MAERSK DRILLING

Maersk Drilling

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Smarter
Drilling for
Better Value

Participants

Corporate participants

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Other Participants

Fredrik Stene – Clarksons Platou Securities

James Thompson – JP Morgan

Management Discussion Section

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

Good morning and welcome to Maersk Drilling's conference call for the full year of 2021. My name is Michael Harboe-Jørgensen, Head of Investor Relations, and joining me on the call are our Chief Executive Officer, Jørn Madsen, and our Chief Financial Officer, Christine Morris.

This morning, the annual report for 2021, along with supporting documents, including the presentation for this call, were uploaded on our Investor Relations website.

During this call we will present our 2021 full-year 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 see to the formalities on page two. And assuming that you have all read this, I will now turn over the call to Jørn.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you, Michael, and welcome to everyone joining us on the call today.

2021 was a year of strong financial, commercial, and strategic progress for Maersk Drilling. Supported by gradually improving oil and gas prices, Maersk Drilling generated meaningful free cash flow after interest of $157 million. In line with our definition of free cash flow, this does not include proceeds from asset sales which were over $400 million in 2021.

Importantly, this marked the sixth year in a row that we generated positive free cash flow. We continue to operate as rational business owners, remain focused on protecting equity capital, and are extremely proud of this accomplishment.

Commercially, we were able to add over $2 billion to our backlog in 2021, an outstanding achievement made possible by the agreement to renew our five-year framework agreement with Aker BP, which was announced in December. I'm extremely pleased that we have reaffirmed our commitment to Aker BP for another five years, working in a collaboration that has set new standards for what is possible in the offshore drilling industry. This is proof that smarter drilling for better value leads to significant value creation for all parties when we collaborate closely as partners.

2021 was also a year of significant balance sheet improvement for Maersk Drilling. Combined with meaningful free cash flow generation, gross proceeds of $405 million from the strategic divestments of three rigs - the Maersk Inspirer, Maersk Guardian, and Maersk Gallant - saw our liquidity improve to approximately $1 billion.

Simultaneously, our net debt decreased to $505 million, and our leverage ratio is now 1.5x; the lowest it has been since we were listed and below our target.

2021 also marked an important year in Maersk Drilling's journey as a listed company. As announced to the market in November, Maersk Drilling and Noble will combine entities with the goal of creating a world class offshore drilling company with the scale, capabilities, and resources to successfully serve a broader range of customers. The combined entity will have the largest active fleet and market capitalisation, as well as an extremely strong balance sheet that will serve as the foundation for both an enhanced customer experience and as a platform for returning capital to shareholders.

Annual synergies from the business combination are expected to be realised within two years and are estimated at $125 million, creating significant value for shareholders of both companies. The transaction is currently ongoing and is on track to close mid this year. We're still awaiting certain merger clearances and regulatory approvals in the UK. However, we have received approval from the Norwegian authorities and are confident that we will receive regulatory approvals in due course. We will keep the market updated as the combination progresses.

And with that, let me now turn to the financial highlights of the year on page five. Supported by renewed contracting activity, Maersk Drilling generated an EBITDA before special items of $346 million, corresponding to a 27% margin. Despite significantly higher activity, we remain disciplined on capital expenditures, which decreased 37% to $102 million in 2021. And as a result, we generated free cash flow after interest of $157 million.

On top of this excellent free cash flow generation, we divested three rigs for $405 million. As a result, our net debt decreased to $505 million, corresponding to a leverage ratio of 1.5x, and our liquidity position improved to nearly $1 billion, including our undrawn $400 million revolving credit facility.

Finally, at the end of 2021, our backlog amounted to $1.9 billion, a nearly $600 million increase compared to the end of 2020. Christine will dive deeper into these numbers and our key business drivers later in the call.

So, let me now turn to page six. High uncertainty in 2020 persisted into the start of 2021. With Brent Crude futures trading around $50 and contracting activity subdued to start the year, we anticipated that 2021 would be another transition year for offshore drillers. Guidance issued in February for EBITDA before special items of between $225 and $275 million reflected this uncertainty.

As the year progressed, Brent Crude prices and the demand for drilling rigs, especially international floaters, steadily improved. And as a result, we were able to firm up work that saw all seven of our deep-water floaters contracted for the majority of the year. And this, along with strong operational execution, led to three upward revisions of our guidance for EBITDA before special items. We are pleased to have delivered EBITDA before special items in line with our revised guidance from December.

Turning to capital expenditures, we recorded $102 million in 2021, in line with our revised guidance from December of around $100 million. Despite an increase in activity, capital expenditures were 37% lower than 2020 and mainly consisted of rolling maintenance and reactivation costs for previously stacked rigs.

Let me now turn to page seven, which shows our commercial performance and the development of contract backlog. In 2021, we managed to secure new contracts exceeding $2 billion, an outstanding commercial achievement, and the most backlog added per rig in the industry. Of this, approximately $1.2 billion was added in our North Sea division, with $1 billion coming from our agreement to renew our five-year frame agreement with Aker BP. In our International division, we added $812 million, with operator Tullow responsible for the largest share of contract value secured.

Subtracting revenue recognised from our backlog of $1.3 billion, as well as $420 million from the sale of Maersk Inspirer, which was replaced by $373 million in cash, total backlog increased to $1.9 billion at the end of 2021. Importantly, this does not reflect contracts signed in 2022, which can be seen on page eight.

We are off to a solid commercial start and have year to date secured new contracts and conditional Letters of Award with a combined duration close to three years, adding approximately $100 million to our backlog.

And this leads me then to page nine, which shows a full fleet deployment overview reflecting all contracts signed to date. And looking at the contractual overview for 2022 and 2023, you can see that 2022 is well covered, especially in our international floater segment, which is almost out of spare capacity.

I'll start with the CJ70s in the North Sea. Last quarter, we communicated that it was our expectation that Maersk Integrator and Maersk Intrepid would find work in the North Sea in 2022, potentially outside of Norway at market rates. However, we could not rule out that both rigs could see idle time prior to securing contracts. As announced in January, we have entered into a rig swap agreement with Aker BP, which will see Maersk Reacher replaced by our low emission jack-up rig, Maersk Integrator, offshore Norway. Maersk Integrator is now being prepared for well intervention and stimulation and will commence an eight-month contract scope later this month. The rig will then be employed until the start of 2023 and will afterwards commence various campaigns and work scope under our frame agreement with Aker BP until end 2027.

Turning to Maersk Intrepid, we were able to firm up drilling work that will see the rig stay in Norway on a one-well contract for OMV. The contract is expected to commence mid-2022 and includes a one-well option. Consistent with what we communicated in Q3 we still expect minor idle time for the rig after it completes its current contract with Equinor.

Continuing with CJ70s, Maersk Innovator will soon commence its contract with Harbour Energy in the UK North Sea and the rig will be working for the remainder of 2022. In March, Maersk Interceptor will start an eight-month accommodation contract with Total in the Danish North Sea that will see the rig occupied until November.

Our final CJ70, Maersk Invincible, will continue working for Aker BP in Norway until May. Following this, it will have a yard stay and complete a five-year SPS, followed by upgrades that will see Maersk Invincible become our third low emission hybrid rig. And given ongoing customer dialogue, it is our expectation that Maersk Invincible will find work in the second half of the year prior to commencing various campaigns and work for Aker BP under our framework agreement until the end of 2027.

Turning now to more general market comments, we continue to see 2022 as a transition year for the Norwegian jack-up market. This is due to a forecasted oversupply of jack-ups in Norway in 2022 relative to demand. As we reiterated in our commentary since the first quarter of 2021, demand for Norwegian jack-ups in 2022 is expected to be subdued. However, our long-term thesis remains unchanged, with demand expected to normalise in 2023 and beyond. This was reinforced by the agreement to renew our framework agreement with Aker BP for another five years starting at the end of 2022.

Given this outlook, we are extremely pleased to have secured solid coverage for our CJ70s in 2022.

Now moving on to harsh environment jack-ups that operate outside of Norway. Maersk Reacher's current work scope will be replaced by Maersk Integrator starting in March. Following this, the rig will complete a short yard stay prior to commencing a 21-month contract with Total in July. Furthermore, we secured additional work for Maersk Resolute, which commenced a three-month contract with ONE-Dyas in the Dutch sector of the North Sea in December. The contract included two one-well options, one of which has already been exercised and the rig is now firmly contracted until April.

Regarding spare capacity for our R-rigs, it is our expectation that we will secure solid utilisation in 2022 at market rates. Given ongoing customer dialogues, we are encouraged by lengthening contract durations for harsh environment jack-ups outside of Norway. And while day rates have not recovered at the same pace as deepwater floater rates, we are still seeing positive market developments in this segment.

Finally, Maersk Highlander is currently idle after completing its contract with Total in the UK North Sea and the rig is now warm-stacked. We have been in contact, in customer dialogue regarding the unit and we will wait until something more substantial materialises, postponing the rig's upcoming five-year SPS to preserve cash.

Turning now to floaters. As you can see, we've secured strong coverage for all for our deepwater units in 2022 and customer dialogues for these rigs are now largely focused on 2023.

With regards to Maersk Voyager, last quarter we communicated that we could foresee idle periods for the rig in the first half of 2022 as the West African market was still struggling with COVID-19. Given ongoing customer dialogues, we now expect to secure work for the rig in the first half of 2022, following the completion of its campaign with Total Namibia in March.

Lastly, the Maersk Explorer is currently warm-stacked and without a contract. We continue to pursue different opportunities for the rig. However, since it's landlocked into the Caspian Sea, they are limited.

Turning to more general comments, the global floater market saw an uptick in activity and day rates throughout 2021 and into 2022. Current oil and gas prices are supportive of exploration and development activities, which are expected to fuel rig demand growth in 2022. We continue to be well positioned for these opportunities with our high-end rigs and our solid operational track record.

In addition to our strong commercial performance in 2021, we also made significant progress under Smarter Drilling for Better Value, which can be seen on page ten.

Our core value proposition of reducing time and costs, and thereby breakeven prices, continued to resonate with our clients, as evidenced by the agreement to renew our five-year framework agreement with Aker BP. This close collaboration as partners has resulted in significant value creation for both parties and we are thrilled to have reaffirmed our commitment to Aker BP for another five years.

Furthermore, revenue from additional services grew by 85% to $160 million in 2021 from $86 million in 2020. We continue to believe that digitisation will play a crucial role in driving efficiency and thereby lowering breakeven costs for our customers. While the year-over-year growth in revenue from additional services was partly due to increased activity, it was also validation – proof that an increasing share of our customers are willing to pay for services that improve the efficiency of their drilling campaigns.

We are encouraged by the revenue growth in this segment and have launched Horizon56, a fully-owned Maersk Drilling subsidiary to support the further digitalisation of offshore drilling processes.

Lastly, despite offshore disruptions caused by COVID-19, our customer satisfaction score remained high at 6.5 out of 7 for 2021. This is a testament to our offshore personnel who are going above and beyond delivering on campaigns for our customers and strong progress made on Smarter Drilling for Better Value. I am extremely grateful for your efforts which have been fully recognised by our customers.

Before turning the word over to Christine, let us turn to page 11 for a progress update regarding our sustainability agenda. Starting with the climate. Throughout 2021, we continued to progress on our Responsible Drilling priority of providing low-emission drilling services. Maersk Integrator received low-emission upgrades in 2021 and Maersk Invincible will become our third low-emission jack-up by the end of 2022. Low-emission drilling is becoming an increasingly important value proposition among our customers, and we are well positioned to address this need as an industry leader in sustainability.

To that end, we have installed energy efficiency digital monitoring systems on eleven of our rigs and have several R&D projects ongoing to develop scalable, clean fuel solutions. Overall, our carbon intensity has improved per dollar of revenue, while tonnes of CO2 per contacted day and per drilled metre both increased in 2021 due to a higher concentration of floater work compared to 2020.

Our carbon capture and storage activities are also progressing well. As announced in October, Maersk Drilling has entered into a frame agreement and now has a first right to all drilling work involved in Project Greensand until the end of 2027. Rigs will be assigned based on availability, with individual contracts based on market rate terms. Project Greensand has now advanced to phase two and is the most mature carbon capture storage project in Denmark.

In December, the project was awarded the largest grant for a single project in EUDP history, receiving $30 million from the Danish government. While Project Greensand is still in early in its early stages, Maersk Drilling's core capabilities are perfectly suited for carbon capture and storage.

Outside of climate, we have made excellent progress on our diversity and inclusion agenda and are on track to meet our three targets for women in onshore leadership roles by 2023. And regarding safety, while our lost time injury frequency increased slightly to 0.53, 2021 saw the lowest level of total recordable incidents in more than ten years. We had no serious injuries last year, an achievement that I'm extremely proud of, with the last serious injury occurring almost three years ago.

And with these remarks, I will now turn the word over to Christine.

Christine Morris – Chief Financial Officer, Maersk Drilling

Thank you, Jørn. And good morning to everyone joining us on today's call. 2021 marked the end of a successful year for Maersk Drilling and I am pleased with the company's full-year financial performance, which can be seen summarised on page 13.

Thanks to the strong operational performance delivered by our offshore colleagues, as well as our outstanding commercial execution in 2021, we delivered EBITDA before special items of $346 million, in line with our guidance issued in December and a 20% increase compared to 2020. Furthermore, we generated positive free cash flow for a sixth trade year, delivering $157 million; a free cash flow yield close to 10%, of which $136 million was used to repay long-term debt. We recorded a net profit of $291 million, which includes gains from the sale of assets of $256 million.

Page 14 outlines the main drivers behind the $1.267 billion in revenue delivered in 2021. As you can see, revenue increased by 16% compared to last year. This was mainly driven by higher utilisation, which increased from 65% to 75%, and a stronger average day rate, which improved to 226,000 from 210,000. Higher activity across our fleet was partially offset by a slightly lower financial uptime of 97.6%. This was mainly due to the Maersk Deliverer, which spent six weeks off-rate during the first quarter, as well as two minor incidents on Maersk Deliverer and Maersk Valiant in the fourth quarter that resulted in a combined 35 days off-rate.

As Jørn previously mentioned, other revenue was also a key driver of total revenue in 2021, increasing 72% to $267 million, and this is from $155 million in 2020. This was primarily driven by significant growth in revenue from additional services, which increased 86% to $160 million from $86 million.

Other revenue is comprised of revenue from nine formal additional services, includes performance bonuses, and lump sum revenue from mobilisation and demobilisation.

Since the end of 2019, other revenue has seen a compound annual growth rate of almost 30%, making up an increasingly larger share of total revenue. Customers are increasingly willing to pay for additional services that improve the efficiency of their drilling campaigns, which have a significant impact on our bottom line.

In 2021, performance bonuses alone of approximately $20 million contributed two percentage points to our EBITDA margin before special items. As you can see, the strong strategic progress made under Smarter Drilling for Better Value leads to higher utilisation, increased customer stickiness, and is the main driver behind our excellent financial performance in 2021.

Turning now to page 16 for a breakdown of our costs and revenue to EBITDA bridge. Total cost increased to $921 million in 2021 from $807 million in 2020. This was mostly attributable to an increase in activity, with operating costs increasing from $725 million to $836 million, in line with the 10-percentage point increase in fleet utilisation year-over-year. Total incremental costs related to COVID-19 amounted to $36 million in 2021, of which $24 million were recharged to customers. The residual costs of $12 million are presented under special items due to their non-recurring nature.

Special items of $21 million in 2021 also included $8 million of costs related to our announced merger with Noble and $1 million in redundancy costs related to organisational optimization. Lastly, SG&A and innovation costs remained relatively flat at $80 million and $5 million respectively, thanks to organisational cost optimisations that were implemented last year. This leads us to an EBITDA before special items for the year of $346 million, or a 27% margin. Accounting for the special items of $21 million, EBITDA for the year amounted to $325 million.

And now, moving on to the performance of our two segments, starting with our North Sea division on page 17. Revenue increased by 8% from $608 million in 2020 to $656 million in 2021. The increase was primarily driven by higher utilisation, which went from 62% to 68%, and a higher average day rate of 231,000 compared to 208,000 last year. Financial uptime remained very strong at 99.3%, while the number of contracted days decreased slightly, due to the strategic divestments of three North Sea assets.

EBITDA before special items amounted to $254 million, or a 39% margin. The slight decrease in EBITDA and margin compression was mainly due to higher reactivation costs for warm-stacked rigs in our North Sea division compared to last year.

Moving on to our International division on page 18. Revenue increased by 27% to $583 million in 2021 from $460 million in 2020. All seven of our deepwater floaters were contracted for the majority of the year – a strong commercial achievement and a remarkable operational milestone. This was made possible by the successful reactivation of four deepwater units with three new customers to start 2021. As a result, utilisation grew to 83%, the highest international utilisation that we have achieved in more than six years and a 17-percentage point increase year-over-year.

The increase in revenue was also driven by a slightly higher average day rate, which increased to 242,000 from 239,000. This was partially offset by a slight 2.1 percentage point decrease in financial uptime. EBITDA before special items in our international division amounted to $82 million, corresponding to a margin of 14%. Margin improvement was driven by higher utilisation and demonstrates the financial impact of having all seven of our deepwater units contracted for the majority of the year.

So, now please turn to page 19 for a bridge of EBITDA to operating cash flow. Cash flow from operating activities was $315 million, a 97% cash conversion of our EBITDA after special items of $325 million. High cash conversion was partially offset by a small net working capital increase of $8 million and positively affected by net cash taxes received of $7 million as taxes paid in various jurisdictions were more than offset by joint taxation contributions in Denmark.

Page 20 bridges our cash flow from operating activities to our free cash flow after interest. Deducting capital expenditures of $102 million, other cash flow from investing activities of $2 million, and a net interest expense of $54 million from an operating cash flow of $315 million, we arrive at free cash flow of $157 million for 2021. And again, this excludes the net cash proceeds of $405 million from strategic divestments made during the year.

Turning to the right-hand chart, you will see that Maersk Drilling has now generated positive free cash flow for six years in a row. This is further evidence of strong strategic progress made under Smarter Drilling for Better Value and our financial discipline through the market cycle. We believe that our ability to consistently generate positive free cash flow, preserving equity capital despite poor industry conditions in prior years, is a key differentiator that separates us from other offshore drillers.

Turning now to page 21, you will find the development of our cash balance and liquidity position as of December 31st, 2021. Our cash position was positively impacted by positive free cash flow after interest of $157 million, as well as $405 million from the divestments of Maersk Inspirer, Maersk Guardian, and Maersk Gallant.

This was offset by $223 million in debt repayments, of which $130 million were regular amortisation payments on our term loans, and $93 million were extraordinary loan repayments triggered by the divestments. As a result, our funded debt, including leases, was reduced to $1.062 billion. With a cash balance of $557 million at year end and an undrawn $400 million revolving credit facility, we ended the year with a much-improved liquidity position of $957 million.

Page 22 shows debt repayments and our debt maturity profile. Over the past three years, we have repaid $450 million of debt, and in 2022 we'll repay another $130 million before main maturity occurs at the end of the following year. Current funding terms are attractive, and we forecast an average interest cost of approximately 4.1% in 2022.

To that point, turning to page 23, you will see that our net debt improved by $554 million, decreasing from $1.059 billion at the beginning of the year to $505 million at the end of the year. Our leverage ratio, defined as net debt to EBITDA before special items, decreased to 1.5x, below our target leverage ratio of 2.5x and significantly lower due to a simultaneous reduction in net debt and increase in EBITDA before special items. We remain compliant with all our debt covenants.

Before turning to the financial expectations for 2022, I would like to cover our contract backlog on page 24, which forms the basis for our forecast. At the end of 2021, we had secured 47% of our capacity for 2022 or $604 million in revenue backlog. This excludes the contracts secured year to date, which further add to the visibility for the year. Including new contracts, we have added approximately $100 million to our backlog for execution in 2022, bringing forward coverage to 54%.

So this leads me to our financial guidance for 2022 as outlined on page 25. We expect EBITDA before special items between $210 million and $250 million. The earnings guidance is based on secured backlog and expected additional contracts from our commercial pipeline. The relatively wide range of our guidance reflects our expectations given current market conditions, including the fact that 2022 will be a transition year in our North Sea division, which we have communicated since the first quarter of last year. We will continue to remain disciplined in the tender process and focus on cash flow generating opportunities for 2022 and beyond.

Capital expenditures are expected to be between $120 million and $140 million. We'll continue to tightly control capital expenditures while preserving the integrity of our fleet. The guidance range reflects the variable portion of capex spend tied to commercial activity.

So, this concludes my prepared remarks for today, and I will now turn the call back over to Jørn for his closing remarks.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you, Christine. And before opening for questions, I would like to close with three key takeaways for 2021.

Firstly, we were able to generate meaningful free cash flow of $157 million for a sixth straight year, while also delivering EBITDA before special items in line with our revised guidance. This was an extremely strong financial performance and I'm encouraged by the traction that Smarter Drilling for Better Value is gaining with our customers.

Secondly, our commercial performance was unmatched in 2021, adding over $2 billion to our backlog, the most per rig in the industry. We are off to a strong commercial start in 2022 and are encouraged by ongoing customer dialogues for our rigs.

And thirdly, we now have an extremely attractive financial profile. Combined with meaningful free cash flow generation, gross proceeds of $405 million from the three strategic divestments saw our liquidity improve to approximately $1 billion. Simultaneously, our net debt decreased to $505 million, and our leverage ratio is now 1.5x, below our target and our lowest leverage ratio as a listed company.

Overall, a very successful year and we're looking forward to what lies ahead in 2022.

And this concludes my prepared remarks, and we are now ready to take your questions. So Operator, please.

Questions & Answers Section

Operator

Thank you.

[Operator instructions]

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

Fredrik Stene – Clarksons Platou Securities

Hey guys, Fredrik here and congratulations on a very nice performance in 2021. I have two questions for you today. The first one relates to guidance and how we should think about 2022. You have an EBITDA guidance here between $210 million and $250 million and you say that some additional contracts would be required to hit that target. So, I guess my question is twofold. Can you guide on anything or how that EBITDA would be if you don't get any new contracts? And secondly, are the additional contracts you are referring to here, are they based on discussions or lines that are already open? Or do you assume something that hasn't started yet, to put it that way?

Christine Morris – Chief Financial Officer, Maersk Drilling

Hi, Fredrik. It's Christine. Good morning. Yeah, on the guidance, our guidance is like we do every year, so we never have 100% of our activity covered coming into a new year and the range is in line with that. We don't break that out. What I would say it's when in terms of the portion of the guidelines that's not secured, it always is a combination of commercial discussions that are in advanced stages and other ones that are still to be had.

Fredrik Stene – Clarksons Platou Securities

Thanks. And the second question, which is more market related. 2022, transition year for jack-ups. On the floater side, you have quite meaningful coverage already. Have you or are you in discussions for floater activity or contracts beyond what you currently have? I'm talking 2023 and more. Are you seeing more term contracts being discussed compared to before? And what is your take here on how rates would develop also on the term side for that type of contract?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Just to be clear, Fredrik, you meant for floaters, right?

Fredrik Stene – Clarksons Platou Securities

Yes, for floaters.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Okay. I might have thought you meant for jack-ups. On the floater side, there's a number of discussions taking place with the customers, and some of them are for longer-term work. And I think it's fair to say that we saw an uptick in the last part of 2021 when it came to utilisation, but also when it – when we look at rates and the longer-term rates, without putting a number on it, will probably be higher than what we see in the current market. We've seen a good trend so far at the end of 2021 and in the beginning of 2022.

Fredrik Stene – Clarksons Platou Securities

Thank you. Just to quickly follow up on that, currently US Gulf of Mexico is probably the leading-edge region in terms of floater rates. Are you seeing those kind of numbers also elsewhere? Or are you saying that the numbers that we might be discussing maybe above those, if you're able to provide colour?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

I think we're seeing it broadly. I'm not sure that I totally concur that the rates in the US are at a much higher rate, higher level than what we see in other parts of the world. I think we have had good traction both in West Africa and in South East Asia, and rates have seen an upward or seems to have an upward trend at the moment.

Fredrik Stene – Clarksons Platou Securities

Okay, that's helpful. Thank you so much and have a good day.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, you too. Thank you.

Operator

Thank you. Our next question is from James Thompson of JP Morgan. Please go ahead. Your line is open.

James Thompson – JP Morgan

Hi. Good morning, all. A couple of questions if I may, please. Just in terms of the general market backdrop really. I mean, obviously, the oil price is very strong, European gas price equally so. I just wanted to maybe get your thoughts in terms of how quickly maybe the floater market could tighten up. Clearly, the number of units is down 20%, 30%, maybe even more than 30% over the last five or six years. I just wondered if you could give us an idea about what - certainly from your standpoint - how many kind of fixtures need to be signed up to really tighten the market in terms of utilisation. I mean, it feels like it's a relatively small number and actually the pace at which the market could tighten if growth is kind of back on the agenda at these sort of oil prices could happen relatively quickly, maybe, sort of over this year?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, I think oil prices are strong. I don't think it yet has sort of materialised in the budgets of the oil companies and their activity is not sort of totally reflecting what has happened to the oil price. That may come later. They might still be under financial policies that indicates a lower breakeven price than what we see in the oil price, maybe a significantly lower breakeven price than what we see in the oil price today.

But when it comes to the floater segment, we have seen in our floaters, aside from the Explorer which is a special case, were all occupied in in Q4. And I think what we are witnessing is that there's two markets really here because we have the high end - where we are - and then we have that little bit lower end. And in the high end, the other utilisation has been fairly good and will probably continue to be fairly good and strong in the period to come.

But when it comes to when we see a sort of a tightening of the market, I think - I mean, in this industry we've always talked about somewhere between 80% and 90% of coverage and utilisation is where we start seeing sort of material change happening to the rates going upwards. But if that's only for spot market then then there's - the problem there is that the forward curve for utilisation is dropping fairly fast and before we see some significant change to rates, I think we have to have both happening; utilisation being at the high end, so 80, 85, 90, whatever, or something like that, and then a forward curve of longer utilisation. Those two coming together will lead to a stronger market, if that gives you any help.

James Thompson – JP Morgan

Yeah, that's helpful. I was just interested to see how these dynamics are evolving. I think there's clearly pockets of the sector overall that are clearly tightening up, but obviously not all of them just yet, drilling being one of those. And I guess the follow-on from that is we've heard a lot about some very large contracts in Norway, obviously, kind of a home market for you guys. When do you expect the sort of drilling to ramp-up? I mean, I guess there's some concerns that obviously the volume of work triggered by the tax changes is obviously going to be positive for drilling going forward.

I guess the question mark is on like when does the timing of that drilling commence in terms of how full the yards are going to be, and when these projects are actually going to start to come online? So, could you give us maybe a bit more colour in terms of how you think that market's going to evolve for you? You see yourself signing quite a few contracts this year, but maybe for 2024, 2025 type timeframes rather than 2023?

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, for the Norwegian market, we've been vocal about that 2022 would be, in our view, a transition year and we have to take it on the back of that Norway, from a jack-up perspective, has been a very, very good market to be in while many of the other markets around the world have been suffering. So, we will be looking into a 2022 that is a bit softer than the previous year.

But all what we see coming out of new projects in Norway, and the conversations we have with the customers up there, indicates that from 2023 and onwards we will be back in a market that looks more like what we've seen in previous years. That's probably what I can say about it.

James Thompson – JP Morgan

Okay, that's fine. And then just finally from me, on the sort of financing side of things. I mean, obviously the deal is expected to complete in the middle of the year, as you said. Can you say anything in terms of like the debt maturities? Is that just going to be part of new company or are you looking to address the 2023 maturities at this point in time?

Christine Morris – Chief Financial Officer, Maersk Drilling

Hi, James. It's Christine. I'll take that one. We're not going to work on a standalone refinancing at this stage with the transaction contemplated to close in the middle of June. That wouldn't make a whole lot of sense. And when you look at all debt, it is not going to go current until December of next year. So, it's actually the very end of the of next year that we have maturity and also that the nominal size of it has been materially reduced.

So, that's essentially the point there. We may look at some partial early repayment, but that's the only immediate action we really have in mind.

James Thompson – JP Morgan

Super. Thank you very much. Bye. I will pass it over.

Operator

[Operator instructions]

And as there are no further audio questions, I'll hand it back to the speakers.

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you very much for listening in and thank you all for the questions. Looking forward to meeting some of you out there during the coming weeks. And I just want to wish you a nice day, a nice weekend. So, thank you, all. Back to you, Operator.

Operator

This concludes our conference call. Thank you all for attending. You may now disconnect your line.