20 November 2020

Q3 2020 Trading Statement

Performance highlights for Q3 2020

(Q2 2020 in brackets unless otherwise stated)

- Revenue of USD 226m (USD 305m) impacted by lower utilisation and lower average day rates following the contract terminations and suspensions from the first half of the year
- Continued strong operational performance with financial uptime of 99.8% (99.5%)
- Contracted days were 1,146 (1,303) resulting in a utilisation of 58% (66%)
- Average day rate excluding one-offs of USD 187k (USD 208k)
- Secured contracts with a total contract value of USD 132m (USD 161m)
- Revenue backlog of USD 1.5bn at 30 September 2020 (USD 1.6bn at 30 June 2020); hereof revenue backlog for 2021 of USD 646m (USD 616m at 30 June 2020). Forward contract coverage for the remaining part of 2020 of 55% and 40% for 2021.

Guidance for 2020

The full-year guidance for 2020 from 7 May 2020 is revised as follows:

- Profit before depreciation and amortisation, impairment losses/reversals and special items (EBITDA before special items) is expected to be in the range of USD 275-300m (previously in the range of USD 250-300m).
- Capital expenditures are expected to be around USD 150m (unchanged).

The guidance reflects the current contract backlog with no additional contracts impacting 2020 as well as an expectation of continued limited operational impact from COVID-19 although certain specific COVID-19 related costs reported as special items are expected.

CEO Jorn Madsen quote

"In the third quarter, we continued to deliver as expected, and we are now adjusting our guidance towards the higher end of the previously announced range. We have continued our cost discipline to support both our short- and long-term profitability, and I am truly proud of our people's relentless efforts to uphold a strong operational performance and secure new contracts under these unprecedented circumstances. We start seeing increased market activity with many ongoing tenders and customer dialogues. We also launched our sustainability strategy with clear emissions reduction targets in line with the Paris Agreement. This has been well received by our customers as it supports them in their journeys towards emissions reductions."

Quarterly revenue and business drivers per segment

	North Sea	International	Total[1]
Q3 2020			
Revenue (USDm)	136	82	226
Contracted days	703	351	1,146
Available days	1,163	736	1,991
Utilisation	60%	48%	58%
Average day rate (USDk)	194	234	197
Financial uptime	99.8%	99.9%	99.8%
Revenue backlog (USDm)	982	482	1,526
Q2 2020			
Revenue (USDm)	161	137	305
Contracted days	764	448	1,303
Available days	1,183	703	1,977
Utilisation	65%	64%	66%
Average day rate (USDk)	211	306	234
Financial uptime	100.0%	99.0%	99.5%
Revenue backlog (USDm)	1,050	525	1,595

[1] In addition to the North Sea jack-ups and International floaters, the totals for Maersk Drilling include the benign jack-up rig Maersk Convincer. This rig is not included in either segment and is not reported separately due to its limited materiality.

Q3 2020 performance

(Q2 2020 in brackets unless otherwise stated)

Revenue for Q3 2020 of USD 226m (USD 305m) was negatively impacted by lower utilisation and lower average day rates following contract terminations and suspensions received during the first half of the year, and positively impacted by performance bonuses received in the North Sea segment and revenue from recharge of COVID-19 related costs. Excluding additional revenue from recharge of COVID-19 related costs, revenue for Q3 2020 was USD 214m (USD 271m in Q2 2020 excluding COVID-19 recharges and lump sum termination fees received in that quarter).

Financial uptime remained high at 99.8% (99.5%) with no material impact from the COVID-19 pandemic. However, COVID-19 measures such as quarantine requirements and travel restrictions impacting crew changes have continued to result in additional costs. These costs are being passed on to customers to the extent possible while the residual is presented under special items due to their non-recurring nature.

The total number of contracted days amounted to 1,146 days in Q3 2020 (1,303 days) leading to a utilisation of 58% for the quarter (66%). At 30 September 2020, the forward contract coverage for the remainder of 2020 was 55%.

The average day rate was USD 197k in Q3 2020 (USD 234k) negatively impacted by contract terminations from the first half of the year as well as rig mobilisations and yard stays in the third quarter. The average day rate was positively impacted by performance bonuses and COVID-19 related costs being passed on to customers. Excluding the effect of the COVID-19 recharges, the average day rate was USD 187k in Q3 2020 (USD 208k in Q2 2020 excluding COVID-19 recharges and lump sum termination fees received in that quarter).

To adapt to the present business environment with lower activity and lower day rates, Maersk Drilling has implemented a number of cost reduction initiatives impacting both the offshore and onshore organisation. In addition, measures are taken in the form of optimising the cost of stacking of rigs and adjusting maintenance programmes to the revised activity levels. The measures taken to support the profitability and cash flows are being delivered as planned.

Overall, Maersk Drilling continues to have a solid capital structure and liquidity position. At 30 September 2020, Maersk Drilling continued to be in compliance with all of its debt covenants.

North Sea jack-ups

Revenue in the North Sea segment of USD 136m in Q3 2020 (USD 161m) was negatively impacted by both a lower average day rate as well as a lower utilisation. With 703 contracted days in the quarter (764 days) out of 1,163 available days (1,183 days), utilisation ended at 60% (65%). The decrease in utilisation of 5 percentage points compared to Q2 2020 was mainly driven by Mærsk Innovator ending operations in May following contract termination.

Financial uptime remained high at 99.8% in Q3 2020 (100.0%).

The average day rate of USD 194k in Q3 2020 (USD 211k) was negatively impacted by contract terminations received in the first half of the year, while being positively impacted by performance bonuses for drilling ahead of schedule and additional revenue received for COVID-19 related cost being recharged to customers. Excluding the impact from COVID-19 related recharges, the average day rate was USD 188k (USD 193k). The average day rate for the rest of the year in the current contractual backlog is USD 211k (USD 194k) and the forward contract coverage for the remainder of the year is 48%.

International floaters

Revenue in the International floater segment of USD 82m in Q3 2020 (USD 137m) was also negatively impacted by both a lower utilisation and lower average day rates. Due to more idle rigs during the quarter, utilisation dropped to 48% (64%) with 351 contracted days (448 days) out of 736 available days (703 days). As disclosed in the Interim Financial Report for the first half of 2020, Maersk Drilling agreed to suspend the contracts for Mærsk Deliverer and Maersk Voyager with effect from end of April 2020. Both units recommenced operations during Q3 2020.

The financial uptime for the quarter reached 99.9% (99.0%) reflecting a continued strong operational performance despite the COVID-19 implications.

The average day rate of USD 234k (USD 306k) was among others impacted by Maersk Discoverer mobilising to Trinidad to commence operations. Excluding the impact from COVID-19 related recharges, the average day rate was USD 211k (USD 260k). The average day rate for the rest of the year in the current contractual backlog is USD 237k (234k), while the forward contract coverage for the remainder of the year is 60%.

Revenue backlog

At 30 September 2020, the revenue backlog amounted to USD 1.5bn (30 June 2020: USD 1.6bn). During Q3 2020, a total of USD 132m was added to the revenue backlog from new contracts and contract extensions.

At 30 September 2020, the forward contract coverage for the remainder of 2020 was 48% for the North Sea jack-up segment and 60% for the International floater segment. The average contractual backlog day rate for the remaining part of 2020 is USD 211k for the North Sea jack-up segment and USD 237k for the International floater segment. The average backlog day rates are gradually improving in subsequent years, especially in the International floater segment, as existing long-term contracts have higher day rates.

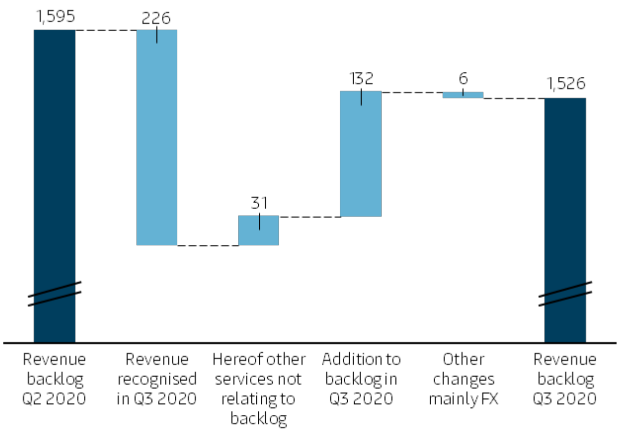
During the quarter, the following contracts and contract extensions were added to the backlog:

- A one-well contract from Aker BP for the low-emission rig Maersk Integrator. In direct continuation of its current work scope, the rig will move to the Tambar field offshore Norway to drill the K-2B development well, with work expected to commence in February 2021. The contract has an estimated duration of 73 days and a contract value of USD 19m, excluding integrated services provided and a potential performance bonus.
- An additional one-well contract from Aker BP for Maersk Integrator in direct continuation of the previously announced work scope, where the rig will move to the Ula field offshore Norway to drill the Ula F – Producer 1 well. The contract has an estimated duration of 85 days and is expected to commence in April 2021. The contract value is USD 22m, excluding integrated services provided and a potential performance bonus.
- Brunei Shell Petroleum Company Sdn. Bhd. (BSP) has exercised the contract extension option for the benign jack-up rig Maersk Convincer that allows the rig to continue operating offshore Brunei Darussalam. The contract extension has an expected duration of 602 days and will commence in May 2021 in direct continuation of the rig's current work

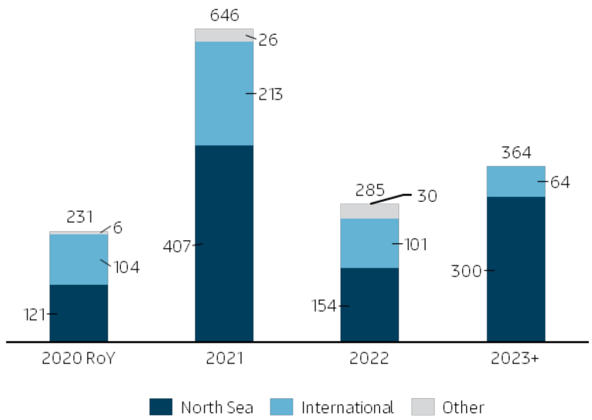
scope, which means that Maersk Convincer is now contracted by BSP until the end of 2022. The extension has a firm contract value of USD 47m, excluding a potential performance bonus.

- A contract from Dana Petroleum Netherlands B.V. to drill two development wells as part of Project Unity in the Dutch sector of the North Sea. The harsh-environment jack-up rig to be used for the job is yet to be assigned. The contract is expected to commence in Q2 2021, with an estimated duration of 121 days. The contract value is USD 12m.
- A three-well contract from Total E&P Angola for the 7th generation drillship Maersk Voyager, which will be employed to drill development wells in Angola's Block 17. The three-well contract has an estimated duration of 140 days, which means that Maersk Voyager is contracted until Q2 2021. The firm value of the three-well contract is approximately USD 30m, including integrated drilling services provided.

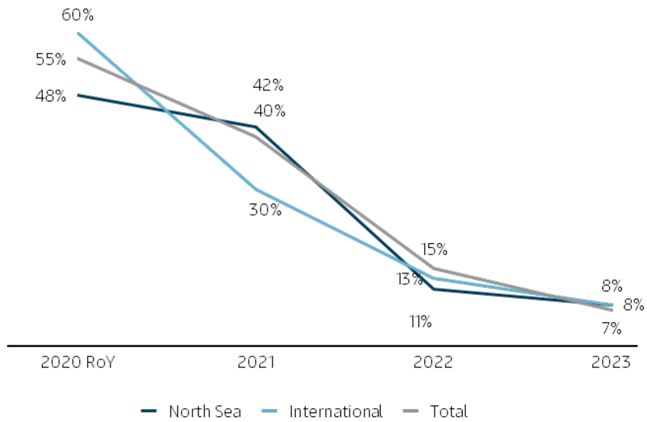
Development of revenue backlog in Q3 2020
USDm



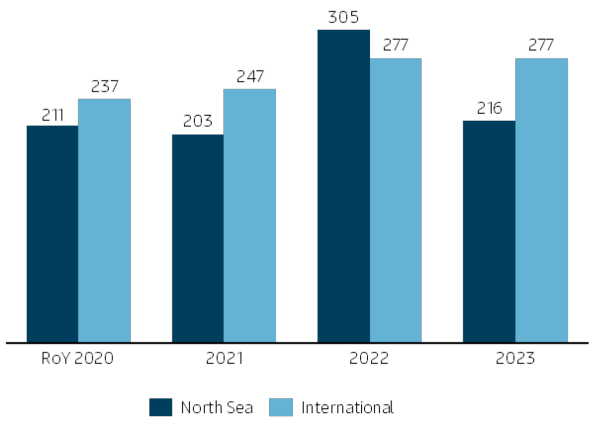
Revenue backlog
USDm



Forward contract coverage



Average backlog day rate
USDk



At the end of Q3 2020, the overall forward contract coverage for 2021 was 40% with the forward coverage for the North Sea segment and the International Floater segment being 42% and 30%, respectively. The secured contract revenue backlog for 2021 was USD 646m split with USD 407m in the North Sea segment, USD 213m in the International floater segment and USD 26m related to the benign jack-up rig Maersk Convincer.

Subsequent to 30 September 2020, Maersk Drilling has secured a contract from Petrogas E&P Netherlands B.V. for the harsh environment jack-up rig Maersk Resilient to drill three wells at the B13 and A12 fields in the Dutch sector of the North Sea. The contract is expected to commence in November 2020 and has an estimated duration of 110 days. The firm contract value is USD 9m.

Further, Maersk Drilling has secured a contract from Brunei Shell Petroleum Company Sdn. Bhd. (BSP) for the drillship Maersk Viking to drill one deepwater exploration well offshore Brunei Darussalam. The contract is expected to commence in March 2021 with an estimated duration of 35 days. The firm contract value is USD 9m, including additional services provided and a mobilisation fee. The contract included an additional one-well option which has subsequently been exercised by BSP. The firm contract value of the option is USD 7m and the estimated duration is 35 days.

The onshore modifications to the Mærsk Inspirer, which is being retrofitted to work as a combined drilling and production unit at the Yme field offshore Norway, are still scheduled to be completed by the end of 2020, whereafter the rig will move offshore for hook-up and commissioning. Maersk Drilling expects limited contribution from the Mærsk Inspirer in 2021 as the contract in the start-up phase is based on a cost recovery model.

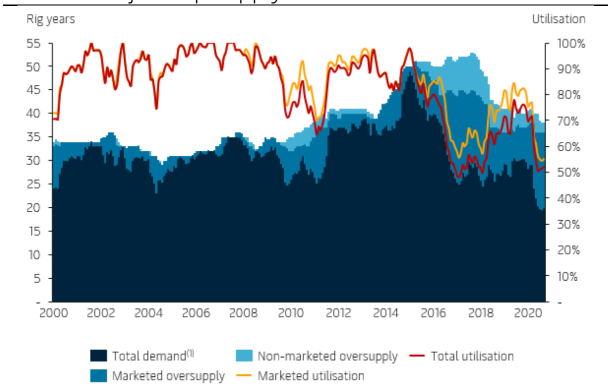
Detailed contract information and planned out-of-service time for the rig fleet is provided in the fleet status report dated 20 November 2020 which is made available at Maersk Drilling's website, www.maerskdrilling.com.

Market update

The impact of oil and gas company budget revisions and capital spending discipline continues to have an adverse impact on rig activity levels, utilisation and day rates. During Q3 2020, the demand for offshore drilling rigs (measured as rigs on contract) further decreased as the impact of contract expirations and terminations outweighed the impact from new contracts. The marketed supply of North Sea jack-up rigs remained relatively stable, while cold-stacking continued to rationalise the marketed supply of floaters.

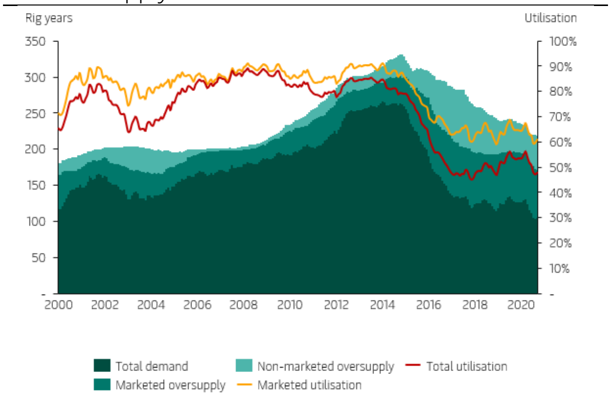
During Q3 2020, the total utilisation for North Sea jack-up rigs and global floaters averaged 52% (Q2 2020: 55%) and 48% (Q2 2020: 52%), respectively. Adjusting for non-marketed rigs, the marketed utilisations for North Sea jack-up rigs and global floaters averaged 55% (Q2 2020: 60%) and 60% (Q2 2020: 64%), respectively.

North Sea jack-up supply-demand and utilisation



Source: IHS Markit – Rigpoint

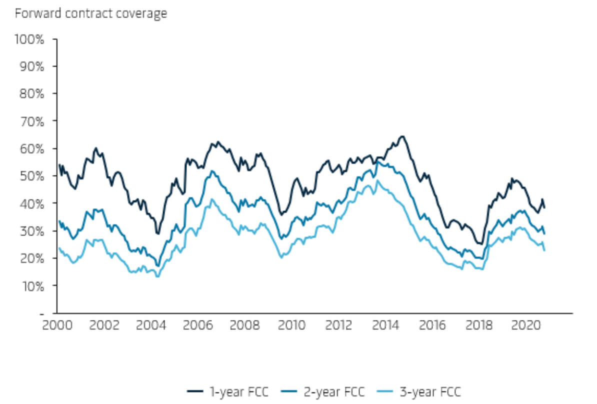
Floater supply-demand and utilisation



Source: IHS Markit – Rigpoint

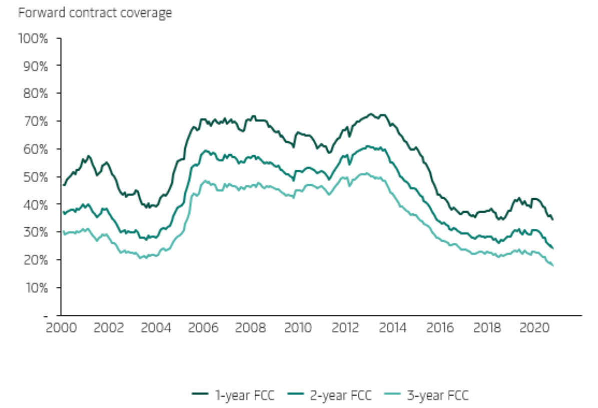
At the end of Q3 2020, the one-year forward contract coverage for North Sea jack-up rigs and global floaters were 39% (end Q2 2020: 37%) and 35% (end Q2 2020: 37%), respectively.

North Sea jack-up forward contract coverage



Source: IHS Markit – Rigpoint; Maersk Drilling calculations

Floater forward contract coverage



Source: IHS Markit – Rigpoint; Maersk Drilling calculations

The decline in marketed utilisation and forward coverage continue to exert pressure on day rates. Competition remains fierce as rig contractors focus on utilisation enabling them to eliminate stacking costs, preserve the marketability of the rig fleet, and retain critical personnel.

For Maersk Drilling the market outlook varies across its key markets.

In the Norwegian jack-up market, there are currently a few short duration drilling campaigns with commencement in mid-2021, and a few programs with longer duration with commencement in early 2022. Maersk Drilling has seen certain projects maturing in 2020 following the tax relief scheme, but the tax scheme has to date had little impact on the short-term rig demand. In 2021, more approvals for shallow water assets are expected.

In the North Sea jack-up market outside Norway, several new rig requirements have come to the market with commencement in mid-2021 with contract durations ranging from one-well to multi-year. Further, a few requirements outside the North Sea, but with need for high-spec harsh environment rigs, are adding to the demand pipeline for the harsh environment jack-up rigs.

In the international floater market, requirements are building in Africa, Brazil and South East Asia, with contract durations ranging from one-well to multi-year.

The rationalisation of the global rig fleet continued during Q3 2020, particularly in the floater segment, but continued scrapping of rigs remains needed to rebalance the market.

Based on current tender activity and customer dialogues, Maersk Drilling continues to see the building of the demand pipeline for campaigns with commencement in 2021 and 2022 and believes to be well positioned to benefit from this given its modern, high-end fleet, solid operational performance, and strong customer relations. However, the extent by which the current project pipeline will materialise into new drilling contracts for Maersk Drilling is naturally subject to significant uncertainty.

Sustainability Strategy

In September 2020, Maersk Drilling published a new sustainability strategy containing initiatives within a range of areas and with focus on emissions reductions as well as diversity and inclusion.

As part of the strategy, Maersk Drilling commits to reducing the intensity of CO_2 emissions from its drilling operations by 50% by 2030. The target will be achieved through a combination of efficiency gains, low-carbon solutions and new technologies. Maersk Drilling will leverage its Innovation function to develop and integrate new emissions reduction solutions.

In addition to the emissions reduction target, Maersk Drilling's sustainability strategy includes a commitment to increase the share of onshore female leaders to 30% across all leadership levels by end 2023.

As part of the strategy communication, Maersk Drilling will integrate key metrics on carbon intensity, diversity and safety in the half- and full-year reports, starting with the release of the 2020 Annual Report and 2020 Sustainability Report expectedly in February 2021.

Webcast

In connection with the release of the Q3 2020 trading statement, Maersk Drilling Executive Management will host a conference call on Friday 20 November 2020 at 10:00 a.m. CET.

The conference call can be followed live via webcast on https://getvisualtv.net/stream/?maersk-drilling-q3-2020-trading-statement

The presentation slides for the conference call will be available beforehand on https://investor.maerskdrilling.com/financial-reports-presentations

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Forward-looking statements

This announcement contains certain forward-looking statements (being all statements that are not entirely based on historical facts including, but not limited to, statements as to the expectations, beliefs and future business, contract terms, including commencement dates, contract durations and day rates, rig availability, financial performance and prospects of Maersk Drilling). These forward-looking statements are based on our current expectations and are subject to certain risks, assumptions, trends and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements due to external factors, including, but not limited to, oil and natural gas prices and the impact of the economic climate; changes in the offshore drilling market, including fluctuations in supply and demand; variable levels of drilling activity and expenditures in the energy industry; changes in day rates; ability to secure future contracts; cancellation, early termination or renegotiation by our customers of drilling contracts; customer credit and risk of customer bankruptcy; risks associated with fixed cost drilling operations; unplanned downtime; cost overruns or delays in transportation of drilling units; cost overruns or delays in maintenance, repairs, or other rig projects; operating hazards and equipment failure; risk of collision and damage; casualty losses and limitations on insurance coverage; weather conditions in the Company's operating areas; increasing costs of compliance with regulations; changes in tax laws and interpretations by taxing authorities, hostilities, terrorism, and piracy; impairments; cyber incidents; the outcomes of disputes, including tax disputes and legal proceeding; and other risks disclosed in Maersk Drilling's Annual Reports and company announcements. Each forward-looking statement speaks only as of the date hereof, and the Company expressly disclaims any obligation to update or revise any forward-looking statements, except as required by law.

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