MAERSK DRILLING

27 May 2020

Q1 2020 trading statement

Unless otherwise stated, comments in this statement refer to Q1 2020 performance (Q4 2019)

Performance highlights

- Revenue of USD 279m (USD 305m)
- Financial uptime of 97.5% (98.6%)
- Number of contracted days of 1,555 corresponding to utilisation of 78% (1,523 contracted days corresponding to utilisation of 76%)
- Average day rate of USD 179k (USD 200k) impacted by extended mobilisations for new contracts in the International floater segment.
- Revenue backlog as of 31 March 2020 of USD 1.7bn (USD 2.1bn) impacted by limited new contract activity as well as termination of the drilling contract for Maersk Venturer. As of 31 March 2020, the forward contract coverage for the remainder of 2020 was 64%.
- Subsequent to quarter end, notices of early termination for convenience of the drilling contracts for Mærsk Developer, Maersk Reacher, Mærsk Innovator and Maersk Guardian have been received. The terminations are expected to have immaterial financial impact given early termination fees.
- On 30 April 2020, a four-well extension for the low-emission jack-up rig Maersk Intrepid was announced with expected commencement in September 2020 and an estimated duration of 339 days. The contract value is approximately USD 100m, including rig modifications and upgrades, but excluding the integrated services provided and potential performance bonuses.
- Steps taken to reduce cost by adapting both the offshore and onshore organisation to the current lower activity in the offshore drilling market.

Guidance for 2020

The full-year guidance for 2020 as revised on 7 May 2020 is maintained:

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

The revised guidance reflects expected adjustments to the existing contracts based on current customer dialogues, no additional contracts with financial impact in 2020, and COVID-19 related costs. To adapt the cost structure to the new business environment, Maersk Drilling has, in addition to reduction of the offshore and onshore organisation, taken precautionary measures in the form of stacking of rigs and adjusting maintenance programmes to the revised activity levels. The impact of these measures is included in the revised guidance.

CEO Jorn Madsen quote

"With the combination of COVID-19 and lower oil prices we are facing unprecedented times in the offshore drilling industry. Maersk Drilling succeeded in maintaining a strong operational performance during Q1, and we are well positioned to respond to the changed business environment due to a combination of operational, commercial and financial strengths. In addition, we are taking immediate steps to adapt our cost structure to the updated market outlook."

Revenue and business drivers

	North Sea	International	Total
Q1 2020			
Revenue (USDm)	156	116	279
Contracted days	819	645	1,555
Available days	1,183	727	2,001
Utilisation	69%	89%	78%
Average day rate (USDk)	190	180	179
Financial uptime	99.9%	94.2%	97.5%
Revenue backlog (USDm)	1,076	612	1,714
Q4 2019			
Revenue (USDm)	205	93	305
Contracted days	1,003	428	1,523
Available days	1,151	664	1,999
Utilisation	87%	64%	76%
Average day rate (USDk)	204	217	200
Financial uptime	100%	95.7%	98.6%
Revenue backlog (USDm)	1,204	896	2,131

In addition to the North Sea jack-ups and International floaters, totals for Maersk Drilling include the benign jack-up rigs Maersk Completer, which was sold on 7 January 2020, and Maersk Convincer. These are not included in either segment and are not reported separately due to limited materiality.

Q1 2020 performance

Revenue for Q1 2020 of USD 279m (USD 305m) was impacted by lower utilisation in the North Sea jack-up segment, partly offset by higher utilisation in the International floater segment but at a lower average day rate.

The financial uptime of 97.5% (98.6%) was negatively impacted by non COVID-19 related down-time primarily in the International floater segment.

Thanks to the dedication of our rig crews and entire support organisation, Maersk Drilling managed to keep operations largely unaffected by the COVID-19 situation despite severe difficulties in performing crew changes and keeping supply chains running.

The total number of contracted days increased slightly to 1,555 days in Q1 2020 compared to 1,523 days in Q4 2019 resulting in utilisation for Q1 2020 of 78% (76%). As of 31 March 2020, the forward contract coverage for the remainder of 2020 was 64%.

The average day rate was USD 179k in Q1 2020 compared to USD 200k in Q4 2019, impacted by extended mobilisations for new contracts in the International floater segment.

North Sea jack-ups

Revenue within the North Sea segment of USD 156m in Q1 2020 (USD 205m) was mainly impacted by lower utilisation. With 819 contracted days in the quarter (1,003 days) out of 1,183 available days (1,151 days), utilisation decreased to 69% (87%). The drop in utilisation of 18 percentage points compared to Q4 2019, was mainly driven by Maersk Interceptor completing its five-year contract with Aker BP in Norway towards the end of 2019 as well as additional idle days on two R-rigs located in the southern part of the North Sea.

Financial uptime remained high at 99.9% in Q1 2020 (100%). The average day rate of USD 190k in Q1 2020 (USD 204k) was impacted by Maersk Interceptor finishing its legacy contract in Norway.

International floaters

Performance within the International floater segment displayed a positive trend both in terms of revenue and utilisation, while the average day rate was below the previous quarter average.

Revenue within the International floater segment increased to USD 116m in Q1 2020 compared to USD 93m in Q4 2019 primarily driven by an increase in utilisation to 89% (64%) with 645 contracted days (428 days) out of 727 available days (664 days).

The financial uptime of 94.2% (95.7%) was negatively impacted by unscheduled maintenance down-time on Maersk Venturer.

Revenue backlog

Two new contracts and three contract extensions were signed in Q1 2020 adding a total of USD 60m to the revenue backlog. As of 31 March 2020, the revenue backlog amounted to USD 1.7bn (USD 2.1bn). In addition to revenue recognised in the quarter, the backlog was reduced by USD 175m related to the termination of the drilling contract for Maersk Venturer and by USD 45m related to changed duration of certain activity-based contracts as well as impact from depreciation of the NOK on certain split rate contracts.

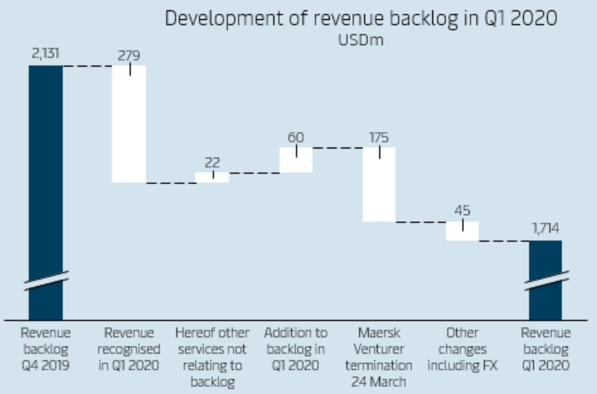
At 31 March 2020, the forward contract coverage for the remainder of 2020 was 63% for the North Sea jack-up segment and 62% for the International floater segment. The average backlog day rates for the remaining part of 2020 were USD 174k for the North Sea segment and USD 230k for the International segment.

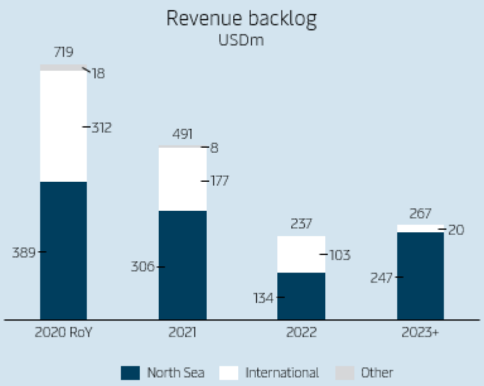
On 30 April 2020, Maersk Drilling announced that it had been awarded a four-well extension for the low-emission jack-up rig Maersk Intrepid to continue working for Equinor offshore Norway. The contract extension is expected to commence in September 2020, with an estimated duration of 339 days, which will keep the rig deployed into the second half of 2021. In addition, Maersk Drilling and Equinor have reached an agreement on the provision of integrated services for the campaign, including Managed Pressure Drilling, slop treatment, cuttings handling, and tubular running services. The contract value is approximately USD 100m, including rig modifications and upgrades, but excluding the integrated services provided and potential performance bonuses. The contract includes an additional one-well option, plus the option of adding up to 120 additional days of well intervention.

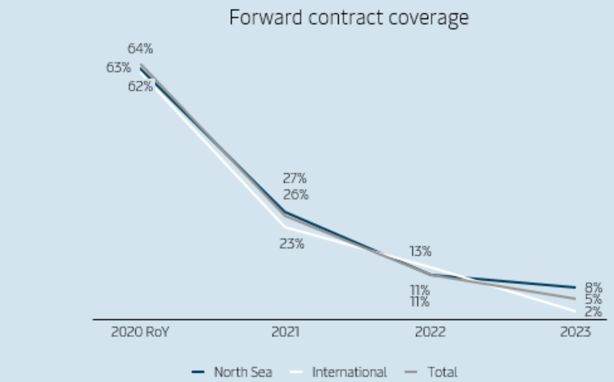
In addition, subsequent to quarter end, the revenue backlog has been impacted as follows:

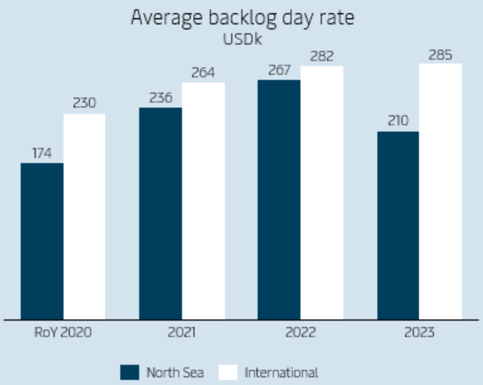
- Notices of early termination for convenience of the drilling contracts for Mærsk Developer, Maersk Reacher, Mærsk Innovator and Maersk Guardian have been received. The terminations are expected to have immaterial financial impact given early termination fees.
- Maersk Drilling has agreed with Inpex Australia to suspend the contract for Mærsk Deliverer with effect from 30 April 2020. Re-commencement of the contract is expected to be in October 2020 and Maersk Drilling will receive a suspension rate until then. The expected end-date of the firm contract period is now in August 2023.

Detailed contract information and planned out-of-service time for the rig fleet is provided in the fleet status report dated 27 May 2020 and made available at Maersk Drilling's website, www.maerskdrilling.com. As reflected in the fleet status report, the restrictions imposed by the COVID-19 pandemic have also affected the Egersund yard where the Mærsk Inspirer is being retrofitted to work as a combined drilling and production unit at the Yme field offshore Norway. The onshore modifications to the Mærsk Inspirer are currently scheduled to be completed in the fourth quarter of 2020, whereafter the rig will move offshore for hook-up and commissioning.





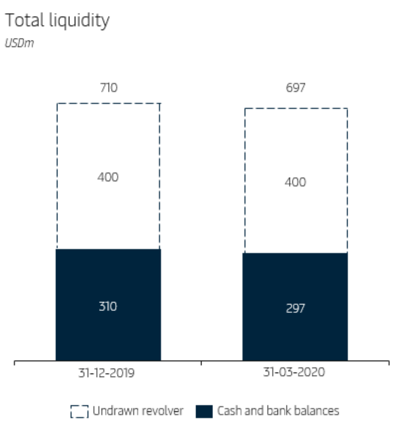


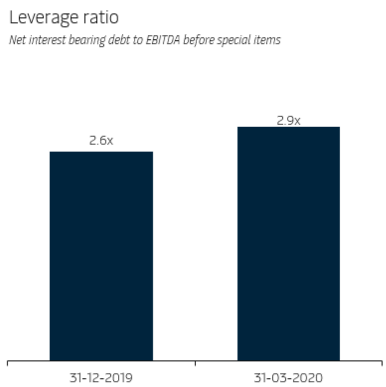


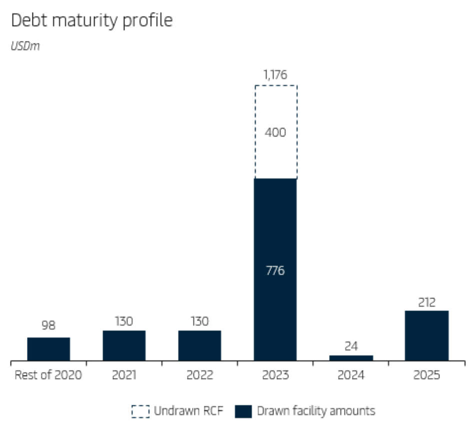
Robust balance sheet and solid liquidity position

The overall objective of Maersk Drilling's financial policy is to enable Maersk Drilling to manage through the cyclicality that characterises the offshore drilling industry with an aim to create long-term shareholder value. The financial policy ensures a high degree of financial flexibility, and Maersk Drilling continues to have a robust capital structure.

At 31 March 2020, liquidity reserves amounted to USD 697m (USD 710m), comprising cash and bank balances of USD 297m (USD 310m) and an undrawn revolving credit facility of USD 400m (USD 400m). The leverage (net interest bearing debt to last twelve months EBITDA before special items) was 2.9x (2.6x). As of 31 March 2020, Maersk Drilling continued to be in compliance with all of its debt covenants.







Market update

The first quarter of 2020 showed simultaneous demand and supply shocks in the oil markets. Measures to contain the spread of the COVID-19 virus across the world have led to an unprecedented decline in demand for oil and gas resulting in a sharp fall in prices. At the end of March 2020, the Brent Crude Oil closed at USD 22.74 per barrel and averaged USD 50.82 per barrel during the Q1 2020.

The sharp decline in prices has caused several oil and gas companies to announce reductions in their spending budgets. Generally, sanctioning of new projects and ongoing tenders for drilling have been postponed or cancelled, and some existing drilling contracts have been renegotiated, suspended or terminated.

Based on current tender activity and bilateral customer dialogues, Maersk Drilling expects that the number of new contracts for drilling campaigns commencing in 2020 will be limited, while the demand pipeline for campaigns with commencement in 2021 is building up due to postponement of projects originally scheduled for 2020. To what extent the current project pipeline for 2021 will materialise into new drilling contracts depends on the development in the oil and gas prices and the overall uncertainty in the oil market.

In relative terms, the market for ultra-harsh jack-up rigs, including the CJ-70 jack-up rig segment, is expected to be more resilient compared to the broader harsh environment jack-up market and the international floater market.

Many stacked rigs across the offshore drilling industry continue to incur stacking costs despite unfavourable commercial prospects, and given excess supply in most market segments, continued scrapping of rigs is needed to obtain a healthier balance between demand and supply.

The secondary market for offshore rigs remains illiquid with bid-ask spreads continuing to be too wide to facilitate any market transactions.

Webcast

In connection with the release of the Q1 2020 trading statement, Maersk Drilling Executive Management will host a conference call on Wednesday 27 May 2020 at 10:00 a.m. CEST.

The conference call can be followed live via webcast on https://getvisualtv.net/stream/?maersk-drilling-q1-2020-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.