million and signed an additional working capital credit line agreement, with the same financial institution, in the amount of US$75 million, with a 2-year term bearing interest rate at LIBOR plus 4.80% p.a. The Group fully used this additional credit line. Both credit lines were originally due in January 2017.

On January 2, 2017, the Group signed amendments to the working capital credit loan agreements with Banco Bradesco S.A. in the amounts of US$150 million and US$75 million, bearing interest rates at LIBOR plus 6.80% p.a. and LIBOR plus 6.50% p.a., respectively, to postpone the maturity dates from January to July 2018.

During 2018, the Group signed a number of amendments to the working capital credit loan agreements with Banco Bradesco S.A. aiming at postponing its maturity. On November 30, 2018, the Group signed an amendment extending the maturity date to December 8, 2018, but due to the RJ process, the payment was suspended until the approval of the debt restructuring plan, which established new maturity dates.

On December 18, 2019, in connection with and pursuant to the debt restructuring plan, the Group: (i) amended and restated the working capital loan agreements with Banco Bradesco S.A. to reflect the terms agreed to in the debt restructuring plan; and (ii) entered into a new credit loan agreement with Banco Bradesco S.A. in the amount of US$10 million, in both cases, with a final maturity date on November 9, 2025.

<u>*Notes*</u>

In connection with the RJ process, on December 18, 2019, the Company cancelled the entire principal amount of its "2019 Corporate Bond" and "Existing 2024 Notes" and issued the following notes:

Participating Notes – The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Participating Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 9.00% p.a. in cash and 1.00% PIK. On the date of issuance, the Participating Notes reflected an aggregate principal amount of US$609,742, comprised of US$27,215 principal amount of a first lien tranche, US$408,219 principal amount of a second lien tranche and US$174,308 principal amount of a third lien tranche.

Third Lien Notes – The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Third Lien Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 9.00% p.a. in cash and 1.00% PIK. On the date of issuance, the Third Lien Notes reflected an aggregate principal amount of US$34,716.

Fourth Lien Notes – The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Third Lien Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 7.00% p.a. in cash and 3.00% PIK. On the date of issuance, the Fourth Lien Notes reflected an aggregate principal amount of US$57,271.

2030 Notes – The Company issued Senior Unsecured Notes bearing interest at 6.25% p.a. (the "2030 Notes"), with a maturity date on November 9, 2030. The interest is paid as capitalized interest until maturity. On the date of issuance, the 2030 Notes reflected an aggregate principal amount of US$98,927.

<u>*Amaralina Star Facility*</u>

On September 28, 2018, the Group announced that Amaralina has entered into an amendment to extend the maturity date of the Amaralina Star Bank Tranche Loans under the Amaralina Star drillship project financing (the "Amaralina Star Facility"). The extended maturity date was October 31, 2018, and except for the extended maturity date, all other material terms of the Amaralina Star Facility remained unchanged.

During November 2018, the Group signed a number of amendments to the Amaralina Star Facility aiming at postponing its maturity. The latest amendment was on November 30, 2018, extending the maturity date to December 8, 2018, but due to the RJ process, the payment was suspended until the approval of the debt restructuring plan, which established new maturity dates.

On December 18, 2019, in connection with and pursuant to the debt restructuring plan, the Group amended and restated the Amaralina Star Facility to reflect the terms agreed to in the debt restructuring plan, including a final maturity date on November 9, 2023.

Laguna Star Facility

On November 30, 2018, the Group extended the maturity date of the Laguna Star Bank Tranche Loans under the Laguna Star drillship project financing (the "Laguna Star Facility"), formerly due on that same date. The extended maturity date was postponed to December 8, 2018, but due to the RJ process, the payment was suspended until the approval of the debt restructuring plan, which established new maturity dates.

On December 18, 2019, in connection with the debt restructuring plan, the Group amended and restated the Laguna Star Facility to reflect the terms agreed to in the debt restructuring plan, including a final maturity date on November 9, 2023.

b) Loans and financing long term amortization schedule

Year ending December 31,	Net amount	PIK (*)	Gross amount
2021	52,288	22,712	75,000
2022	56,100	23,900	80,000
2023	513,135	181,078	694,213
2024	828,357	10,691	839,048
2025	158,582	1,503	160,085
2030	98,927	95,753	194,680
Total	1,707,389	335,637	2,043,026

(*) Interest capitalized that will be repaid upon maturity of the loans and financing.

As described in Note 1.j, on December 6, 2018, the RJ Debtors filed for a RJ, which in accordance with the terms of the loans and financing represented an event of default. Accordingly, the amounts owed to the lenders became due and payable as of December 31, 2018, being the payments suspended by the RJ until the approval of the debt restructuring plan, which established new maturity dates. Due to this event and as foreseen in IAS 1 – *Presentation of Financial Statements*, as of December 31, 2018, the Group reclassified the non-current portion of its loans and financing to current liabilities. This reclassification occurred not as demand payment, but because of the breach as of December 31, 2018, when the Group did not have an unconditional right to differ its settlement for at least a twelve-month period after that date. After the RJ Closing, described in Note 1.j, the Group segregated its loans and financing between current and non-current liabilities in accordance with the new terms and conditions agreed.

c) Covenants

Financial covenants

The loans and financing agreements contains financial covenants and securities provided to lenders. Noncompliance with such financial covenants could constitute a Restricted Payment Trigger Event, which would lead in the borrower entity of the Group not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock or make certain payments to related parties.

As of December 31, 2019, the financial covenants related to the financing agreements (“project financing”) of Amaralina Star, Laguna Star and Brava Star (“ALB”) consist of:

(i) an ALB Consolidated Debt Service Coverage Ratio, which requires a minimum ratio of Net Revenue to Debt Service calculated at a consolidated ALB level (range between 0.35:1.00 in the period ended March 2021 to 1.10:1.00 in the period ended September 2023); (ii) ALB Consolidated Loan-to-Value Ratio, which requires a minimum ratio (no less than 120%) of Appraised Value of the ALB drillships to aggregate principal amount of the loans owed by Amaralina Star, Laguna Star and Brava Star (net of debt service reserves); and (iii) a requirement to maintain certain Unrestricted Cash levels (US$60 million until 2020 and US$70 million thereafter). The ALB Consolidated Debt Service Coverage Ratio is assessed starting on January 1, 2021, on a two-consecutive quarterly basis for compliance with such financial covenants.

Pursuant to the terms of the project financing agreements and the debt restructuring plan, the Company is not allowed to make any dividends distribution to its shareholders. As of December 31, 2019 and 2018, the Company did not distribute dividends.

The indentures governing the Participating Notes and Third Lien Notes contain certain financial covenants that require the Group to maintain certain Unrestricted Cash levels (US$60 million until 2020 and US$70 million thereafter). This financial covenant is measured on a quarterly basis.

The indentures governing the Participating Notes and Third Lien Notes also contain a restrictive covenant package, including, among other things, a restriction on dividend payments and additional limitations on the incurrence of indebtedness and liens. On or after December 18, 2022, such indentures will allow the Company and any of its restricted subsidiaries to incur additional indebtedness, if the Company’s consolidated net leverage ratio is equal to or less than 3.00 to 1.00. This financial ratio is not required to be measured on a periodic basis and shall be calculated only upon the incurrence of additional indebtedness in accordance with the terms of such indentures. Furthermore, the Company will always be allowed to incur certain permitted indebtedness in accordance with the terms of such indentures.

The indentures governing the Fourth Lien Notes and the 2030 Notes do not contain financial covenants or restrictive covenants.

The working capital credit loan agreements with Banco Bradesco S.A. contain certain financial covenants that require the Company to maintain certain Unrestricted Cash levels (US$60 million until 2020 and US$70 million thereafter).

As of December 31, 2019, the Company was compliant with the aforementioned restrictive clauses.

Non-financial covenants

The project financing agreements require the Group to deliver to the applicable administrative agent, for each of the Amaralina Star Facility, Laguna Star Facility and Brava Star Facility, a copy of the annual consolidated financial statements of the Company, Constellation Overseas, Amaralina, Laguna, and Brava, in each case, within 180 days after the end of the fiscal year, and, in each case, accompanied by independent auditor's reports that may be qualified in very limited respects (e.g., same qualifications and disclaimers as stated in the consolidated financial statements of the Company as of and for the years ended December 31, 2018 and 2017).

The Participating Notes and the Third Lien Notes require the Group to provide to the applicable trustee a copy of the annual consolidated financial statements of the Company within 120 days after the end of the fiscal year accompanied by the independent auditor's report.

On April 22, 2020, Management announced, through a media release, its decision to postpone the issuance of the Group's consolidated financial statements, whose date of issue was expected to occur on or before June 28, 2020. The Group has not been notified of any technical default, and thus the 60 day grace period set forth in the loan agreements has not effectively began and no potential technical covenant breach has occurred.

d) Guarantees

The financing obtained by the Group in order to finance the construction and operation of the drilling units and for other corporate purposes are usually structured as Project Finance/Project Bond; therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, mortgages over the drilling units, pledges over the shares of the drilling units owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter and service-rendering agreements are required to be paid, assignment of the relevant insurances, corporate guarantees, and in particular with Amaralina Star Facility, Laguna Star Facility and Brava Star Facility, cross-collateralization between such facilities (in case of cross-collateralization over Amaralina Star and Laguna Star-related assets in favor of the Brava Star Facility lenders, such cross-collateralization shall only be effective following a favorable decision by the Arbitral Tribunal in the pending arbitration against Alperton – Note 11.a).

In addition, the terms of some of these debt financing instruments restricts the ability of project subsidiaries to pay dividends, incur additional debt, grant additional liens, sell or dispose assets and enter into certain acquisitions, mergers and consolidations, except as already established in such debt financing instruments.

The aforementioned conditions applies to the Project Financing related to Amaralina Star, Laguna Star and Brava Star drillships.

The Participating Notes, the Third Lien Notes and the Fourth Lien Notes are guaranteed on a senior secured basis by certain subsidiaries of the Company, including but not limited to, the guarantor of the Existing 2024 Notes, Constellation Overseas, and the entities that own the Alpha Star, Gold Star, Lone Star and Atlantic Star Rigs (the " Unencumbered Drilling Rigs").

The Participating Notes, the Third Lien Notes and the Fourth Lien Notes are secured by certain assets of the Company, including but not limited to, the Company's current Unencumbered Drilling Rigs and the insurance receivables related thereto, subject to the terms and conditions of the indenture governing such notes. The Participating Notes, the Third Lien Notes and the Fourth Lien Notes also have a springing collateral package that could consist of additional offshore drilling rigs and drillships as well as their related insurance receivables and charter receivables, subject to the terms and conditions of the indenture governing such notes.

15 PROVISIONS

In the normal course of its business activities, the Group engages in agreements with third parties that convey contractual obligations. The Group recognizes provisions for contractual fines (delay in beginning of operations) that are more likely than not to be disbursed with respect to certain of its agreements, for which the Group's Management does not expect the amount to be disbursed to materially differ from the estimated amount.

	Year-ended December 31,	
	2019	2018
Balance as of January 1	1,035	4,391
Olinda Star penalty reversal	-	(3,179)
Effect of foreign exchange variations	(40)	(177)
Balance as of December 31	995	1,035

16 PROVISION FOR CONTINGENCIES

a) Contingent assets

As of December 31, 2019 and 2018, the Group does not have contingent assets to be disclosed.

b) Contingent liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has assessed the probability that the matter resolution would ultimately result in a financial loss for the Group. As of December 31, 2019 and 2018, provisions to cover probable losses included in "other non-current liabilities" are mainly related to labor (hardship and retirement) and civil claims.

Changes in loss provision for labor and civil claims are as follows:

	Year-ended December 31,	
	2019	2018
Balance as of January 1	1,169	1,223
Additions	1,066	294
Reversals	(343)	(161)
Foreign exchange rate variations	(60)	(187)
Balance as of December 31	1,832	1,169

c) Contingent liabilities assessed as possible losses

Based on the Group's in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US$36,527 as of December 31, 2019 (US$41,837 as of December 31, 2018), tax lawsuits in the amount of US$28,809 as of December 31, 2019 (US$29,217 as of December 31, 2018) and civil lawsuits in the amount of US$12 as of December 31, 2019 (US$13 as of December 31, 2018).

The main tax lawsuits assessed as possible losses are as follows:

i. On September 15, 2010, Serviços de Petróleo received a Notice of Violation issued by the tax authorities due to the nonpayment of Services Tax ("*Imposto sobre Serviços de Qualquer Natureza* - ISS") in the city of Rio de Janeiro. Serviços de Petróleo argues, on appeal, that the operations were carried out in other municipalities and the taxes were collected under their tax jurisdictions (ISS due to the site of the service provider). As of December 31, 2019 and 2018, the estimated amount involved is US$4,779 and US$4,959, respectively.

On January 22, 2015, Serviços de Petróleo received a Notice of Violation issued by the Brazilian Internal Revenue Service (*Receita Federal do Brasil* - RFB) related to Social Integration Program ("*Programa de Integração Social* - PIS") and Social Investment Program ("*Contribuição para o Financiamento da Seguridade Social* - COFINS") collected in the years 2010 and 2011. The RFB initiated a Tax Administrative Process, whereby it requires Serviços de Petróleo to make tax payments, due to the fact that the RFB considered that Serviços de Petróleo made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On February 23, 2015, Serviços de Petróleo argued, on appeal, in order to contest RFB's tax assessment. As of December 31, 2019 and 2018, the estimated amount involved is US$22,419 and US$22,550, respectively.

ii. In November 2018, Transocean Offshore Deepwater Drilling Inc. and Transocean Brasil Ltda. (hereinafter together referred to as "Transocean") filed a claim against Serviços de Petróleo and Brava, accusing both entities of infringing its dual-activity drilling technology patent. On November 19, 2018, all preliminary injunctions requested by Transocean were rejected by the Third Business Court of Rio de Janeiro. Transocean appealed solely to carry on an inspection on Brava Star drillship limited to the examination of some pre-determined items related to the dual-activity drilling technology patent and the injunction was granted in this regard. The inspection occurred on January 18, 2019, and on March 20, 2019, the Appellate Court issued its final decision on Transocean's appeal, confirming the injunction previously granted. On April 1, 2019, a mediation and conciliation hearing occurred, but the parties did not reach an agreement. On March 25, 2019, Serviços de Petróleo and Brava filed their responses to Transocean claims, and on October 14, 2019, Transocean filed its rejoinder.

As of the date of approval of these consolidated financial statements, the Group's Management cannot reliably estimate the amount involved, and their external legal advisor classifies the chances of winning such claim as possible.

iii. In April 2019, Heerema Engineering Services B.V. ("Heerema") filed a claim against the Company, Serviços de Petróleo, Amaralina and Laguna for a damage repair resulting from infringing its dual-activity drilling technology patent. On September 24, 2019, a mediation hearing occurred, but the parties did not reach an agreement. The Group is currently awaiting the referral of the case file to the competent court.

As of the date of approval of these consolidated financial statements, the Group's Management cannot reliably estimate the amount involved, and its external legal advisor classifies the chances of winning such claim as possible.

d) Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by third parties subjectively and/or contrary to its position. Nevertheless, the Group's actions are supported by its in-house legal counsel and external legal advisors' opinion.

e) Other matters

Petrobras withholding taxes

In July 2014, the Group received letters from Petrobras informing that the RFB issued Notices of Violation against Petrobras regarding the absence of withholding income taxes collection from charter agreements remittances in 2008 and 2009, related to the Atlantic Star and Alaskan Star offshore drilling rigs. Petrobras indicated that it is currently contesting such Notices of Violation, but if the losses on ongoing appeals are confirmed, Petrobras will seek recoverability of such losses from its contractors, including the Group, adding any penalties, interest and fees that would be required to settle the debt with the RFB. Petrobras has informed that the amount involved related to the work performed by the Group amounts to R$152 million (US$67 million translated at historical rates), excluding penalties, interest and fees. The Group has contested Petrobras' allegations in a response letter stating that Petrobras "has no legal or commercial grounds to seek recoverability of such losses from the Group" and that "will not accept any withholding or deduction of the amounts to be received under the charter agreements". Should Petrobras fail on its appeals and, consequently, the Group receives any future charges aiming at the reimbursement of Petrobras' losses, the Group will contest such charges.

17 SHAREHOLDERS' EQUITY

a) Share capital

On December 19, 2019, the Company's shareholders, on an extraordinary general meeting, approved a capital increase in the amount of US$918,000 subscribed by existing shareholders and new shareholders (CIPEF Constellation Coinvestment Fund II, L.P. and CGPE V, L.P.), by issuing 2,665,485,551 (Two billion, six hundred and sixty-five million, four hundred and eighty-five thousand and five hundred and fifty-one) new Class A shares and 34,514,449 (Thirty-four million, five hundred and fourteen thousand and four hundred and forty-nine) Class B shares without nominal value, having the same rights and obligations as the previous existing Class A and Class B shares.

The new shares were fully paid up by a cash contribution in the amount of US$27,000 and the remaining balance of US$891,000 by converting share premium and retained earnings into share capital in the amounts of US$766,561 and US$124,439, respectively. In the Company's stand-alone statutory financial statements prepared in accordance with Luxembourg Generally Accepted Accounting Principles ("Lux GAAP"), the amount of US$891,000 was fully converted into share capital from the share premium reserve.

As of December 31, 2019, the Company's share capital amounts to US$981,200, comprised by 2,889,227,364 ordinary shares, with no par value, as follows:

	December 31, 2019						
	Shares				Rights over the amounts		
	Class A (Voting rights)	%	Class B (No voting rights)	%	Share capital	Share premium	Total
Lux Oil & Gas International S.à.r.l	2,142,073,142	75.10%	-	-	727,462	-	727,462
Constellation Holdings S.à.r.l.	383,487,533	13.44%	19,942,366	54.00%	93,501	-	93,501
Constellation Coinvestment S.à.r.l.	14,800,460	0.52%	769,663	2.08%	78,192	-	78,192
CIPEF VI QGOG S.à.r.l.	283,022,737	9.92%	14,717,938	39.85%	80,179	-	80,179
CGPE VI, L.P.	5,599,346	0.20%	291,179	0.79%	1,586	-	1,586
CIPEF Constellation Coinvestment Fund II, L.P.	10,720,886	0.38%	557,514	1.51%	129	-	129
CGPE V, L.P.	12,589,892	0.44%	654,708	1.77%	151	-	151
Total shares per class	2,852,293,996	100.00%	36,933,368	100.00%	981,200	-	981,200
Total shares			2,889,227,364				

As of December 31, 2018, the Company's share capital amounted to US$63,200, comprised by 189,227,364 ordinary shares, with no par value, as follows:

	December 31, 2018						
	Shares				Rights over the amounts		
	Class A (Voting rights)	%	Class B (No voting rights)	%	Share capital	Share premium	Total
Lux Oil & Gas International S.à.r.l	140,293,142	75.10%	-	-	46,857	568,328	615,185
Constellation Holdings S.à.r.l.	16,862,219	9.03%	876,880	36.25%	5,925	71,861	77,786
Constellation Coinvestment S.à.r.l.	14,800,460	7.92%	769,663	31.82%	5,200	63,075	68,275
CIPEF VI QGOG S.à.r.l.	14,564,483	7.80%	757,392	31.31%	5,117	62,069	67,186
CGPE VI, L.P.	288,141	0.15%	14,984	0.62%	101	1,228	1,329
Total shares per class	186,808,445	100.00%	2,418,919	100.00%	63,200	766,561	829,761
Total shares			189,227,364				

The Company is ultimate controlled by members of the Queiroz Galvão family (Note 1).

b) Legal reserve

In accordance with Luxembourg Corporate Law, the shareholders of a *société anonyme* must allocate 5% of the Company's annual profit of its stand-alone financial information, after deducting of any losses brought forward from previous years, to the minimum legal reserve. Such allocation must consider the Company's stand-alone statutory financial statements prepared in accordance with Lux GAAP, which differs in certain aspects from IFRS/IASB.

The aforementioned requirement will only cease when the legal reserve reaches an amount equivalent to 10% of the Company's issued share capital. Additionally, this reserve may not be distributed in the form of cash dividends, or otherwise, during the Company's existence. The appropriation to legal reserve becomes effective after approval at the general shareholders' meeting.

For the years ended December 31, 2019 and 2018, the Company did not constitute legal reserve, due to the fact that it has no statutory profits based on its stand-alone statutory financial statements prepared in accordance with Lux GAAP.

c) Acquisition of non-controlling interests reserve

As described in Note 11.a, due to the transfer of Amaralina and Laguna shares from Alperton to Constellation Overseas, a negative amount of US$85,555 was recorded as "Acquisition of non-controlling interests in subsidiaries" reserve, in the consolidated statement of changes in shareholders' equity.

d) Shareholders distribution policy

The form of distribution to shareholders, whether as dividends, repayment of share premium or repurchase of own shares is based upon the Company's stand-alone statutory financial statements prepared in accordance with Lux GAAP, which must comply with Luxembourg laws and regulations. Additionally, any distribution of statutory profits to the shareholders will be subject to a Luxembourg withholding tax rate of 15% (17.65% if the dividend tax is not charged to the shareholder), subject to the exceptions provided by the Luxembourg tax law or by double tax treaties concluded by the Grand Duchy of Luxembourg and the country of the shareholders tax residency. The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities.

Following the Company's articles of association, the share premium account balance presented in the Lux GAAP stand-alone statutory financial statements may, for example, be used to provide for the payment of any shares that the Company may redeem from its shareholders, to offset any net realized losses or to make distributions to the shareholders, such list being a non-exhaustive list of the purposes for which the amount of the share premium reserve account may be used.

In accordance with the loans and financing agreements, the Company is currently not allowed to pay dividends, purchase, retire or otherwise distribute capital stock (Note 14.c). For the years ended December 31, 2019 and 2018, the Company did not pay dividends to its shareholders.

e) Other Comprehensive Items (OCI)

Cash flow hedges fair value adjustments reserve

The cash flow hedges fair value adjustments reserve as of December 31, 2018 consists of the effective portion of cash flow hedging instruments related to hedged financing transactions. The contracts related to the hedging instruments were terminated in the year ended December 31, 2018.

Foreign currency translation adjustments reserve

The foreign currency translation adjustments reserve is used to record exchange adjustments arising from the translation of foreign subsidiaries' financial information.

Changes in Other Comprehensive Items (OCI)

Changes in comprehensive loss for the years ended December 31, 2019 and 2018 are as follows:

	Cash flow hedge fair value adjustments attributable to					
	Controlling interests	Non-controlling interests	Total	Share of investments' other comprehensive income/(loss)	Foreign currency translation adjustments	Total
Balance as of December 31, 2017	1,584	(376)	1,208	(7,627)	(10,337)	(16,756)
Fair value adjustments on:						
Derivative agreements	(1,584)	376	(1,208)	-	-	(1,208)
Joint ventures' derivative agreements	-	-	-	5,746	-	5,746
Exchange differences:						
On investments arising during the year	-	-	-	2,759	-	2,759
Arising during the year	-	-	-	-	(11,040)	(11,040)
Balance as of December 31, 2018	-	-	-	878	(21,377)	(20,499)
Fair value adjustments on:						
Joint ventures' derivative agreements	-	-	-	(2,864)	-	(2,864)
Exchange differences:						
On investments arising during the year	-	-	-	(450)	-	(450)
Arising during the year	-	-	-	-	(3,531)	(3,531)
Balance as of December 31, 2019	-	-	-	(2,436)	(24,908)	(27,344)

f) Non-controlling interests

As described in Note 11.a, due to the transfer of Amaralina and Laguna shares from Alperton to Constellation Overseas, the amount of US$43,149, as non-controlling interests, was reverted in the shareholders' equity as of December 31, 2018.

g) Profit per share

Basic and diluted profit per share amounts are calculated by dividing profit for the year, all from continuing operations, attributable to ordinary equity holders of the parent by the Company's weighted average number of ordinary shares outstanding during the year.

	Year-ended December 31,	
	2019	2018 [(2)]
Profit attributable to controlling interests	116,512	71,008
Weighted average number of ordinary shares for calculation purposes (thousands of shares) [(1)]	278,652	278,652
Basic and diluted profit per share (in U.S. dollars – US$)	0.42	0.25

(1) The Company has no potential dilutive shares. Therefore, diluted profit per share is equal to basic profit per share.

(2) During the year ended December 31, 2019, the Company issued new Class A and Class B shares (Note 17.a). Therefore, profit per share calculation for the year-ended December 31, 2018 have been restated for comparative purposes only.

18 NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements.

Net operating revenue is presented after the following items:

	Year-ended December 31,	
	2019	2018
Gross operating revenue	132,854	530,614
Taxes levied on revenue:		
Social Integration Program (PIS) [(i)]	(734)	(1,205)
Social Investment Program (COFINS) [(i)]	(3,382)	(5,551)
Services Tax (ISS) [(i)]	(900)	(1,501)
Good and Service Tax (GST) [(ii)]	(4,979)	(10,035)
Withholding Income tax (IRRF)	(450)	(4,390)
Net operating revenue	122,409	507,932

(i) Taxes levied on revenues are applicable only to the revenues generated by Serviços de Petróleo.
(ii) GST refers to the indirect tax in India.

For the year ended December 31, 2019, the Group chartered its drilling units and rendered services to a variety of multinational companies, with no individual customer representing more than 35% of total gross operating revenue, as follows:

	Gross operating revenue	%
Customer A	45,216	34%
Customer B	35,297	27%
Customer C	26,528	20%
Customer D	13,910	10%
Others	11,903	9%
Total	132,854	100%

For the year ended December 31, 2018, Petrobras represented 92% of total revenues (Note 23.b).

19 COST OF SERVICES AND OPERATING EXPENSES

	Year-ended December 31,					
	2019			2018		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, related charges and benefits	(71,967)	(14,289)	(86,256)	(95,307)	(14,639)	(109,946)
Depreciation	(190,068)	(343)	(190,411)	(173,888)	(514)	(174,402)
Materials	(34,726)	-	(34,726)	(35,645)	-	(35,645)
Maintenance	(40,198)	-	(40,198)	(51,406)	-	(51,406)
Insurance	(272)	-	(272)	(6,716)	-	(6,716)
Other (1)/(2)	(13,029)	(83,314)	(96,343)	(17,821)	(65,396)	(83,217)
Total	(350,260)	(97,946)	(448,206)	(380,783)	(80,549)	(461,332)

(1) Other cost of services: mainly comprised by drilling units boarding transportation, lodging and meals, data transmission, among others.

(2) Other general and administrative expenses: mainly comprised by transportation, information technology services, external legal advisors fees, independent auditor fees, advisory services fees, among others.

20 OTHER OPERATING INCOME (EXPENSES), NET

	Year-ended December 31, 2019	2018
Reversal of impairment provision, net (Note 13)	687,883	260,215
Reversal of provision for onerous contract	38,654	5,037
Reversal of provision	-	21,857
Insurance reimbursement (i)	4,196	-
Contractual fee	1,558	1,700
Reversal of impairment recognized on investments (Note 12)	2,782	-
Revenue from disposal of PP&E	25	27
Other	182	2,841
Other income	735,280	291,677
Provision for onerous contract (Note 1)	(96,984)	(22,316)
Provision for impairment loss (Note 13)	-	(40,778)
Impairment loss recognized on investments (Note 12)	(2,559)	(98,860)
Cost of PP&E disposed	(8)	(285)
Other	(183)	(193)
Other expenses	(99,734)	(162,432)
Total other income, net	635,546	129,245

(i) Insurance reimbursement related mainly to Olinda Star incident occurred in 2017.

21 FINANCIAL EXPENSES, NET

	Year-ended December 31, 2019	2018
Interest on short-term investments	2,471	2,508
Financial income from related parties (Note 11)	-	6,388
Other financial income	1,910	7,663
Financial income	4,381	16,559
Financial expenses on loans and financing (Note 14.a)	(202,458)	(117,795)
Derivative expenses	-	(513)
Financial expenses from related parties (Note 11)	(355)	(510)
Other financial expenses	(807)	(5,701)
Financial expenses	(203,619)	(124,519)
Foreign exchange variation gain, net	2,803	77
Financial expenses, net	(196,435)	(107,883)

22 TAXES

Most of the Group's entities are located in jurisdictions that are exempt from corporate income tax, except for Serviços de Petróleo and its subsidiary QGOG India, QGOG Constellation UK Ltd. and QGOG Constellation US LLC., which operate in Brazil, India, UK and USA, respectively. Additionally, certain of the Group entities' operate in the Netherlands, Switzerland and Luxembourg, but none of these entities reported taxable income for the years presented.

The related taxes and contributions are as follows:

a) Recoverable taxes

	December 31,	
	2019	2018
Income tax (IRPJ) and social contribution on net income (CSLL) (i)	3,272	9,923
Social Security Contribution (INSS)	-	1,361
Goods and Services Tax – GST (ii)	913	3,835
Taxes on revenue (PIS/COFINS)	3,347	623
Other	175	132
Total	7,707	15,875
Current	7,064	12,816
Non-current	643	3,059

(i) Mainly refers to withholding taxes on revenues that are compensated with other federal taxes.
(ii) Refers to taxes on supply of goods and services in India. The recoverable GST amounts refer to credits on the acquisition of goods and services.

b) Taxes payables

	December 31,	
	2019	2018
Services Tax (ISS)	534	426
Income tax (IRPJ) and social contribution (CSLL)	1,010	302
State VAT (ICMS)	67	24
Goods and Services Tax – GST (i)	728	1,727
Total	2,339	2,479

(i) GST payables refer to taxes levied on services rendered in India.

c) Deferred tax assets

	December 31,	
	2019	2018
Income tax (IRPJ) and social contribution (CSLL) (*)	13,193	12,168
Total	13,193	12,168

(*) Mainly refers to deferred income arising from taxes losses carryforward, provision for contingencies and impairment losses on PP&E, which are derived from Serviços de Petróleo operations aiming future compensation based on reliable taxable profit estimates.

d) Effect of income tax results

The tax rate used for the years ended December 31, 2019 and 2018 reconciliations below refers to the combined corporate nominal tax rate of 34% in accordance with Brazilian tax legislation, jurisdiction in which Serviços de Petróleo (Brazilian subsidiary) operates, the corporate nominal tax rate of 20% in accordance with British tax legislation, jurisdiction in which QGOG Constellation UK Ltd. operates and the withholding income tax on QGOG India revenues of 4,326%, in accordance with Indian tax legislation, jurisdiction in which QGOG India operates.

The amounts reported as income tax expense in the consolidated statement of operations are reconciled from the nominal rate to the effective rate as follows:

	Year-ended December 31,	
	2019	2018
Profit before taxes	117,930	75,646
Income tax and social contribution at nominal rate (*)	1,090	(3,813)
Adjustments to derive effective tax rate:		
Non-deductible expenses	(735)	1,866
Other	(1,773)	3,122
Income tax expense recognized in profit or loss	(1,418)	1,175
Current taxes	(3,154)	(1,918)
Deferred taxes	1,736	3,093

(*) Nominal tax rate applied on profits before taxes related to Serviços de Petróleo and QGOG Constellation UK Ltd. and on revenues related to QGOG India.

23 FINANCIAL INSTRUMENTS

a) General considerations

Details on the Group's debt restructuring plan and capital management are described in Note 1.

The Group's main financial instruments are as follows:

		December 31,			
		2019		2018	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	FVTPL	127,903	127,903	109,406	109,406
Short-term investments	FVTPL	4,280	4,280	26,047	26,047
Restricted cash	FVTPL	118,281	118,281	42,553	42,553
Trade and other receivables	Amortized cost	29,557	29,557	32,410	32,410
Receivables from related parties	Amortized cost	1,015	1,015	991	991
Financial liabilities					
Loans and financing	Amortized cost	1,707,389	1,311,483	1,475,200	1,040,290
Trade and other payables	Amortized cost	42,639	42,639	33,150	33,150
Payables to related parties	Amortized cost	543	543	188	188

The Group has no forward agreements, options, *swaptions* (swaps with non-exercise options), flexible options, derivatives embedded in other products or exotic derivatives. The Group does not conduct derivative transactions for speculative purposes, thus reaffirming its commitment to a policy of conservative cash management.

Except for loans and financing, Management also believes that the carrying amounts of the remaining financial instruments do not significantly differ from their fair value, as it considers that interest rates on such instruments are not significantly different from market rates. Interest rates that are currently available to the Group for issuance of debt with similar terms and maturities were applied to estimate the fair value of loans and financing.

Additionally, the amounts of trade accounts receivables and trade accounts payables disclosed in these consolidated financial statements do not significantly differ from their fair value due to the fact that the turnover of these accounts is approximately 45 days.

Fair value hierarchy

IFRS 13 – *Fair Value Measurement* defines fair value as the value or price that would be received to sell an asset or paid to transfer a liability in a transaction between participants in an ordinary market on the measurement date. IFRS 13 clarifies that fair value shall be based on assumptions that market participants use when measuring a value or price for an asset or a liability and establishes a hierarchy that prioritizes the information considered to develop those assumptions.

The fair value hierarchy gives greater weight to available market information (i.e., observable data) and less weight to information related to data without transparency (i.e., unobservable data). Additionally, it requires the entity to consider all aspects of nonperformance risk, including the entity's own credit to measure the fair value of a liability.

IFRS 13 also establishes a 3-levels hierarchy to be used in order to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "inputs" significant for its measurement. A description of the 3 hierarchical levels is as follows:

Level 1 - The "inputs" are determined based on prices in an active market for identical assets or liabilities at the measurement date. Additionally, the entity must be able to trade in an active market and the price cannot be adjusted by the entity.

Level 2 - The "inputs" are other than prices as determined by Level 1 that are observable for the asset or liability, directly or indirectly. The "inputs" level include two prices in an active market for similar assets or liabilities, prices in an inactive market for identical assets or liabilities, or "inputs" that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

Level 3 - The "inputs" are those unobservable from minor or no market activity. These "inputs" represent Management's best estimates as market participants could assign value or price for these assets or liabilities. Generally, the assets and liabilities are measured using Level 3 pricing models, discounted cash flow or similar methods that require significant judgments or estimates, such as the inputs considered in the impairment test of long-lived assets.

The Group measures its short-term investments and restricted cash at FVTPL. Short-term investments and restricted cash are classified as Level 1, due to the fact that they are measured using market prices for identical instruments. Loans and financing are classified as Level 2, due to the fact that they are measured using similar financial instruments.

Financial instruments fair value measurement

The Group assessed the evaluation of financial assets and liabilities in relation to its market values or its effective recoverable amount, using available information and best practices and methodologies of market valuations for each situation.

Market data information interpretation about methodologies choice requires a higher level of judgment and determination of reasonable estimate to achieve the fair value. Consequently, the estimate presented may not necessarily indicate the amounts that may be obtained in current markets. The use of different hypothesis to fair values calculation can result in significant effect in obtained values.

For the Participating Notes, Third Lien Notes, Fourth Lien Notes and 2030 Notes, the fair value is equal to its last price quoted at the balance sheet date obtained from Bloomberg, multiplied by the number of notes in circulation.

For agreements where the current conditions are similar to those in which they originated or that do not have parameters for quotation or contract, fair values are similar to its carrying amounts.

In the evaluation carried out for determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this evaluation to trade and other receivables and trade and other payables due to its very short-term of maturity.

b) Financial risk management

The Group is exposed to liquidity, credit and market risks. Management believes that the Group's main market risk refers to its exposure to interest rate risk, as discussed below.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for managing the Group's short and long-term funding and liquidity management requirements. The Group manages the liquidity risk by combining and maintaining adequate banking and capital markets facilities (Note 14) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group maintains relationships with specific lenders and constantly monitors its funding needs together with such lenders. The Group manages the majority of its long-term financing on a project-by-project basis. Such financing are arranged as required to support the Group's operations and growth plans.

As of December 31, 2019, the Group presents a positive net working capital balance in the amount of US$228,218, whereas on December 31, 2018, the Group presented a negative net working capital in the amount of US$1,346,593. As of December 31, 2019, the positive net working capital balance is mainly due to the reclassification of the Group's loans and financing balances to non-current liabilities, after the RJ Closing.

As described in Note 1, the Group understands that the successful implementation of the measures set forth in the Amended and Restated RJ Plan forwarded by the RJ Closing with the debt-restructuring plan and the sale transaction of the Group's investment in the FPSO assets, both resulting in a relevant cash injection, will support the Group to reach a sustainable capital structure, then enabling it to comply with its financial commitments and maintain its operational continuity.

The following table details the Group's liquidity analysis for its financial liabilities and financial instruments. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments.

When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period:

December 31, 2019

Period	Trade and other payables	Loans and financing	Payables to related parties	Total
2020	42,639	-	543	43,182
2021	-	75,000	-	75,000
2022	-	80,000	-	80,000
2023	-	694,213	-	694,213
2024	-	839,048	-	839,048
After 2025	-	354,765	-	354,765
Total	42,639	2,043,026	543	2,086,208

The table above already considers the new maturity dates established in the debt restructuring plan.

December 31, 2018

Period	Trade and other payables	Loans and financing	Payables to related parties	Total
2019	33,150	707,283	188	740,621
2020	-	372,125	-	372,125
2021	-	80,894	-	80,894
2022	-	84,117	-	84,117
2023	-	85,388	-	85,388
After 2024	-	536,274	-	536,274
Total	33,150	1,866,081	188	1,899,419

Due to the RJ Proceedings described in Note 1.j, the amortizations during 2018 were suspended until the approval of the debt restructuring plan, which established new maturity dates.

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations, thus resulting in financial losses to the Group. Financial instruments that potentially subject the Group to concentrations of credit risk are primarily cash and cash equivalents, short-term investments, restricted cash, trade and other receivables and receivables from related parties. The maximum exposure amounts of such financial instruments are those disclosed in Notes 6, 7, 8, 9 and 11, respectively.

It is the Group's practice to place its cash and cash equivalents in time deposits at financial institutions with high credit ratings or at mutual funds, which invest exclusively in high quality money market instruments. The Group limits the exposure amount to each financial institution individually aiming at minimizing its credit risk exposure.

For the year ended December 31, 2019, the Group chartered its drilling units and rendered services to a variety of multinational companies, such as Shell, ONGC, Total and Petrobras. For the year ended December 31, 2018, Petrobras represented 92% of total revenues (Note 18).

Market Risk (interest rate risk)

The Group is exposed to interest rate risk due to the fact that its entities borrow funds at both fixed and variable interest rates. The Group manages such risk by maintaining an appropriate mix between fixed and variable rate borrowings and by using interest rate swap instruments, when due necessary. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financing (Note 14). Until the end of 2018, the Group managed the interest rate risk related to its project financing agreements by eliminating variable-to-fixed interest rate swaps.

Due to the debt restructuring plan, the Group and its creditors agreed to unwind the previous existing swaps due to the new debt structure and new contract terms and conditions. The Group will conduct an effective monitoring of any interest rate exposure, reassessing the respective risks based on the new terms and conditions agreed post debt restructuring.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1% on outstanding loans and financing and the effects of either an increase or a decrease of 0.1% in the interest curve (LIBOR) at the balance sheet date. For variable rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming that the liability amount outstanding at the end of the reporting period was outstanding for the entire period. A 0.1% increase or decrease in US$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

If the US$ LIBOR had been 0.1% higher or lower and all other variables were held constant, the Group's comprehensive income would be impacted as follows:

Risk: interest rate variation	December 31, 2019	Scenario I (i)	Scenario II (ii)
		Increase/ (decrease) in P&L	
Variable interest rate loans	156,961	(157)	157
Variable interest rate financing	749,772	(750)	750
Total	906,733	(907)	907

(i) Increase of 0.1% in interest rate.
(ii) Decrease of 0.1% in interest rate.

c) Capital management

The Group manages its capital structure, consisting of the relation between equity/debt mix in accordance with best market practices, as follows:

	December 31,	
	2019	2018
Loans and financing (a)	1,707,389	1,475,200
Cash transactions (b)	(250,464)	(178,006)
Net debt (c)	1,456,925	1,297,194
Shareholders' equity (d)	1,556,170	1,419,503
Net debt on shareholders' equity plus net debt [(c)] ÷ [(c) + (d)]	48%	48%

(a) Consider all loans and financing balances.
(b) Includes cash and cash equivalents, short-term investments and restricted cash balances.
(c) Includes all shareholders' equity accounts.

24 INSURANCE

As of December 31, 2019 and 2018, major assets or interests covered by insurance policies and their respective coverage amounts are summarized below:

	December 31,	
	2019	2018
Civil liability	1,793,000	1,795,500
Operating risks	2,041,865	1,994,534
Operational headquarter and others	15,944	30,632
Total	3,850,809	3,820,666

The Group's practice in relation to its insurance policies is to hire solid insurance companies in the insurance market.

25 PENSION PLAN

The Group, through its subsidiary Serviços de Petróleo, offers a private defined contribution pension plan to all employees, including key management personnel. Under the pension plan, up to 12% of the monthly salary is contributed by the employee and up to 6.5% by Serviços de Petróleo, according to the employee's seniority level. The pension plan is managed by Bradesco Vida e Previdência S.A. When employees choose to leave the plan before the end of payments, the contributions still payable are reduced from the amount already paid by Serviços de Petróleo. Therefore, Serviços de Petróleo's only obligation to the Pension Plan is to make its specified contributions.

For the years ended December 31, 2019 and 2018, contributions payable by Serviços de Petróleo at the rates specified by the plan rules amounts to US$44 and US$64, respectively.

26 ADDITIONAL INFORMATION ON CASH FLOWS

	Year-ended December 31,	
	2019	2018
Non-cash financing activities:		
Debt restructuring (Note 14)	1,631,314	-
Conversion of share premium to share capital (Note 17.a)	766,561	
Capitalization of retained earnings (Note 17.a)	124,439	
	2,522,314	-

27 OPERATING LEASE RECEIVABLES

Below the undiscounted amounts to be received on an annual basis for the period of the current contracts of the Group's fleet (contract rates).

	Year-ended December 31,	
Amounts receivable under operating leases	2019	2018
2019	-	66,200
2020	290,200	42,600
2021	291,200	1,300
2022	74,800	-
Total	656,200	110,100

28 SUBSEQUENT EVENTS

Amaralina Star drillship charter and service-rendering agreements

On January 2, 2020, the Group announced that the Amaralina Star drillship has been awarded a contract with the consortiums of BM-S-11, BM-S-11A and Production Individualization Agreement (*Acordo de Individualização de Produção* – AIP) of Lula field, operated by Petrobras. The contract has a 2-year estimated duration. Operations started on April 15, 2020, and are being performed offshore the Brazilian coast, at the Santos Basin.

Atlantic Star drilling rig charter and service-rendering agreements

On February 5, 2020, the Group announced that the Atlantic Star offshore drilling rig has been awarded a contract with Petrobras. The contract has a 3-year estimated duration. Operations are expected to start by the end of October 2020, and will be performed offshore the Brazilian coast, at the Campos Basin.

QG-III asset retirement

In February 2020, due to the absence of a new contract in the near future and low demand expectations for the QG-III onshore drilling rig, the Group reassessed the viability of new capital investments in said drilling rig and made the decision to proceed with its scrapping.

PIK interest payment

On April 10, 2020, the Group announced that a special one-time PIK interest payment on the Senior Secured Notes Participating Notes and on the Senior Secured Third Lien Notes was made, pro-rata, in accordance to Section 3.13 of the Indenture dated December 18, 2019 (as amended, supplemented or modified from time to time, the "Participating Notes Indenture" and the "Stub Notes Indenture"), as the Company satisfied the Olinda Star guarantee condition on April 7, 2020. In accordance to Section 2.13 of the Participating Notes Indenture and the Stub Notes Indenture, the Company paid US$3,311 on the Senior Secured Notes and US$189 on the Senior Secured Third Lien Notes, thus totaling US$3,500 PIK pro-rata.

COVID-19 impacts in the Group's operations and forecast

Although 2020 started with recovery signs for the offshore drilling segment, the global economy is currently facing an unprecedented crisis with the fast-spreading new coronavirus (COVID-19), which is negatively impacting supply chains, travels, and in particular, the financial and oil and gas markets. The Group is not immune to the effects of this global crisis and is taking all necessary precautions and measures, both in operational and administrative areas.

Actions taken by governmental authorities, non-governmental organizations, businesses and individuals around the world aiming at slowing the COVID-19 pandemic curve and associated consumer behavior have negatively influenced forecasted global economic activity, thereby resulting in lower demand for crude oil. This scenario has created a current and forecasted oversupply, precipitating the recent steep decline in oil prices and an increase in oil price volatility. As a result, the current main customer of the Group (Petrobras) has adopted resilience measures comprising reduction of oil production, postponement of cash disbursement and cost restraint measures. These measures directly affected the Group, and after a short negotiations period, the original terms of certain contracts signed during 2019 and 2020 have been subject to changes. The main changes are: (i) delay in the start-up of Alpha Star commencement of operations to August 2020; (ii) deferral of Alpha Star and Atlantic Star first months' charter fee payment to January and February 2021; (iii) deferral of Atlantic Star mobilization payment to January 2021; and (iv) deferral of contractual penalties payments for delay in mobilizing Lone Star and Alpha Star offshore drilling units, if due, for early 2021.

In India, regarding Olinda Star contract, ONGC invoked the Force Majeure clause based on COVID-19 crisis. Force Majeure began on May 10, 2020, however the Group is contesting such Force Majeure and will engage in negotiations with ONGC. Any Force Majeure period could be added to the contractual period date, which is January 12, 2021.

As a result of the items described above and its impacts in the Group's cash flow assessment for the years ending December 31, 2020 and 2021, the Group will need to approach its financial creditors to negotiate certain terms and conditions of potential affected obligations before they become due (interest payments and covenants that were agreed in the Second Amended and Restated PSA - Note 1.k). If the negotiation with the creditors does not advance, the Group is also closely monitoring any potential strategy and support from the Amended and Restated RJ Plan approved in 2019, such as requesting the RJ Court to stay upcoming obligations under the RJ Plan, which will prevent any event of default from occurring.

Finally, the Group considers COVID-19 impacts to be a non-adjusting subsequent event following the concepts of IFRS framework. Accordingly, the consolidated financial statements as of and for the year ended December 31, 2019 have not been adjusted to reflect any impacts arising from this matter. The impairment of long-lived assets (offshore drilling rigs and drillships) assessment conducted by Management was based on economic and market conditions prevailing at December 31, 2019. Considering that the COVID-19 crisis and the current oil and gas market conditions lead to contract changes and reduction in forecasted cash inflows, Management performed a sensitivity analysis based on these changes and said analysis indicates a potential impairment loss provision to be recognized for the year ending December 31, 2020, in the approximate range from US$100 million to US$105 million.

Settlement agreement with Alperton

On May 23, 2020, the Group and Alperton and certain Alperton affiliates, among other parties, reached an settlement agreement to resolve the disputes between the parties, and, without recognizing any claim to Alperton, the Group agreed to reimburse certain expenses incurred by Alperton in connection with the Proceedings in the amount of US$2,400 (¨the Settlement Payment"). Such amount is solely for the payment or reimbursement of certain professional fees and expenses incurred by Alperton in connection with the Proceedings.

Alperton has agreed that (i) nothing is owed by Constellation to Alperton in connection with the matters described in the settlement agreement; (ii) the Settlement Payment represents the full amount to be paid as reimbursement of their attorneys' fees; and (iii) Constellation Overseas is the 100% legal and beneficial owner of the Amaralina and Laguna shares.

As a condition precedent to the transfer of any installment of the Settlement Payment, Alperton shall within 2 days from the execution of the agreement, jointly with the Group, request the Arbitral Tribunal to issue on an expedited basis a consent award terminating the Arbitration and incorporating the terms of the settlement agreement (the "Consent Award"). Upon issuance by the Arbitral Tribunal of the Consent Award, Alperton shall withdraw the pending appeals and motions in the Brazilian Proceedings and all proceedings pending in the BVI against the Group. The Group shall also support the withdrawal of any such claim, appeal, action or motion in any relevant court or tribunal.

29 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the Company's Board of Directors on June 5, 2020.