Maersk Drilling

Q3 2020 Trading Statement webcast

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Smarter Drilling for Better Value

Participants

Corporate participants

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Jesper Ridder Olsen – Chief Financial Officer, Maersk Drilling

Michael Harboe-Jørgensen – Head of Investor Relations, Maersk Drilling

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Other Participants

Fredrik Stene – Clarksons Platou Securities

James Thompson – J.P. Morgan

Lukas Daul – ABG Sundal Collier

Management Discussion Section

Michael Harboe-Jørgensen – Head of Investor Relations, Maersk Drilling

Jørgensen, Head of Investor Relations. Joining me on this morning's call, we have our Chief Executive Officer, Jørn Madsen; our Chief Financial Officer, Jesper Ridder Olsen; and our Investor Relations Officer, Andreas Holkjær.

Today's trading statement, along with supporting documents including the presentation for this call and a fleet status report, have this morning been posted on our Investor Relations website.

For the first part of this call, we will present our Q3 performance, after which there will be a question and answer session. Please note that this conference call is being recorded and will be made available at our Investor site afterwards.

Before handing over the word to Jørn, let us first see to the formalities on page two. And assuming you have all read this, I will now turn the call over to Jørn.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you, Michael, and good morning, everyone, and welcome to this call. This morning we released the trading statement covering the third quarter of 2020. Given the continued COVID crisis, I'm particularly pleased that we've been able to continue delivering strong commercial and operational performance during the third quarter.

During today's call, I will briefly go over a few highlights from the quarter as well as our consolidated key business drivers before moving on to our commercial performance and the outlook for our key markets. Jesper will then provide additional colour on the key business drivers for the two segments and our financial guidance for the full year of 2020 before covering our contract revenue backlog.

Now, as reported in this morning's trading statement, the revenue in Q3 2020 amounted to USD 226 million, compared with USD 305 million in the second quarter. The quarter-on-quarter decline was due to lower utilisation and average day rates.

In Q3 2020, we secured contracts with a total contract value of USD 132 million from two new contracts and three contract extensions. And as mentioned, I'll provide additional information on our commercial performance later in the call. At the end of the third quarter, our contract backlog amounted to USD 1.5 billion dollars, of which USD 646 million relates to 2021, supporting our near-term earnings.

2020 has indeed been a challenging year for the industry, but we are expecting a solid finish, with EBITDA before special items for the full year now expected to be in the upper end of the previously-guided range. Our tightened guidance for EBITDA before special items now ranges from USD 275 million to USD 300 million.

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

Our strategic agenda is progressing well with the launch of our sustainability strategy and continued focus on innovation, digital, and development of partnerships and new business models. I'll provide some additional information about this later in the call.

Moving now to our Q3 2020 consolidated key business drivers on page four. As mentioned, the revenue for Q3 2020 amounted to USD 226 million, compared with USD 305 million in Q2. The quarter-on-quarter decline was expected and was driven by both lower utilisation and a lower average day rate following contract terminations and suspensions received during the first half of the year. However, the decline was positively impacted by performance bonuses received in the North Sea segment and revenue from recharge of COVID-19-related costs. Including these recharges, revenue for the third quarter amounted to USD 214 million compared with USD 271 million in the second quarter.

Financial uptime was near perfect at 99.8% with no material impact from the COVID-19 pandemic. And I would like to extend a huge praise to our people offshore for maintaining a strong operational performance and service delivery to our customers during very difficult circumstances.

Now, please turn to page five for an update on our commercial performance since last earnings call. During the third quarter, we added new contract backlog with a combined firm value of USD 132 million from two new contracts and three contract extensions.

In addition to the contracts and extensions announced on our Q2 2020 earnings call, we have signed an additional one-well extension for Maersk Integrator with Aker BP in Norway. The extension has an estimated duration of 85 days with expected commencement in April 2021, in direct continuation of the rig's current work scope. The extension has a firm value of USD 21.6 million, excluding integrated services provided, and a potential performance bonus which is equal to a day rate of approximately USD 254,000.

Next, we signed a 602-day extension for Maersk Convincer with BSP offshore Brunei. We expect the commencement in May 2021. The extension has a firm contract value of USD 47 million and will keep Maersk Convincer contracted until the end of 2022.

Furthermore, Maersk Drilling and Dana Petroleum have agreed to defer the previously-announced one-well contract in the Danish sector of the North Sea. The new commencement date will be determined at a later stage, and the rig to be used is yet to be assigned by Maersk Drilling. Maersk Drilling will receive compensation in the form of a deferral fee.

Further, Maersk Drilling has secured a two-well contract with Dana in the Dutch sector of the North Sea, with an estimated duration of 121 days. The contract is expected to commence in Q2 2021 and has a firm value of approximately USD 12.1 million, equal to a rate of USD [100,000] a day. The harsh environment jack-up to be used for the job is yet to be assigned by Maersk Drilling.

Finally, the Maersk Voyager was awarded a three-well contract from Total in Angola with an estimated duration of 140 days. The contract commenced in August and has a firm value of approximately USD 30 million, including integrated drilling services provided. Following the completion of the three additional wells, Maersk Voyager will commence its previously-announced programme for the customer, which was suspended with effect from late April of this year. The two one-well options in the original programme remain.

Summing this up, Maersk Drilling contract backlog at the end of Q3 totalled USD 1.5 billion. Since the end of Q3, we've signed two additional contracts and one contract extension. Firstly, Maersk Resilient was awarded a three-well contract in the Netherlands by Petrogas with an estimated duration of 110 days. The contract commenced earlier this month and has a firm contract value of approximately USD 9.4 million, equal to a day rate of USD 85,000.

Maersk Drilling has further agreed with Petrogas that we will be given exclusive options to work on a selected number of Petrogas planned projects in the Dutch sector of the North Sea in 2021 and '22. Separately, the previously-announced contract with Petrogas for the drilling of one well at the Birgitta field will be cancelled. Maersk Drilling will receive compensation in the form of a termination fee and retains an exclusive option with the customer to drill the Birgitta well in 2021 at rates reflecting the expected 2021 market rates.

Next, Maersk Viking was awarded a one-well exploration contract with BSP offshore Brunei with an estimated duration of 35 days. The contract is expected to commence in March 2021 and has a firm contract value of USD 9 million, including additional services provided and mobilisation fee. The customer has later exercised a one-well option on the rig which adds an additional 35 days to the work scope. The firm value of the extension is approximately USD 7.1 million. We're very pleased to be able to expand our relationship with BSP to now also include floater work. By getting the rig back into operation, we think it will be even better positioned for likely follow-up work in the region.

Finally, Maersk Drilling has agreed with the customer Noble Energy to amend the previously-announced contract for the drilling of one well offshore Colombia. The well will not be drilled in 2020 and Maersk Drilling will receive compensation via a deferral fee and also retains an exclusive option with the customer to drill the well in 2021, should the operator decide to do so. Maersk Valiant has been warm stacking in Aruba where the rig is being actively marketed for other opportunities. Maersk Drilling is confident that we'll be able to find new work for the Maersk Valiant, and we are currently in advanced discussion regarding future work for the rig.

On page six, you'll find our full fleet deployment overview as of the end of the third quarter. As Jesper will show later in the call, approximately 60% of available days for 2021 remain uncontracted at the end of Q3, but Maersk Drilling are confident that our modern high-end fleet is well-positioned for the near-term demand pipeline.

Maersk Drilling will [retain] its focus on what sets us apart. Through the COVID-19 pandemic, we have delivered excellent operational performances and have therefore achieved consistently high customer satisfaction scores. We have strong customer relationships, which are further enhanced by our continued investment in new customer solutions, including digital and low emission upgrades. Finally, we are the only driller with available capacity in the CJ70 jack-up market which has delivered unparalleled operational performance for our customers on the Norwegian Continental Shelf.

Turning now to some of the comments on the outlook in our key markets on page seven, starting with the Norwegian jack-up market. Here, there are currently a few short-duration drilling campaigns with commencement in mid-'21 and a few programmes with longer duration with commencement in early '22. Following the introduction of the temporary tax relief scheme, Maersk Drilling has seen certain projects mature as a result, including Aker BP's Hod project, but the tax scheme has to date had little impact on the short-term rig demand. However, for '21, we expect additional shallow-water assets to be approved.

Moving to the broader North Sea jack-up market outside of Norway. Here, we've seen several new rig requirements with commencement in mid-'21 emerging. These carry contract durations ranging from one well to several years. Furthermore, a few requirements outside the North Sea, but with need for high-spec harsh environment rigs, are adding to the demand timeline 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 several years, including well known drilling campaigns such as Tullow Oil's development programme offshore Ghana and Total's development programmes offshore Mozambique.

Moving now to a review of the overall market dynamics on page eight. The budget revisions and capital discipline by oil and gas companies continue to have an adverse impact on rig activity levels, utilisation and day rates. In Q3 2020, North Sea jack-up demand stabilised, but both utilisation and forward contract coverage in the segment remain subdued due to continued excess capacity. Marketed utilisation at the end of the quarter stood at 55%, while one-year forward contract coverage was around 39%, illustrating that further asset rationalisation is needed in order to re-balance this market.

Turning to the global floater market on page nine. In this market, we've also seen demand stabilising in Q3, and asset rationalisation has continued throughout the year. However, despite the level of attrition in the market, utilisation and forward contract coverage remain subdued as a result of low demand and heavy oversupply. Marketed utilisation in the global floater market stood at 61% at the end of the quarter, while one-year forward contract was historically low at 35%.

The rationalisation of the global rig fleet continued during Q3, particularly in the floater segment, but continued scrapping of rigs is needed to re-balance the market. Maersk Drilling believes that industry consolidation is needed to install the discipline required to drive the needed rationalisation of the global offshore rig fleet.

This now concludes my prepared remarks, and I will now turn the call over to Jesper. So, Jesper?

Jesper Ridder Olsen – Chief Financial Officer, Maersk Drilling

Thank you, Jørn, and also a good morning and welcome to this call from me.

Please turn to page ten for an overview of our Q3 key business drivers for our two segments, starting here with the North Sea jack-up segments. As you see on the page, revenue in the North Sea segment amounted to USD 136 million in Q3, down from USD 161 million in the second quarter. The quarter-on-quarter decline in revenue of 16% was a result of both lower utilisation as well as lower average day rates. Utilisation decreased by five percentage points to 60% following the contract terminations and suspensions announced in Q2 with Maersk Innovator and Maersk Reacher being idle in the quarter, and Maersk Resolver and Maersk Guardian coming off contract in the quarter. The financial uptime remained high at 99.8%, an impressive operational performance, as mentioned by Jørn, again, this quarter, after delivering 100% in the second quarter. The average day rate of USD 194,000 was positively impacted by performance bonuses received for drilling ahead of schedule, as well as additional revenue received for COVID-19 related costs being recharged to customers. The average day rate was lower than in Q2, mainly due to contracts termination fees received in the last quarter. Excluding the impact from COVID-19 related recharges, the average day rate was USD 188,000 in Q3 compared with USD 193,000 in Q2.

Turning now to the International segment on page 11. You see that revenue here was USD 82 million, compared with USD 137 million in Q2. Again, a result of both lower utilisation and lower average day rates. Utilisation was at 48%, significantly lower than the 64% in Q2, and also here a result of more idle days following the contract terminations and suspensions announced in the first half of the year. The financial uptime of 99.9% was very satisfactory and higher than the 99% in the last quarter. So, also here an impressive operational performance. The average day rate of USD 234,000 was lower than in Q2, among other things, impacted by Maersk Discoverer mobilising to Trinidad in this quarter to commence operations under its contract for BP. Excluding COVID-19 related recharges, the average day rate was USD 211,000 compared with USD 260,000 in Q2.

Turning to page 12, you see our revised full-year profitability guidance for 2020 where we are now expecting EBITDA before special items to be in the range of USD 275 million to USD 300 million, which is in the upper end of the previously-guided range of USD 250 million to USD 300 million. The guided range reflects the current contract backlog and the expectation of no additional contracts with financial impact in 2020. Further, it reflects the continued expectation of limited operational impact from COVID-19. However, as in the first half of the year, we do expect certain specific COVID-19 related costs also in the second half of the year, which we will not be able to recharge to our customers, and which will be reported under special items in the 2020 Annual Report.

For capital expenditure, we are still expected to be around USD 150 million, based on the expectations of three SPSs to be completed in this year as well as planned rolling maintenance on other certain rigs.

As we have done in the previous quarters, we have on page 13 summarised a breakdown of our contract revenue backlog as of the end of Q3. Here, you see that for the remainder of 2020, we have USD 231 million of revenue secured, with USD 121 million coming from the North Sea segment, and USD 104 million from the International segment. The remaining part relates to the benign jack-up rig, Maersk Convincer, which is not included in either segment. At the end of Q3, the forward contract coverage for the rest of 2020 was 55%, with 48% and 40% of available days covered by contracts in the North Sea segment and International segment, respectively.

Looking ahead into 2021, we had at the end of Q3 secured a total of USD 646 million of contract revenue, of which USD 407 million relates to the North Sea and USD 213 million to the International segment. The previously-disclosed operational cost levels for the different segments remain unchanged at USD 110,000 to USD 140,000 per day for jack-ups in Norway, USD 50,000 to USD 65,000 per day for jack-up rigs outside of Norway, and USD 110,000 to USD 150,000 for international floaters. For the uncontracted capacity equal to around 60% of available days for 2021, our commercial focus is naturally on securing new contracts to increase utilisation and thereby also limit the stacking costs. As we have previously disclosed, we follow a warm-stacking strategy, with estimated daily stacking costs unchanged at USD 10,000 to USD 20,000 for jack-ups, and USD 35,000 to USD 40,000 for floaters.

As mentioned by Jørn, we start seeing increased market activity with many ongoing tenders and customer dialogues. And given our continued solid operational performance, our strong customer relationships, and our modern high-end fleet, we believe to be well positioned to further strengthen our revenue backlog. However, the extent to which the current project pipelines will materialise into new drilling contracts for us is naturally subject to uncertainty.

Please now turn to page 14 for a summary of where we stand financially here close to the year end. As Jørn also mentioned, 2020 has been a very challenging year both for our industry and also for us, with many contract terminations and suspensions. However, with our continued strong operational performance and cost discipline, we are now able to tighten our 2020 profit guidance to the upper end of the previously-guided range, and the cost initiatives implemented during 2020 are being delivered in line with our plans, both with a positive impact on the short-term and our long-term profitability. And with USD 646 million of revenue backlog secured for 2021 at the end of Q3 covering around 40% of the available days, we have a relatively healthy foundation for the coming year 2021. Finally, we continue to have a solid capital structure and liquidity position.

This concludes my prepared remarks, and I will now turn the call back to Jørn for some closing statements.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thanks, Jesper.

As mentioned earlier in the call in September, we launched a sustainability strategy which included an ambitious target of lowering the intensity of CO2 emissions from our drilling operations by 50% by 2030. The reduction target will place Maersk Drilling as a leader amongst drilling contractors, and initiatives so far include the first ever rig to operate onshore power and the upgrade of two of the world's largest jack-ups to hybrid low-emission rigs.

Sustainability is an area of concern also for our customers, and by being a leader in low emission offshore drilling, we maintain a differentiated offering which can help customers in reaching their target. Our emission reduction target is in line with most oil and gas companies' 2030 targets and supports the ambitions of the Paris Agreement. We estimate that about half of the target can be achieved with further efficiency gains and known technical solutions and concepts, while the other half will be facilitated by investment in innovation in this space.

This is why we've established a dedicated Emissions Task Force responsible for recommending the deployment of low emission investment, leveraging Maersk Drilling's unique innovation capabilities to develop new solutions. And in addition to our investment in innovation, we firmly believe that close collaboration with customers and partners will be a crucial part of reaching our ambitious goal. We further believe that digitalisation will play a crucial role in developing sustainable solutions within the industry, and we are currently piloting our ground-breaking drilling process platform, or DPP, as we call it. DPP transforms the information flow between the well design and the offshore rig operations, providing transparency and driving efficiency to reduce emissions.

Our continued innovation initiatives are also starting to offer opportunities for building additional competencies and broadening the use of our rigs. Earlier this year, we announced our participation in the new CO2 capture and storage consortium formed by INEOS Oil and Gas Denmark and Wintershall Dea. The consortium is maturing one of the most progressed carbon capture and storage projects inside Danish jurisdiction and targets the development of CO2 storage capacity offshore Denmark, based on reusing discontinued offshore oil and gas fields for permanent CO2 storage. The target is to have the first well ready for injection from the Nini platform offshore Denmark in 2025. Longer term, the goal is to develop the capacity to store approximately 3.5 million tonnes of CO2 per year by 2030. This puts the project in the range of delivering CO2 storage corresponding to 15% to 20% of the reduction required to reach Denmark's production target in 2030.

And with that, we are now ready to take questions. So, operator, please?

Questions & Answers Section

Operator

Thank you.

[Operator instructions]

Our first question comes from the line of Fredrik Stene of Clarksons Platou Securities. Please go ahead. Your line is open.

Fredrik Stene – Clarksons Platou Securities

Hey, guys. Fredrik here. Congratulations on a nice quarter. Very nice uptime and operations. I have two questions for you today. First off, the sustainability efforts that you are going through with now, I think that's a great initiative, but I was also interested in hearing how are your discussions with customers going in relation to that? And I guess I'm not thinking specifically about the partnerships in what you're doing here, but compared to what you stated previously, do you see that the customers' willingness to pay for this is going up? And do you also see that what you're offering here with reduced emissions and such will be a vital part of the annual [E&P] company's goal of reaching their own emission targets?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, there was a bit of disturbance on the line, but I think the first question was around how our initiatives on both efficiency and emissions are taken by the customers. And if I take the emissions first, I have received numerous personal letters from CEOs of also very large oil companies that they are thanking us for taking up the challenge and beginning to do something about this and inviting for collaboration in this space. So, generally, very, very positive feedback on that from the customers, and they're interested more and more, also commercially, in how we can get that into the contracts going forward. A lot of the major oil companies are showing that interest.

When it comes to the other part, around how can we put in place more focus on outcomes, i.e. how can we make sure that we actually deliver well construction instead of delivering rigs and people, what we're seeing in the market is that more and more of our customers, especially the European-based ones, have bought into that thinking. In my humble opinion, what we're seeing is an industry that, for the first time in history, is faced with the fact that it's becoming a true commodity, insofar as there is other alternative energy forms that can compete on quantity and price; that's never happened for the last 150 years. And what we've seen in other industries is that that normally means that there will be less transactional relationships between the players, there will be more integration of the supply chain into the major players – i.e. the oil companies – in order to drive down the cost of producing the commodity, and we begin to see that oil companies are taking up that challenge, and we believe that we are well positioned with all the work we are doing on creating a new operating model, creating digital systems that will allow us to help them in that challenge.

Fredrik Stene – Clarksons Platou Securities

Yep, perfect.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Do come back if I misunderstood your question.

Fredrik Stene – Clarksons Platou Securities

I'm sorry about the line there, but that's perfect. And I guess that's a nice follow-up to my second question here, if that's OK. You're talking about integration here, and I think both in relation to the system sustainability parts, do you think that you could end up being more that kind of service providers to other rig players? And do you think that this integration that you're talking about will come naturally to the rig-owning space or rig-owner space as well? I know that's been discussed before, but do you have any updated views on how you would position yourself in a consolidated rig [world], given your expertise and current position?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

I think you have to do it one more time. The line is a bit bad, so I think you have to phrase the question very short because it's difficult to follow. I'm sorry about that.

Fredrik Stene – Clarksons Platou Securities

Yeah, it's probably on my side. So, the short question would be where do you see yourself within the rig world going forward? And then, I'm talking about consolidation mostly and how you can leverage your expertise.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

I think we are well-positioned in the consolidation that we will expect will happen following the Chapter 11s that are ongoing with a majority of the segments that we operate in. They are taking place as we speak. While they are taking place, not much will happen on that side. That's quite natural because the process is complex enough for the companies just getting through that process. We have earlier said too many rigs, too much [debt], too many players, and we still believe that. We have an operating platform that we believe is very attractive to our customers. We would like to expand that to more rigs. There are opportunities out in the market that can positively add to that, but we will stay within what is an area where we believe that we can make a difference. And that is the North Sea harsh environment, and it's in the benign floater deep water where we believe that the expertise that we possess can make a difference to the customers. And we will have to see what happens, but we are ready for that. And we believe that we have the track record, we have a fantastic operating platform that will allow us to be a really good integrator also of rigs.

Fredrik Stene – Clarksons Platou Securities

Perfect. Thank you very much. That's all for me.

Operator

Thank you. Our next question comes from the line of James Thompson at J.P. Morgan. Please go ahead. Your line is open.

James Thompson – J.P. Morgan

Great. Good morning, gentlemen. Thank you very much for taking my questions. First of all, I just wanted to get your thoughts on the bid pipeline really. Reading your release and listening to the prepared remarks, it seems to me that you feel that activity levels are building. Obviously, the backlog has been coming down now sequentially quarter-on-quarter for a little while. Is the way that we should read this is that there is a good chance that the first half of 2021 could see a book-to-bill of greater than one, and your backlog starting to grow again? And within the context of that, you talk about some multi-year awards there. Are there any there that you are well-positioned, that you think may well come in the first half of next year? Thanks.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

I think when we talk about the pipeline then we, of course, are still very aware that the overall market is at a level where we will still be under pressure when it comes to price. But we have engaged, and are engaged, in some very good discussions with our customers, and we do believe that a number of those discussions will lead to contract awards also affecting '21. But as you know, and I think I've said it before, ink on paper is what counts. But we are quite progressed on a number of opportunities.

James Thompson – J.P. Morgan

So, it could be relatively strong in the first half if you are going to see backlog filling in 2021. I've two other questions, quite short questions. First of all, the recovery of COVID costs in the first half was pretty good, around about 75% of the costs you incurred, you recovered. Is that same recovery rate continuing in the second half? And the second question, which is not related. You talked a little bit about the CO2 storage plan, which I think is commendable. I just wanted to know, technically, is there anything particularly different about drilling CO2 storage wells from the current competence? Just in terms of how you drill them, what you have to bear in mind? Just some understanding on the technical side of things, how these are different from a traditional producer. Thanks.

Jesper Ridder Olsen – Chief Financial Officer, Maersk Drilling

Thanks, James. I'll take the first one on the COVID-19 costs, and then Jørn can take the latter one. On our COVID-19 costs, you are right. In the first half, as I recall, we incurred net USD 5 million in costs, and we managed to recover most of it through recharges to our customers. And looking at the second half, also given that we had several contracts commencing here in Q3, we will see a little bit more, but on our coverage, it's around the same. But it's still relatively limited financial impact. And as noted also in our trading statement, these specific COVID-19 costs not being covered, we will present as special items, but a little bit more in the second half compared to the first half.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

And then let me talk a little bit to the carbon capture and storage. There are differences when we have to drill, but they're not insurmountable, and it's not that much difficult; it's different types of materials you have to use, and so on. But I think it may be important to say that we've joined this consortium not necessarily just to drill the holes. We are together with INEOS and Wintershall developing the concepts. And so far, there's no decision being made in the consortium who's going to do what. So, for us, this is also an opportunity to explore new revenue streams that can support our earnings on the side of our actual drilling activities. And it is for us to therefore also, apart from the fact that [drilling] will come out of this, which is good, that will take up capacity, but for us, it's also an innovation project that might show us the way to get into new kinds of technologies, new kinds of revenue streams. So, for me, that's the exciting part of us being part of that consortium.

James Thompson – J.P. Morgan

OK. Thanks very much, Jørn. I appreciate that. It obviously looks very interesting. I'll hand over.

Operator

Thank you.

[Operator instructions]

The next question comes from the line of [Lukas] Daul at ABG. Please go ahead. Your line is open.

Lukas Daul – ABG Sundal Collier

Thank you. Good morning, gentlemen. Looking at your 2021 coverage and backlog, my question is, if you keep the rigs that you are working now working in the same manner in 2021, what is your estimated range for your contract drilling costs?

Jesper Ridder Olsen – Chief Financial Officer, Maersk Drilling

Thanks for that question. And I think I will go back to what we mentioned both in the trading statement and also through that call here today. We have secured revenue backlog of $646 million for '21 as of end Q3, and if you look at the split, a little bit more than $400 million of that is in the North Sea jack-up segment, and the remaining part is for the international floaters. And then, I think if you take our fleet overview and also as highlighted here on the call unchanged operating cost levels, you should be in a position to do the calculation on what it is we have secured. And then, please remind that it is the 40% coverage. And as Jørn also mentioned in his introduction today, we have 60% available days, and that's what we are really working on these days. And I can say we have a very busy organisation working on ongoing tenders, and we also expect impact on that for '21 and thereby both getting utilisation of and reducing the stacking costs.

Lukas Daul – ABG Sundal Collier

And could you just remind us what was the level of the COVID-related costs in the first half of 2020? What was the ballpark number there?

Jesper Ridder Olsen – Chief Financial Officer, Maersk Drilling

The number was net $5 million. And as I recall, the gross number, that was 18,19. So, as James highlighted before, we had a coverage of around 75%. And as just mentioned, we expect a little bit more for the second half, given that we have more contracts coming into play where we have had a little higher cost not being recharged to customers.

Lukas Daul – ABG Sundal Collier

OK. And then, a question maybe for Jørn. We have seen some of the floater fixtures that you and others have announced. I would say the headline rates on those have been relatively decent, around the USD 200,000 a day threshold. So, I would say that has been maybe holding up better than expected. But then, we have seen the tender in Brazil where day rates are again dropping to the lows from two years ago. So, could you add a bit more colour on the dynamics of what is happening in the negotiations? And how do you see the tendering landscape moving forward? Are we behind the worst, or are we still looking at a drop?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

There's probably not been a more difficult time in the drilling [history] to say something about that. When are we going to see a vaccine? When are we going to see that oil and gas consumption goes back to a normal level, the world getting back in the normal gear? How's the energy transition is going to go? And so on, and so on. There are so many unknowns at the moment. So, to give good guidance on that at the moment is going to be very, very difficult. What we are trying to look at is, of course, the activity level. What can we see that's going to happen? What projects are we seeing coming up? How's that going to affect the demand supply curve? How much is going to be taken out from – that's the other one. What's going to happen in the restructuring? How many rigs are going to be leaving the fleet? What kind of consolidation are we going to see? [There are] so many factors that can affect this. Personally, I have the belief and hope that we will see that the new owners of the equity in the major, in our large competitors will look at it rationally and say, 'How do we get to a point of making money faster?' And the reality is that it's probably easier to make – if you look at it on a broader scale – to make more money on one rig than owning two, and that should be the rationale for looking ahead. What we do see is that rates, and yes, Brazil was one [off] very low. Those things happen; it's not the same kind of picture that we see in the rest of the world. That's more in line with what you've seen of announcements lately. But when that's going to turn and we're going to see rates going up again, it's a good question. What we do see more of these days is that our customers want to have us provide more services. And that means that the service part will be going up in the years to come. We normally don't take those in when we announce the rates. I'm not sure this gave you a very, very good answer on when exactly it's going to happen and with what magnitude, but it's the best answer I have for you now.

Lukas Daul – ABG Sundal Collier

No, that's appreciated. And on the subject of rig retirement, we have a pretty good overview of what is happening with the publicly-listed players, or at least recently-publicly-listed players. But I was wondering if you have a better take on what is happening among the smaller private companies, which are maybe not as explicit communicated what is happening with their asset base? Are you seeing those assets also being removed or being permanently stacked?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Can you say the last part again?

Lukas Daul – ABG Sundal Collier

The private players, not necessarily the listed players. What are you seeing there in terms of rig-stacking, rig-scrapping, et cetera? Because that's not something that is very visible to people outside of the industry.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

What we keep an eye on is, of course, the players that are active in the segments that we are active in. And that's the deep-water segments and it's the harsh environment in the North Sea, and in that space there's not that many private players that really can influence the market. I guess that's true for if you go to the more benign jack-up areas and so on, but that's not really a game we're playing, and therefore we don't really have an informed decision about that. So, it's very difficult to say something about. What we do know that in that area there is a lot of very, very, very old rigs. [Where] almost I become a young man. And they should, of course, be scrapped.

Lukas Daul – ABG Sundal Collier

OK. That sounds good. Thanks, and have a good weekend.

Operator

[Operator instructions]

OK. There seem to be no further questions coming through at this time, so I'll hand back to our speakers for the closing comments.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

I will be very brief. Thank you all for listening in today and thank you for your questions, and we are looking forward to meeting you again someday, hopefully eye-to-eye. In the coming weeks, those we will meet will, of course, be virtually, and we look forward to that. So, have a nice day now, and thank you. Operator, back to you, please.

Operator

This now concludes the conference.

Thank you, all, very much for attending.

You may now disconnect your lines.