14 August 2020

Interim Financial Report for the first half of 2020

Performance highlights for Q2 2020

(Q1 2020 in brackets unless otherwise stated)

- Revenue of USD 305m (USD 279m) as lower utilisation was more than offset by a higher average day rate.
- Contracted days were 1,303 (1,555) resulting in a utilisation of 66% (78%) impacted by contract terminations and postponements following COVID-19 and the oil price drop.
- Average day rate excluding one-offs of USD 208k (USD 179k) positively impacted by floater contract commencements.
- Continued strong operational performance with financial uptime of 99.5% (Q1 2020: 97.5%).
- Secured contracts with a total contract value of USD 161m.
- Revenue backlog of USD 1.6bn at 30 June 2020 (USD 1.7bn at 31 March 2020); hereof revenue backlog for 2021 of USD 616m at 30 June 2020 (USD 491m at 31 March 2020).

Financial highlights for the first half of 2020

(H1 2019 in brackets unless otherwise stated)

- Revenue of USD 584m (USD 623m).
- Operations largely unaffected by COVID-19, however, travel restrictions and quarantine requirements have resulted in additional costs, the majority of which have been passed on to customers.
- EBITDA before special items of USD 168m (USD 231m) in line with latest expectations supported by cost reductions.
- Cash flow from operating activities of USD 145m (USD 205m) equal to cash conversion of 104% (94%).
- Capex of USD 101m (USD 156m) in line with latest expectations.
- Adjusted free cash flow of USD 36m (USD 48m).
- Net debt of USD 1,072m (31 December 2019: USD 1,099m) and leverage of 3.0x (31 December 2019: 2.6x).
- Liquidity reserves of USD 675m (31 December 2019: USD 710m) including an undrawn revolving credit facility of USD 400m (31 December 2019: USD 400m).
- Non-cash impairment charge of USD 1,476m reflecting the current market situation with a revised market outlook.

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 guidance reflects the current contract backlog with no additional contracts with financial impact in 2020. To adapt the cost structure to the present 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 guidance.

CEO Jorn Madsen quote

"During the first half of 2020 we faced unprecedented circumstances as the COVID-19 health crisis impacted the global economy and our markets. Against this backdrop, I am particularly pleased with our employees' continued dedication enabling strong operational performance and our ability to secure new work for our rigs through good customer relations. We continue to take measures to optimise our business and we remain alert to any business opportunities that may arise. Maersk Drilling strongly encourages efforts to re-shape the offshore drilling industry to restore long-term profitability and value creation."

MAERSK DRILLING

Financial highlights

Income statement (USDm)	Q2 2020	Q1 2020	H1 2020	H1 2019
Revenue	305	279	584	623
EBITDA before special items			168	231
EBITDA			140	218
Impairment losses			-1,476	-
Profit/loss before financial items (EBIT)			-1,515	35
Profit/loss before tax			-1,554	-5
Profit/loss for the period			-1,534	-18
Business drivers[1]				
No. of rigs at period end	22	22	22	23
Contracted days	1,303	1,555	2,858	3,179
Available days	1,977	2,001	3,978	4,100
Utilisation	66%	78%	72%	78%
Average dayrate (USDk)	234	179	204	196
Financial uptime	99.5%	97.5%	98.5%	99.3%
Revenue backlog at the end of the period (USDm)	1,595	1,714	1,595	2,340
Balance sheet (USDm)				
Total assets			3,947	5,653
Total equity			2,123	3,775
Net debt[1]			1,072	1,121
Investments in non-current assets (Capex)			101	156
Cash flow statement (USDm)				
Cash flow from operating activities			145	205
Cash flow used for investing activities			-71	-149
Adjusted free cash flow[1]			36	48
Cash flow from financing activities			-106	-75
Financial ratios[1]				
EBITDA margin before special items			28.8%	37.1%
Cash conversion			104%	94%
Equity ratio			54%	67%
Leverage			3.0	2.1
Share ratios				
Share price end of period (DKK)			139.8	510.0
Earnings in USD per share of DKK 10 for the period			-37.0	-0.4
Diluted earnings in USD per share of DKK 10 for the period			-37.0	-0.4

[1] For definitions please refer to page 101 of the 2019 Annual Report.

Quarterly revenue and business drivers per segment

	North Sea	International	Total[1]
Q2 2020			
Revenue (USDm)	161	137	305
Contracted days	764	448	1,303
Available days	1,183	703	1,977
Utilisation	65%	64%	66%
Average day rate (USDk)	211	306	234
Financial uptime	100.0%	99.0%	99.5%
Revenue backlog (USDm)	1,050	525	1,595
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

[1]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.

Q2 2020 performance

Unless otherwise stated, comments in this section refer to Q2 2020 performance (Q1 2020)

Revenue for Q2 2020 of USD 305m (USD 279m) was positively impacted by higher average day rates influenced by termination fees received and pass-through of COVID-19 related costs, especially in the International segment, but partially offset by lower overall utilisation due to contract terminations. Excluding one-offs from termination fees and additional revenue for recharge of COVID-19 related costs, revenue was in line with last quarter.

Financial uptime remained high at 99.5% (97.5%), highlighting a strong operational performance in the quarter with no material impact from the COVID-19 pandemic.

The total number of contracted days decreased to 1,303 days in Q2 2020 compared to 1,555 days in Q1 2020 resulting in lower utilisation for Q2 2020 of 66% (78%). At 30 June 2020, the forward contract coverage for the remainder of 2020 was 54%.

The average day rate was USD 234k in Q2 2020 compared to USD 179k in Q1 2020 positively impacted by lump sum termination fees received during the quarter and COVID-19 related costs being passed on to customers. Excluding these one-off effects, the average day rate was USD 208k in Q2 2020.

North Sea jack-ups

Revenue in the North Sea segment of USD 161m in Q2 2020 (USD 156m) was positively impacted by a higher average day rate, while utilisation was slightly lower than in Q1 2020. With 764 contracted days in the quarter (819 days) out of 1,183 available days (1,183 days), utilisation decreased to 65% (69%). The decrease in utilisation of 4 percentage points compared to Q1 2020, was mainly driven by contract terminations for Mærsk Innovator and Maersk Reacher.

Financial uptime remained high at 100.0% in Q2 2020 (99.9%). The average day rate of USD 211k in Q2 2020 (USD 190k) was positively impacted by higher contractual day rates in the quarter as well as termination fees and additional revenue received for COVID-19 related cost being recharged to customers. Excluding the impact of one-offs, the average day rate was USD 193k.

The average day rate for the rest of the year in the current contractual backlog is USD 194K.

International floaters

Revenue in the International floater segment increased to USD 137m in Q2 2020 compared to USD 116m in Q1 2020 as a lower utilisation was more than offset by a substantially higher average day rate. Utilisation dropped to 64% (89%) with 448 contracted days (645 days) out of 703 available days (727 days) due to more rigs being idle during the quarter.

The financial uptime for the quarter reached 99.0% (94.2%) reflecting a strong operational performance.

The average day rate increased to USD 306k (USD 180k) primarily driven by Maersk Deliverer commencing its contract with Inpex Australia in the quarter as well as impact from compensation for COVID-19 related costs and lump sum termination fees. Excluding the impact from one-offs, the average day rate was USD 260k.

The average day rate for the rest of the year in the current contractual backlog is USD 234K.

Revenue backlog

At 30 June 2020, the revenue backlog amounted to USD 1.6bn (31 March 2020: USD 1.7bn). During Q2 2020, a total of USD 161m was added to the revenue backlog from new contracts and contract extensions. In addition to revenue recognised in the quarter, the backlog was reduced by USD 31m mainly due to contract terminations.

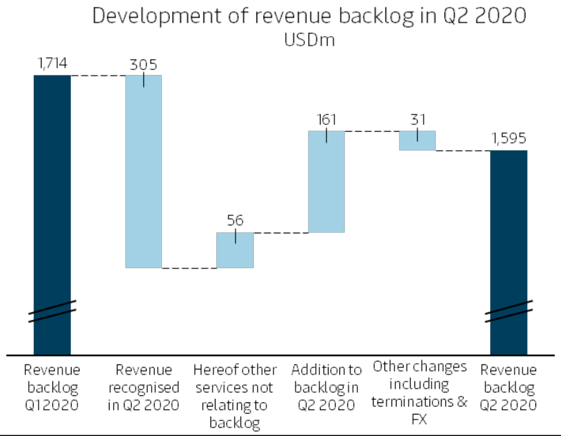
At 30 June 2020, the forward contract coverage for the remainder of 2020 was 53% for the North Sea jack-up segment and 50% for the International floater segment. The average contractual backlog day rate for the remaining part of 2020 is USD 194k for the North Sea jack-up segment and USD 234k for the International floater segment. The average backlog day rates are gradually improving in subsequent years within both segments as existing long-term contracts earn better day rates.

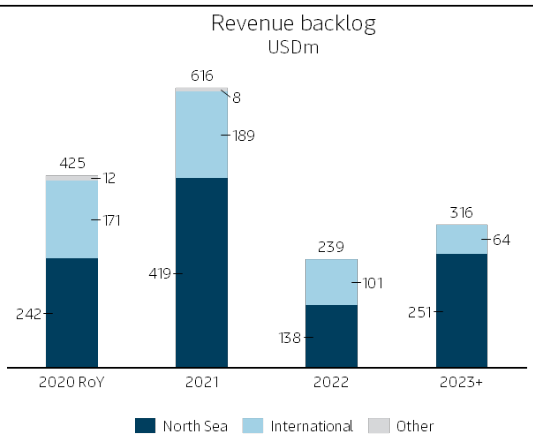
As also disclosed in the Q1 Trading Statement, Maersk Drilling has been awarded a four-well extension for the low-emission jack-up rig Maersk Intrepid to continue working for Equinor offshore Norway. The contract extension is expected to commence in September 2020, with an estimated duration of 339 days, 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.

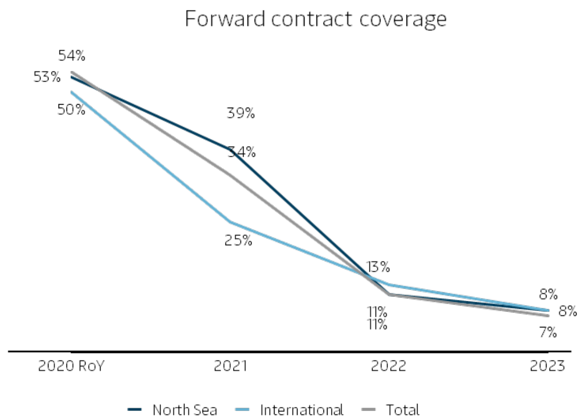
Furthermore, Maersk Drilling has secured a contract for the semi-submersible rig Mærsk Developer, which will be employed by PETRONAS for a one-well exploration campaign in Block 52 offshore Suriname. The contract is expected to commence in Q3/Q4 2020, with an estimated duration of 75 days. The value of the firm contract is USD 20m, including integrated drilling services, mobilisation and demobilisation fees. The contract includes an additional one-well option.

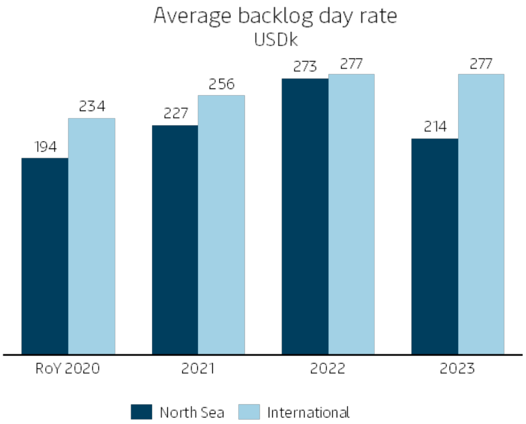
In addition, the revenue backlog was during Q2 2020 impacted by terminations and suspensions as follows, which except for the suspension agreement for Maersk Voyager is unchanged from the post quarter events disclosed in the Q1 2020 Trading Statement:

- Notices of early termination for convenience of the drilling contracts for Mærsk Developer, Maersk Reacher, Mærsk Innovator and Maersk Guardian with expected immaterial financial impact given early termination fees.
- Maersk Drilling 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.
- Maersk Drilling agreed with Total to suspend the contract for Maersk Voyager with effect from 29 April 2020. Re-commencement of the contract is expected to be in late August 2020 and Maersk Drilling will receive a suspension rate until then. The expected end-date of the firm contract period is now in December 2020.





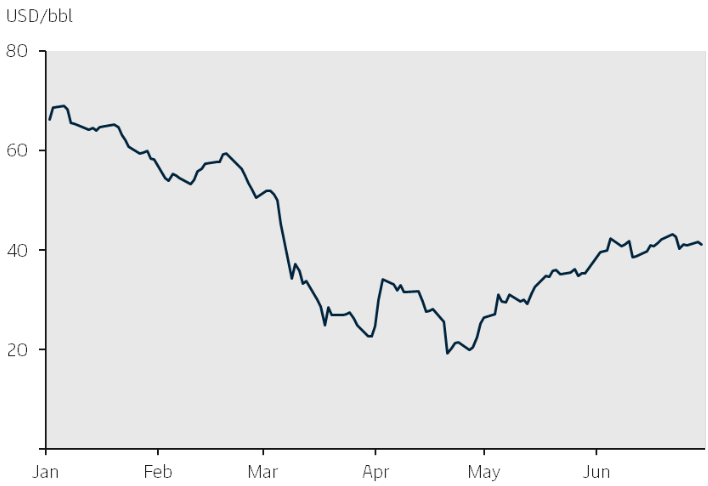




Detailed contract information and planned out-of-service time for the rig fleet is provided in the fleet status report dated 14 August 2020 which is made available at Maersk Drilling's website, www.maerskdrilling.com.

Market update

At the end of June 2020, the Brent Crude Oil closed at USD 41 per barrel (end Q1 2020: USD 23 per barrel). During Q2 2020, the Brent Crude Oil averaged USD 33 per barrel (Q1 2020: USD 51 per barrel).

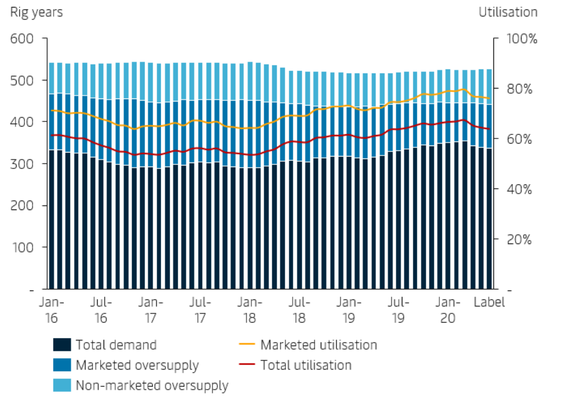


The decline in oil prices in Q1 2020 continued to drive reductions in spending budgets by upstream companies during Q2 2020. Capital expenditure guidance for the large upstream companies for 2020 has been reduced by ~20–30%. Spending budgets for 2021 and 2022 are still under evaluation and will be subject to the recovery in global oil demand and oil supply-side behaviour.

The reduction in spending budgets has caused postponement of projects, cancellation of tenders, and suspensions and terminations of contracts – resulting in reduced demand for offshore rigs exerting pressure on utilisation.

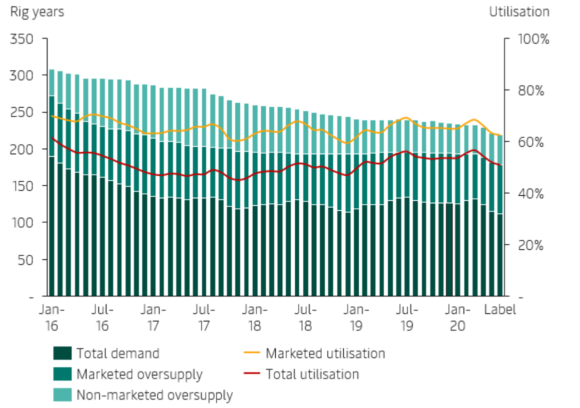
During Q2 2020, the global total utilisation for jack-up rigs and floaters averaged 65% (Q1 2020: 67%) and 52% (Q1 2020: 55%), respectively. Adjusting for non-marketed rigs, the global marketed utilisations for jack-up rigs and floaters averaged 76% (Q1 2020: 79%) and 64% (Q1 2020: 67%), respectively.

Jack-up supply-demand and utilisation



Source: IHS Markit – Rigpoint

Floater supply-demand and utilisation

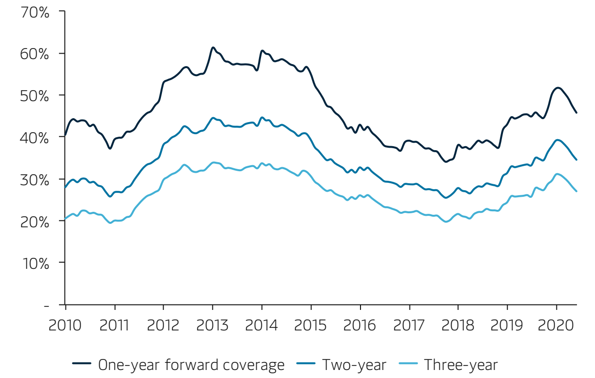


Source: IHS Markit – Rigpoint

At the end of Q2 2020, the one-year forward contract coverage for jack-up rigs and floaters were 43% (end Q1 2020: 48%) and 40% (end Q1 2020: 37%), respectively.

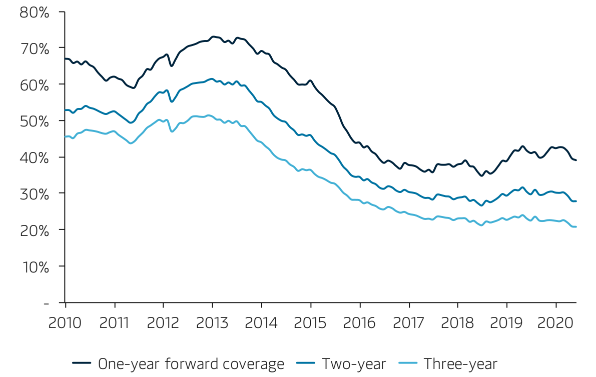
Generally, oil and gas companies have shunned long-duration contracts in favour of shorter-term ones over the last few years. While this is the case for both jack-up rigs and floaters, the impact is most pronounced for floaters where one-, two-, and three-year forward contract coverage levels are low compared to 2014-2015 levels.

Jack-up forward contract coverage



Source: IHS Markit – Rigpoint; Maersk Drilling calculations

Floater forward contract coverage



Source: IHS Markit – Rigpoint; Maersk Drilling calculations

Based on current tender activity and customer dialogues, Maersk Drilling still expects the contracting activity for drilling campaigns with commencement in 2020 to be limited, while the demand pipeline for campaigns with commencement in 2021 is building, partly due to projects which were originally scheduled for 2020 now being scheduled for 2021. The increasing demand pipeline includes opportunities in the North Sea jack-up market and in the international floater market with contract durations ranging from one-well to multi-year. To what extent the current project pipeline for 2021 will materialise into new drilling contracts is naturally subject to uncertainty.

On the Norwegian Continental Shelf, the temporary tax relief scheme approved in June 2020 is expected to fast-track certain new projects, which will generate additional demand for harsh environment jack-up rigs. Particularly, the CJ70 jack-up segment is expected to be positively impacted by the increased activity.

Several rigs, mainly floaters, were scrapped during Q2 2020, but continued scrapping of rigs remains needed to rebalance the market.

The continued illiquidity of the secondary market for offshore rigs with no newbuild rigs ordered, except for a few specialty rigs, prevents effective price identification for offshore drilling rigs.

Financial Review for the first half of 2020

Unless otherwise stated, comments in this section refer to H1 2020 performance (H1 2019)

Reduced activity and market outlook due to COVID-19 and oil price drop

The sharp drop in oil prices in Q1 2020, caused by COVID-19 and OPEC+ behaviour, has driven reductions in spending budgets by upstream oil and gas companies, postponement of projects, cancellation of tenders and suspensions and terminations of contracts.

For Maersk Drilling, the drilling contracts for Maersk Venturer, Mærsk Developer, Maersk Reacher, Mærsk Innovator and Maersk Guardian were terminated for convenience and their contracts have concluded or will conclude in Q3 2020 at the latest. In these cases, Maersk Drilling will, apart from the contract for Maersk Venturer, receive compensation in the form of lump sum payments or reduced day rates for the remainder of the original contract periods leading to a limited EBITDA impact from the terminations.

Furthermore, Maersk Drilling entered into agreements to suspend the drilling contracts for Maersk Voyager in Angola and Namibia and Mærsk Deliverer in Australia. Maersk Drilling will receive suspension rates until the drilling campaigns re-commence, which is currently expected for mid Q3 2020 and early Q4 2020, respectively. The drilling campaigns for Maersk Resilient in the North Sea have been postponed, and a contract with MOL Norge previously assigned to Maersk Interceptor has been reassigned to Maersk Integrator and will follow the completion of Maersk Integrator's current work scope, expected in December 2020.

In close cooperation with customers, Maersk Drilling has since March 2020 implemented a number of barriers to reduce the risk of transmission of COVID-19. Generally, the organisation has managed to navigate the increased complexity related to crew change, supply chain and logistics, and has thereby kept operations largely unaffected. Substantial incremental costs are incurred due to COVID-19, and such costs are generally recharged to customers. COVID-19 related costs not recharged to customers amount to USD 5m for the first half of 2020, which are presented under special items due to their one-off nature.

To adapt the cost structure to the present business environment, Maersk Drilling has taken precautionary measures in the form of stacking of rigs and adjusting maintenance programmes to the revised activity levels. With the current contract backlog, Maersk Drilling will have one cold-stacked jack-up rig (Mærsk Gallant), seven warm-stacked jack-up rigs, three warm-stacked drillships and one semi-submersible awaiting contract commencement expected in Q3/Q4 2020.

Maersk Drilling has also taken steps to adapt the offshore crew pool to the lower activity in the offshore drilling market. Further, the need for onshore support is expected to be adversely impacted by the reduced offshore activity and Maersk Drilling has therefore also reduced its onshore organisation in the Danish headquarters and offices globally by around 150 positions.

The revised market outlook is considered an impairment indicator, and, as set out in note 6, a non-cash impairment charge of USD 1,476m was recognised at 30 June 2020. Consequently, the net result for the period was a loss of USD 1,534m (USD 18m).

Results

Revenue

Revenue for the first six months of 2020 was USD 584m compared to USD 623m in the same period last year, negatively impacted by lower utilisation, especially in the North Sea segment as a result of contract terminations, but partly offset by additional compensation for COVID-19 related costs and termination fees.

The Other revenue share of total revenues increased to USD 74m from USD 60m in the first half of 2019 equal to 12.7% (9.7%) of total revenue driven mainly by additional compensation for crew overtime due to COVID-19 as well as further delivery of additional services and increased performance-based revenue.

Total number of contracted days decreased to 2,858 from 3,179 in the first half of 2019, mainly due to the North Sea segment being negatively impacted by contract terminations and more idle rigs. The average day rate was USD 204k in the first half of 2020 compared to USD 196k in the first half of 2019. Excluding the termination fees and additional other revenue for COVID-19 related costs, the average day rate was USD 193k which is in line with the first half of 2019.

Costs

Operating costs increased to USD 375m from USD 342m in the first half of 2019 primarily due to reactivation costs for previously stacked rigs, which were reactivated to commence contracts during the first half of 2020.

Maersk Drilling has managed to keep operations largely unaffected by the COVID-19 situation. However, COVID-19 measures such as quarantine requirements in connection with crew changes and travel restrictions in general have resulted in substantial additional costs, which could only partly be passed on to customers. For the first six months of 2020, incremental costs related to COVID-19 amounted to USD 19m, of which USD 14m are expected to be reimbursed. The residual costs of USD 5m are presented under special items due to their non-recurring nature (see below). Depending on the magnitude and duration of the COVID-19 measures introduced by governments, additional costs may also be incurred in the second half of 2020.

Sales, general and administrative expenses (SG&A) decreased to USD 38m compared to USD 45m in the first half of 2019 due to general cost saving initiatives. The reductions of the offshore and onshore organisations carried out during Q2 2020 have positively impacted both operating costs and SG&A by approximately USD 2-3m respectively, and further cost reductions are expected for the full year of 2020.

USDm	6 months 2020	6 months 2019	Full year 2019
Revenue	584	623	1,222
Costs	416	392	807
EBITDA before special items	168	231	415
Margin	28.8%	37.1%	34.0%

EBITDA before special items per segment

For the first six months of 2020, EBITDA before special items was USD 168m (USD 231m), equal to a margin of 28.8% (37.1%), negatively impacted by the activity reductions, partly offset by cost saving initiatives, including the offshore and onshore redundancies set out above.

EBITDA before special items was USD 143m (USD 190m) for the North Sea jack-up segment and USD 23m (USD 41m) for the International floater segment, respectively. The decline is primarily due to lower utilisation, especially in the North Sea segment with three warm-stacked rigs, as well as reactivation costs for several previously stacked Deepwater units which commenced contracts during the first half of 2020.

Special items

Special items amounted to a cost of USD 28m (USD 13m) comprising redundancy costs from the reduction of the offshore crew pool and the onshore organisation of USD 23m and COVID-19 related costs of USD 5m. Special items incurred in the first half of 2019 comprised separation and listing costs.

Impairment losses

Due to the revised market outlook and based on updated impairment calculations, a non-cash impairment charge of USD 1,476m was recognised at 30 June 2020. Of the total impairment charge, USD 835m relate to International floaters, USD 621m to North Sea jack-ups and the remaining USD 20m to a benign jack-up.

Gain/loss on sale of non-current assets

The sale of Maersk Completer was finalised on 7 January 2020 at a price equal to the rig's carrying amount. The disposal of other minor assets resulted in a loss USD 3m (gain of USD 8m related to the sale of Maersk Giant).

Financial income and expenses

Net financial expenses amounted to USD 39m (USD 40m) at level with the first six months of 2019.

Tax

Due to a USD 37m deferred tax adjustment from the impairment charge recognised, total tax was an income of USD 20m in the first half of 2020 (expense of USD 13m). Cash tax for the period of USD 14m (USD 15m) primarily comprised income and withholding taxes paid in the countries in which Maersk Drilling operates.

Cash flows

Cash flow from operating activities

Cash flow from operating activities was USD 145m (USD 205m) equal to a cash conversion of 104% (94%) positively impacted by working capital improvements and the effect from restructuring provisions raised during the period which will only result in cash outflows after the period end.

Cash flow used for investing activities

Cash flow used for investing activities amounted to USD 71m for the first six months of 2020 (USD 149m) following a reduced number of rig upgrades and yard stays in connection with special periodic surveys and general savings. Proceeds from the divestment of the Maersk Completer jack-up rig of USD 38m are offset in the net USD 71m.

Adjusted for the USD 38m proceeds from the sale of Maersk Completer, adjusted free cash flow amounted to USD 36m (USD 48m).

Cash flow from financing activities

Cash flow from financing activities was negative USD 106m for the first six months of 2020 (USD 75m) primarily driven by interest and principal payments under the USD 1.5bn facility agreements. In order to be able to satisfy future obligations under the long-term incentive programme, Maersk Drilling acquired treasury shares amounting to USD 5m.

Capital structure and funding

Equity

At 30 June 2020, equity amounted to USD 2,123m compared to USD 3,680m at 31 December 2019, primarily impacted by the recognition of non-cash impairment losses resulting in a net loss for the period of USD 1,534m.

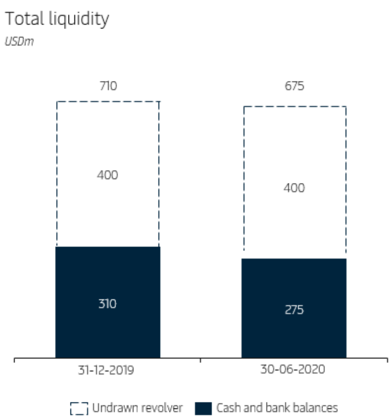
Net debt and liquidity position

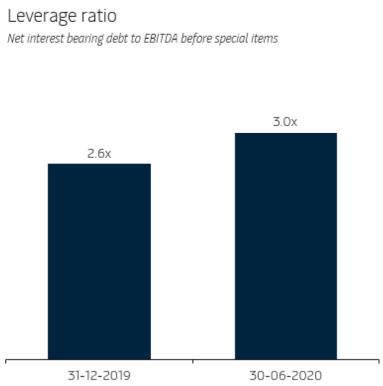
The overall objective of Maersk Drilling's financial policy is to enable Maersk Drilling to manage through the cyclicality that characterises the offshore drilling industry with an aim to create long-term shareholder value. The financial policy ensures a high degree of financial flexibility, and Maersk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

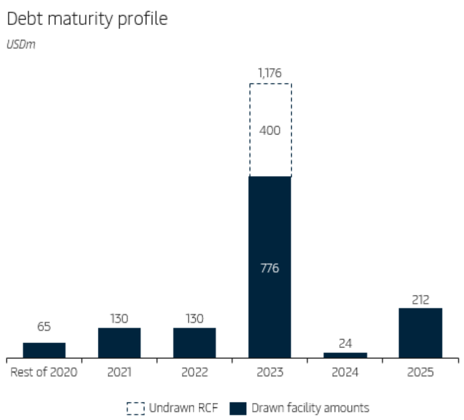
At 30 June 2020, net debt amounted to USD 1,072m (31 December 2019: USD 1,099m), comprising gross borrowings of USD 1,317m (31 December 2019: USD 1,378m), lease liabilities of USD 31m (31 December 2019: USD 31m), and cash and bank balances of USD 275m (31 December 2019: USD 310m).

At 30 June 2020, liquidity reserves amounted to USD 675m (31 December 2019: USD 710m), comprising cash and bank balances of USD 275m (31 December 2019: USD 310m) and a fully available undrawn revolving credit facility of USD 400m (31 December 2019: USD 400m). The leverage (net interest-bearing debt to last twelve months EBITDA before special items) was 3.0x (31 December 2019: 2.6x).

As of 30 June 2020, Maersk Drilling continued to be in compliance with all of its debt covenants.







Change in Executive Management

On 31 July 2020, it was announced that Chief Financial Officer ("CFO"), Jesper Ridder Olsen, has decided to pursue another opportunity outside Maersk Drilling and will leave the company by end January 2021 at the latest.

Jesper Ridder Olsen was appointed CFO and member of Executive Management in Maersk Drilling in 2018. A search for his replacement has been initiated.

Interim Financial Statements

CONSOLIDATED INCOME STATEMENT

(USDm)	Note	6 months 2020	6 months 2019	Full year 2019
Revenue	1, 2	584	623	1,222
Costs	3	-416	-392	-807
Profit before depreciation, amortisation, impairment losses/reversals and special items (EBTIDA before special items)		168	231	415
Special items	4	-28	-13	-16
Profit before depreciation, amortisation and impairment losses/reversals (EBITDA)		140	218	399
Depreciation and amortisation	5	-175	-190	-387
Impairment losses	6	-1,476	-	-34
Gain/loss on sale of non-current assets		-3	8	8
Share of results in joint ventures		-1	-1	-2
Profit/loss before financial items (EBIT)		-1,515	35	-16
Financial expenses, net		-39	-40	-68
Profit/loss before tax		-1,554	-5	-84
Tax		20	-13	-29
Profit/loss for the period		-1,534	-18	-113
Earnings in USD per share of DKK 10 for the period	7	-37.0	-0.4	-2.7
Diluted earnings in USD per share of DKK 10 for the period	7	-37.0	-0.4	-2.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(USDm)	Note	6 months 2020	6 months 2019	Full year 2019
Profit/loss for the period		-1,534	-18	-113
Cash flow hedges:				
Value adjustment of hedges		-27	-24	-29
Reclassified to income statement		8	3	8
Total items that have or will be reclassified to the income statement		-19	-21	-21
Total items that will not be reclassified to the income statement		-	-	-2
Other comprehensive income, net of tax		-19	-21	-23
Total comprehensive income for the period		-1,553	-39	-136

CONSOLIDATED CASH FLOW STATEMENT

(USDm)	6 months 2020	6 months 2019	Full year 2019
Profit/loss before financial items	-1,515	35	-16
Depreciation, amortisation and impairment losses, net	1,651	190	421
Gain/loss on sale of non-current assets, etc., net	3	-8	-8
Change in working capital	8	8	57
Change in provisions, etc.	10	-5	-13
Other non-cash items	2	-	3
Taxes paid, net	-14	-15	-24
Cash flow from operating activities	145	205	420
Purchase of intangible assets and property, plant and equipment	-108	-155	-307
Sale of intangible assets and property, plant and equipment	38	8	8
Other financial investments, net	-1	-2	-4
Cash flow used for investing activities	-71	-149	-303
Interest received	2	3	6
Interest paid	-35	-43	-83
Repayment of borrowings	-68	-35	-103
Purchase of treasury shares	-5	-	-
Cash flow from financing activities	-106	-75	-180
Net cash flow	-32	-19	-63
Cash and bank balances 1 January	310	372	372
Currency translation effect on cash and bank balances	-3	1	1
Cash and bank balances, end of period	275	354	310
Adjusted free cash flow			
Cash flow from operating activities	145	205	420
Cash flow used for investing activities	-71	-149	-303
Sale of assets or activities	-38	-8	-8
Adjusted free cash flow	36	48	109

Cash and bank balances at 30 June 2020 include USD 12m (30 June 2019: USD 12m, 31 December 2019: USD 14m) that relates to cash and bank balances in countries with exchange control or other restrictions. These funds are not readily available for general use by Maersk Drilling.

CONSOLIDATED BALANCE SHEET

(USDm) Assets	30 June 2020	30 June 2019	31 December 2019
Intangible assets	21	43	31
Property, plant and equipment	3,191	4,830	4,731
Right-of-use assets	31	33	31
Financial non-current assets, etc.	5	4	5
Deferred tax	24	2	3
Total non-current assets	**3,272**	**4,912**	**4,801**
Trade receivables	245	286	264
Other receivables	73	58	63
Prepayments	82	43	41
Receivables, etc.	**400**	**387**	**368**
Cash and bank balances	275	354	310
Assets held for sale	-	-	38
Total current assets	**675**	**741**	**716**
Total assets	**3,947**	**5,653**	**5,517**

Equity and liabilities	30 June 2020	30 June 2019	31 December 2019
Share capital	63	63	63
Reserves and retained earnings	2,060	3,712	3,617
Dividend proposed	-	-	-
Total equity	**2,123**	**3,775**	**3,680**
Borrowings, non-current	1,211	1,339	1,273
Provisions	2	2	2
Deferred tax	25	49	47
Derivatives	42	23	22
Other non-current liabilities	69	74	71
Total non-current liabilities	**1,280**	**1,413**	**1,344**
Borrowings, current	136	136	136
Provisions	23	19	13
Trade payables	183	175	180
Tax payables	79	52	69
Other payables	60	57	63
Deferred income	63	26	32
Other current liabilities	408	329	357
Total current liabilities	**544**	**465**	**493**
Total liabilities	**1,824**	**1,878**	**1,837**
Total equity and liabilities	**3,947**	**5,653**	**5,517**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(USDm)	Share capital	Hedge reserve	Retained earnings	Dividend proposed	Total equity
Equity 1 January 2020	63	-23	3,640	-	3,680
Other comprehensive income, net of tax	-	-19	-	-	-19
Profit/loss for the period	-	-	-1,534	-	-1,534
Total comprehensive income for the period	**-**	**-19**	**-1,534**	**-**	**-1,553**
Value of share-based payments	-	-	1	-	1
Purchase of own shares			-5		-5
Total transactions with shareholders	**-**	**-**	**-4**	**-**	**-4**
Equity 30 June 2020	**63**	**-42**	**2,102**	**-**	**2,123**

(USDm)	Share capital	Hedge reserve	Retained earnings	Dividend proposed	Total equity
Equity 1 January 2019	63	-2	3,753	-	3,814
Other comprehensive income, net of tax	-	-21	-	-	-21
Profit/loss for the period	-	-	-18	-	-18
Total comprehensive income for the period	**-**	**-21**	**-18**	**-**	**-39**
Value of share-based payments			2		2
Other equity movements	-	-	-2	-	-2
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**
Equity 30 June 2019	**63**	**-23**	**3,735**	**-**	**3,775**

Notes

NOTE 1

Segment information

(USDm)	6 months 2020 North-sea Jack-up rigs	6 months 2020 International Floaters	6 months 2020 Total	6 months 2019 North-sea Jack-up rigs	6 months 2019 International Floaters	6 months 2019 Total
Revenue						
Segments	317	253	570	392	218	610
Unallocated activities			14			13
Total revenue			584			623
EBITDA before special items						
Segments	143	23	166	190	41	231
Unallocated activities			2			-
Total EBITDA before special items			168			231
Depreciation and amortisation						
Segments	-107	-59	-166	-100	-77	-177
Unallocated activities			-9			-13
Total depreciation and amortisation			-175			-190
Total impairment losses/reversals						
Segments	-621	-835	-1,456	-	-	-
Unallocated activities			-20			-
Total impairment losses/reversals			-1,476	-	-	-
Investments in non-current assets[1]						
Segments	37	64	101	76	80	156
Unallocated activities			-			-
Total investments in non-current assets[1]			101			156
Non-current assets[1]						
Segments	1,971	1,166	3,137	2,707	1,984	4,691
Unallocated activities			75			182
Total non-current assets[1]			3,212			4,873

[1] Comprise intangible assets and property, plant and equipment.

NOTE 2

Revenue

Revenue from drilling activities typically comprise fixed amounts for each day the rig is under contract differentiated by the activities undertaken ("day rate revenue") and other revenue components such as lump sum payments for rig mobilisation and demobilisation and payments for investments in equipment or rig upgrades required to meet the operational needs of the drilling campaign, both of which amortised over the contract period; bonuses linked to performance in terms of time, efficiency or drilling outcome measures such as reservoir targeting; or payments for third-party services to be delivered by Maersk Drilling.

The geographical split and types of revenue are as follows:

(USDm)

6 months 2020	North-sea Jack-up rigs	International Floaters	Other	Total
Geographical split				
Denmark	14	-	1	15
Norway	213	-	-	213
United Kingdom	72	-	-	72
Angola	-	25	-	25
Australia	-	26	-	26
Egypt	-	27	-	27
Azerbaijan	-	54	-	54
Ghana	-	43	-	43
Mexico	-	43	-	43
Myanmar	-	24	-	24
Other	18	11	13	42
Total	317	253	14	584
Revenue split				
Day rate revenue	283	215	12	510
Other revenue	34	38	2	74
Total	317	253	14	584
Type of revenue				
Services component	149	189	12	350
Lease component	168	64	2	234
Total	317	253	14	584

6 months 2019	North-sea Jack-up rigs	International Floaters	Other	Total
Geographical split				
Denmark	15	-	1	16
Norway	277	-	-	277
United Kingdom	77	-	1	78
Egypt	-	54	-	54
Azerbaijan	-	32	-	32
Ghana	-	107	-	107
Other	23	25	11	59
Total	392	218	13	623

Revenue split				
Day rate revenue	361	192	10	563
Other revenue	31	26	3	60
Total	392	218	13	623
Type of revenue				
Services component	181	158	11	350
Lease component	211	60	2	273
Total	392	218	13	623

At 30 June 2020, the revenue backlog of contracted future service and lease revenue amounted to USD 1,595m (USD 31 December 2019: USD 2,131m).

NOTE 3

Costs

(USDm)	6 months 2020	6 months 2019	Full year 2019
Operating costs	375	342	710
Innovation	3	5	10
Sales, general and administrative costs	38	45	87
Total costs	416	392	807

NOTE 4

Special items

(USDm)	6 months 2020	6 months 2019	Full year 2019
Compensation from shipyard due to late delivery of rigs, warranties, etc	-	-	2
Special items, income	-	-	10
Transformation and restructuring costs	23	-	5
Covid-19 costs not recharged to customers	5	-	-
Separation and listing costs	-	13	13
Special items, costs	28	13	18
Special items, net	-28	-13	-16

Special items comprise non-recurring income and expenses that are not considered to be part of Maersk Drilling's ordinary operations such as warranty compensation from shipyards, major restructuring projects and separation and listing costs. Special items incurred in H1 2020 comprised redundancy costs from the reduction of the offshore and the onshore organisations of USD 23m and COVID-19 related costs not recharged to customers of USD 5m. The separation and listing costs incurred in H1 2019 primarily comprise listing fees, Maersk Drilling's part of fees to banks, advisors, lawyers and auditors as well as one-off bonuses to Executive Management, other key management personnel and other employees.

NOTE 5

Property, plant and equipment

(USDm)	Jack-up rigs	Floaters	Equipment and other	Construction work in progress	Total
Cost					
1 January 2019	5,377	5,023	128	93	10,621
Addition	-	-	-	156	156
Disposal	1	-	-	-	1
30 June 2019	5,376	5,023	128	249	10,776
1 January 2020	5,006	4,827	162	236	10,231
Addition	-	-	1	100	101
Disposal	-	10	5	-	15
Transfer	57	-15	-5	-42	-5
30 June 2020	5,063	4,802	153	294	10,312
Depreciation and impairment losses					
1 January 2019	2,623	3,128	21	-	5,772
Depreciation	96	77	1	-	174
30 June 2019	2,719	3,205	22	-	5,946
1 January 2020	2,476	2,968	56	-	5,500
Depreciation	103	59	-	-	162
Impairment losses	641	835	-	-	1,476
Disposal	-	10	2	-	12
Transfer	-	-	-5	-	-5
30 June 2020	3,220	3,852	49	-	7,121
Carrying amount:					
30 June 2019	2,657	1,818	106	249	4,830
30 June 2020	1,843	950	104	294	3,191

NOTE 6

Impairment test

The oil and gas markets have during the first half of 2020 been hit by simultaneous demand and supply shocks. Measures to contain the spread of COVID-19 have led to an unprecedented decline in demand for oil and gas, and supply side actions have struggled to balance the market. As a result, Brent prices have dropped from pre-COVID levels of around USD 60 per barrel to around USD 40 per barrel at the end of June 2020, accompanied by historically-high volatility in prices.

The decline in oil prices has driven reductions in spending budgets by upstream oil and gas companies. Capital expenditure guidance for the large upstream companies for 2020 has been reduced by ~20–30%. Spending budgets for 2021 and 2022 are still under evaluation and will be subject to the recovery in global oil demand and oil supply-side behaviour. The reduction in spending budgets has caused postponement of projects, cancellation of tenders, and suspensions and terminations of contracts, resulting in reduced demand for offshore rigs exerting pressure on utilization.

Based on current tender activity and bilateral customer dialogues, Maersk Drilling expects that the contracting activity for drilling campaigns with commencement in 2020 will be limited, while the demand pipeline for campaigns with commencement in 2021 is building up, partly due to projects originally scheduled for 2020 are now scheduled for 2021. The increasing demand pipeline includes opportunities in the North Sea jack-up market and in the international floater market with contract durations ranging from one-well to multi-year. To what extent the current project pipeline will materialise into new drilling contracts is naturally subject to uncertainty.

On the Norwegian Continental Shelf, the temporary tax relief scheme approved in June 2020 is expected to fast-track certain new projects, which will generate additional demand for harsh environment jack-up rigs. Particularly, the CJ70 jack-up segment, is expected to be positively impacted by the increased activity.

Several rigs, mainly floaters, were scrapped during Q2 2020, but continued scrapping of rigs remains needed to rebalance the market. The continued illiquidity of the secondary market for offshore rigs prevents effective price identification for offshore rigs.

Outcome of impairment test

Following the revised market outlook with lower expectations as to utilisation and day rates for the coming years Maersk Drilling has recognised a net impairment loss of USD 1,476m as of 30 June 2020. The impairment loss relates to both jack-ups and floaters.

(USDm)	Impairment losses	Recoverable amount[3]
Cash generating unit	2020	2020
North Sea jack-ups[1]	-621	2,039
International floaters[2]	-835	1,017
Benign jack-up	-20	69
Total	-1,476	

1 Covering five cash generating units ("CGU") operating in the North Sea. One unit is now forming a CGU on its own which has triggered an impairment reversal for the unit of USD 16m. One additional unit, which forms a CGU on its own, has not been impaired and is excluded from the overview.

2 Covering two cash generating units operating globally. One additional unit, which forms a CGU on its own, has not been impaired and is excluded from the overview.

3 The recoverable amounts are generally based on estimated value in use, as it is considered that currently there is no basis for making a reliable estimate of the fair market value in an orderly transaction between market participants.

An impairment loss of USD 34m was recognised in the second half of 2019 due to the reclassification of Maersk Completer to assets held for sale prior to its disposal. No other impairments or impairment reversals were recognised in 2019.

Basis for impairment test

Maersk Drilling considers rigs with similar functionality and operating environment as cash generating units due to largely interdependent cash flows. The cash generating units in the table above are further subcategorised in connection with the impairment test performed, however the methodology and assumptions are similar across the subgroups.

The recoverable amount of each cash generating unit is determined based on the higher of its value-in-use or fair value less cost to sell. Given the continued illiquidity of the secondary market for offshore rigs with no supportable price indications Maersk Drilling applies value-in-use calculations in the impairment test.

The value-in-use is calculated based on cash flow projections in financial budgets and business plans for the coming 5 years as approved by management. For the period after the 5-year forecast period an expected inflation rate of 2.5% p.a.

is applied. In nature, these cash flow projections are subject to judgement and estimates that are uncertain, though based on experience and external sources where available. In a separate section below is set out sensitivity analysis for certain key assumptions applied in the expected future cash flows.

The discount rate applied in the value-in-use calculation is 10.0% p.a. after tax which is unchanged from the latest impairment testing done in 2018. The discount rate applied reflects the time value of money as well as the sector specific risks related to the underlying cash flows. Any uncertainties reflecting past performance and possible variations in the amount or timing of the projected cash flows are generally reflected in the discount rates, except that specific assumptions relating to the future utilisation of the assets are applied. The useful lives and residual value of the assets are aligned with the accounting policies applied.

Sensitivity analysis

The value in use calculations for the individual cash generating units are particularly sensitive to the day rates expected to apply when contracts expire and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin after the budget period are critical variables.

The sensitivity analysis shows that the impairment losses in 2020 would have been:

- USD -1,191m and USD -1,727m with a -/+ 1 percentage point change in the **discount rate**, keeping all other assumptions unchanged.
- USD -1,329m and USD -1,610m with a +/- 1 percentage point change in the **inflation rate** after the 5-year forecast period, keeping all other assumptions unchanged.
- USD -869m and USD -1,981m with a +/- 5 percentage point change in **EBITDA margin** after the 5-year forecast period, keeping all other assumptions unchanged.
- USD -1,139m and USD -1,812m with a +/- 5 percentage point change in **utilisation** after the 5-year forecast, keeping all other assumptions unchanged.

NOTE 7

Share capital and earnings per share

The share capital comprises 41,532,112 shares of DKK 10 each. At 30 June 2020, the Company holds 243,164 treasury shares (30 June 2019: nil) and the average number of shares in circulation during the first half of 2020 was 41,410,530 (41,532,112).

Earnings per share amounted to USD -37.0 (USD -0.4) and diluted earnings per share USD -37.0 (USD -0.4).

Earnings per share is equal to profit/loss for the period divided by the average number of shares in circulation or the average diluted number of shares in circulation. At 30 June 2020, a potential dilution effect from 198,198 shares (30 June 2019: 141,416 shares) outstanding under the long-term incentive programme (see note 9 below) are excluded from the calculation of diluted earnings per share as the inclusion would result in a reduction in the loss per share.

NOTE 8

Capital commitments

At 30 June 2020, capital commitments relating to rig upgrades and special periodic surveys amounted to USD 51m (31 December 2019: USD 95m). Maersk Drilling does not have capital commitments related to newbuildings.

NOTE 9

Long-Term Incentive Programme

Maersk Drilling maintains a long-term incentive programme (the "LTI"), as Maersk Drilling believes that providing remuneration in the form of shares to appropriate levels of management promotes long-term value creation and ensures alignment of interests with its shareholders.

Under the LTI, the Executive Management, key employees and certain other employees receive a number of restricted share units ("RSUs"). The vesting period for the RSUs is three years from the date of grant. The Executive Management is subject to an additional holding period of two years in addition to the three-year vesting period. Executive Management and other Key Management Personnel are also subject to a share ownership requirement of twice the annual LTI grant level applicable, i.e. up to two years' fixed pay.

In the first half of 2020, the following number of RSUs have been granted under the LTI:

Executive Management	29,745
Other Key Management Personnel	9,228
Other employees	44,844
Total	83,817
Market value at grant date (USDm)	1.6

Maersk Drilling intends to use treasury shares to meet its obligations to deliver shares under the LTI. The Board of Directors may decide to satisfy a grant in cash.

NOTE 10

Basis of preparation

This Interim Financial Report reflects the consolidated figures for The Drilling Company of 1972 A/S (the "Company") and its subsidiaries (the "Group" or "Maersk Drilling"). All amounts in the Interim Financial Report are stated in United States Dollars (USD) and rounded to the nearest million.

Accounting policies

The interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and additional requirements in accordance with the Danish Financial Statements Act. The Interim Financial Report has not been audited or reviewed by the Company's auditor.

Apart from the judgements and estimates related to impairment testing set out in this Interim Financial Report, the accounting policies, judgements and significant estimates are consistent with those set out in notes 5.2 and 5.3 to the consolidated financial statements for 2019.

Statement of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today considered and adopted the Interim Financial Report of The Drilling Company of 1972 A/S for the period 1 January - 30 June 2020.

The Interim Financial Report, which has not been audited or reviewed by the Company's auditor, has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and further requirements in the Danish Financial Statements Act. The accounting policies remain unchanged from the 2019 Annual Report.

In our opinion, the Interim Financial Statements give a true and fair view of the Group's assets, equity, liabilities and financial position at 30 June 2020, and of the results of the Group's operations and cash flow for the period 1 January - 30 June 2020.

In our opinion, the Interim Financial Report includes a fair review of the development in the Group's operations and financial matters, the results for the period, the financial position and the Group's cash flows as well as a description of the most significant risks and uncertainties that the Group faces. Except as disclosed in the Interim Financial Report, no material changes in the major risks and elements of uncertainty faced by the Group have occurred relative to the disclosures in the 2019 Annual Report.

Copenhagen, 14 August 2020

Executive Management

Jørn Madsen
CEO

Jesper Ridder Olsen
CFO

Board of Directors

Claus V. Hemmingsen
Chairman

Robert M. Uggla
Vice Chairman

Ann-Christin G. Andersen

Kristin H. Holth

Martin Larsen

Alastair Maxwell

Kathleen McAllister

Caroline Alting

Glenn Gormsen

Forward-looking statements

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

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