Annual Report 2020

MAERSK DRILLING

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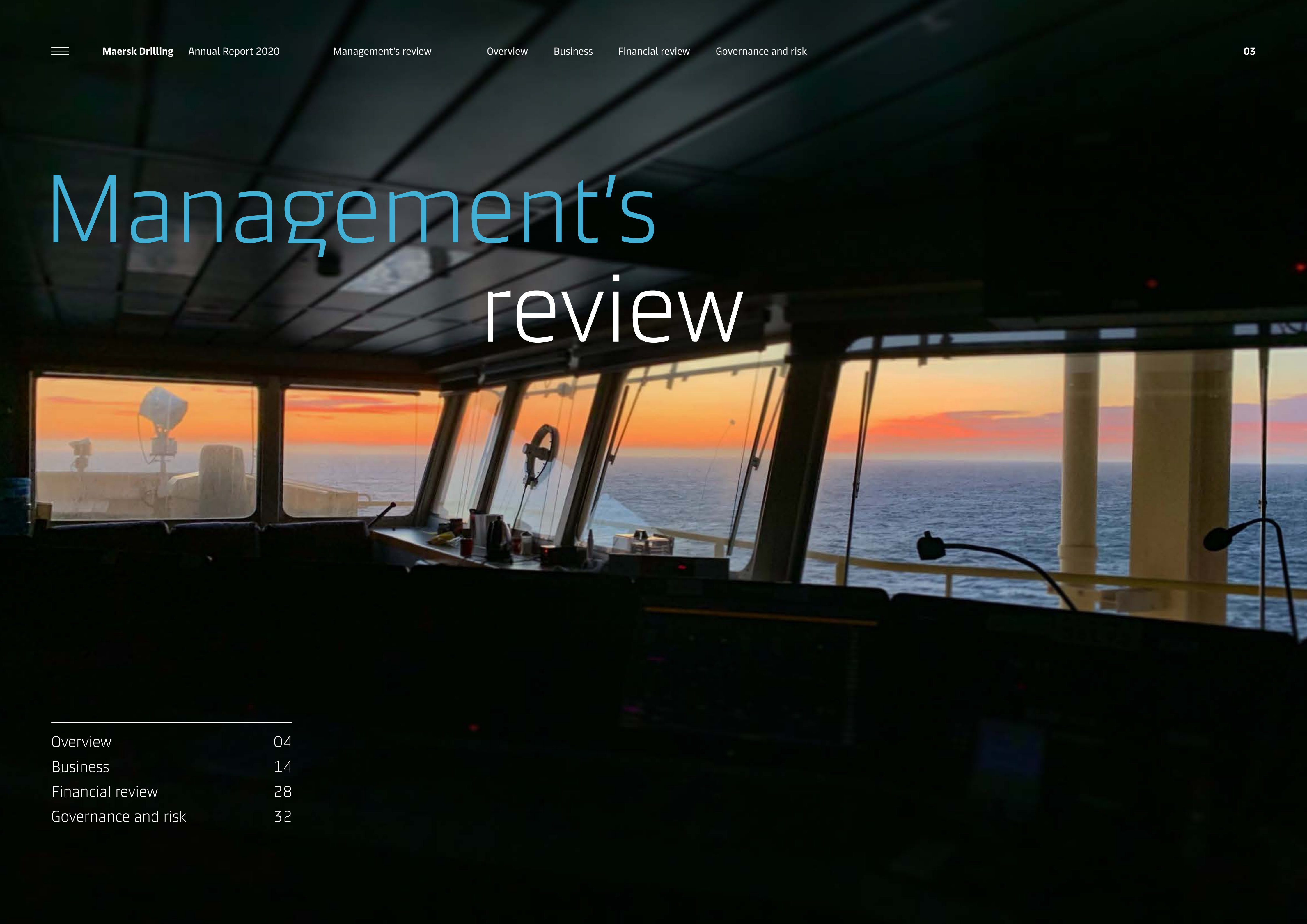
The Annual Report of The Drilling Company of 1972 A/S (referred to as "Maersk Drilling" or the "Group" when referring to the consolidated group of companies and the "Company" when referring to the parent company) comprises consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act, and Parent Company Financial Statements prepared in accordance with the Danish Financial Statements Act.

Forward-looking statements
The Annual Report contains forward-looking statements and certain third-party data and information. Reference is made to the important notice in respect of forward-looking statements and third-party data and information included on page 102.

Comparative figures
Unless otherwise stated, all figures in parenthesis refer to the corresponding figures for the previous year.



Management's review

Letter to our stakeholders

Claus V. Hemmingsen
Chairman

2020 was an unprecedented and unpredictable year for the world and even more so in the oil and gas industry. The COVID-19 pandemic spread rapidly across the globe causing lockdowns and other quarantine measures. The health crisis for our industry meant a dramatic fall in the demand for oil and gas and was exacerbated by the OPEC fall-out which early in the year led to an oil price crash.

2020 has taken its toll on the entire industry, though the worst could now seem to be behind us. For Maersk Drilling, several contracts were terminated or postponed, rigs were stacked, and measures were taken to protect the company, including unfortunate, yet unavoidable redundancy rounds.

Our CEO will say it as well, but I wish to take a moment to say a heartfelt thank you and express my gratitude to our entire organisation. On- and offshore – you have all done an outstanding job!

For other offshore drillers, the consequences have been more severe with significant competitors filing for bankruptcy protection and others facing severe liquidity constraints.

Despite the current hardship, we see clear signs that the circumstances could become the opening to a more profound and much needed transformation of the drilling industry. There is a need to achieve significant operational and financial efficiency gains which combined with the need to redefine the future role of offshore drilling in society in relation to the UN Sustainable Development Goals, sets the scene for a new industry landscape.

In Maersk Drilling, we want to take an active role in this transformation. In the autumn, we launched a new sustainability strategy with climate action as the centrepiece, addressing the need for decarbonisation of current activities as well as exploring new technologies to reduce CO_2 emissions. We have made significant progress to fulfil our ambition to make Maersk Drilling a more sustainable and profitable company in the future, helping the world harness the many benefits of affordable energy and oil- and gas-based products.

We are only at the very beginning of an exciting future but with a business model relying on sustainability, resource and time efficiency, digital solutions and sharing benefits with our customers we have a solid foundation. In many ways, the business model is a natural continuation of our current strategy relying on skilled people and a modern fleet being able to meet the highest standards in the most challenging parts of the offshore drilling markets.

After a challenging 2020, the world economy is on track to recover, recharging the world's need for energy and stimulating the demand pipeline in our key markets. While the commercial landscape is beginning to stabilise, the market continues to be volatile and this calls for a fundamental transformation of the oil and gas industry. Maersk Drilling is determined to take a winning position in tomorrow's energy market.

Jørn Madsen
CEO

As the Chairman also expressed, the dramatic developments in the oil and gas sector in 2020 exposed our industry to challenges unlike anything we have seen before. Faced with a global pandemic and a sudden and sharp decline in oil price, operators reacted swiftly by cutting near-term investments in exploration and project development. Drilling contracts were postponed or terminated and stacking locations soon started to be filled with idle rigs.

This only exacerbated the deep-rooted challenges of the global offshore drilling industry. For some time, profitability levels have been depressed with too much capacity chasing the available projects and an abundance of older rigs unable to meet modern standards.

In an environment with volatile oil prices, building future-proof portfolios is vital for our customers to remain competitive. To further ensure resilience and improve competitiveness of their portfolios, we expect our customers to accelerate the adoption of technology and new commercial and collaborative models. This will require the ecosystem of suppliers – including offshore drilling contractors – to radically simplify processes and interfaces, lower costs and emissions, and reduce uncertainty, leading to increased speed and quality of the entire system.

Maersk Drilling is well-positioned to address all these challenges. Based on our heritage in the challenging North Sea market, we are leading the way in exploring new business models to convert closer collaboration into increased efficiency and value-creation for our customers, partners and owners. We are addressing the drilling industry's role in the green transition in our ambitious sustainability strategy and industry-leading emissions reduction target. And we continue to enjoy a financially solid position which enables us to fund the investments in innovation that are necessary to facilitate our response to the fundamental challenges found in our industry.

Given the challenging business environment in 2020, I am pleased that we in Maersk Drilling delivered an EBITDA before special items of USD 289m, in line with the revised financial guidance that we provided in May 2020, and that we still managed to generate a positive free cash flow. I am immensely proud that our operations, during these extraordinary times, maintained a high level of safety and quality with the best safety performance in years, a financial uptime of nearly 100%, and continued satisfied customers.

This is first and foremost the result of our crews' relentless efforts to deliver operational excellence, despite the many obstacles placed by the pandemic. Under such conditions, it is a significant challenge to run a global service business like Maersk Drilling with high dependency on crew changes and international travel and transactions. But thanks to the determination, ingenuity and unwavering commitment of our people, we have achieved remarkable performance levels under extraordinary circumstances. We, as management, applaud the efforts of our people and we are quite certain that they have not gone unnoticed by neither our customers nor our shareholders.

Our drive to offer the foremost innovation capabilities in the industry also served us well in 2020, producing several tangible results. Our first fully retrofitted low-emission rig went into operation in the fourth quarter and demonstrated carbon emission reductions in the range of 25%. We have also explored the opportunities offered by longer-term energy transition, announcing our participation in Project Greensand, which aims to offer carbon capture and storage beneath the Danish North Sea. And we continued to invest in digital solutions to support the vital coordination between rig company, operator, and service suppliers, targeting significant efficiency gains.

Initiatives like these underpin our strong customer relations and allow us to forge long-term alliances in support of the increased focus on efficiency, digitalisation and close collaboration. Combined with our newly announced sustainability ambitions, this provides us with a powerful platform to deliver customer value and lead the way to a more sustainable and profitable future for the offshore drilling industry.

2020 highlights

289

EBITDA before special items 2020 (USD million) (26% margin)

The financial performance in 2020 was substantially impacted by the outbreak of COVID-19 and the oil price turmoil in the first half of the year leading to contract terminations and budget revisions by oil and gas companies. Maersk Drilling responded by reducing costs through staff reductions, stacking of rigs and adjusting maintenance programmes to the revised activity levels.
EBITDA before special items amounted to USD 289m (USD 415m), in line with the latest guidance of EBITDA before special items in the range of USD 275–300m.

17

Free cash flow (USD million)

Excluding the USD 38m proceeds from the sale of Maersk Completer, free cash flow after interest payments amounted to USD 17m in 2020 (USD 32m).

162

CAPEX (USD million)

Capital expenditures of USD 162m were in line with the most recent guidance of around USD 150m but a substantial reduction over last year (USD 309m). Capital expenditures in 2020 comprised three Special Periodic Surveys, rig upgrades linked to contracts and general maintenance of the fleet.

1.3

Revenue backlog 2020 (USD billion)

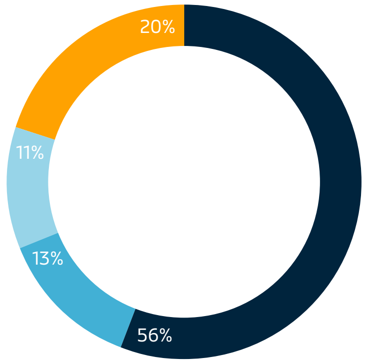
Despite challenging market conditions, Maersk Drilling managed to secure 19 new contracts and contract extensions adding USD 469m (USD 828m) to the contract backlog.

1.1

Revenue 2020 (USD billion)

Geographical presence by revenue 2020

North Sea Africa Asia Pacific
Rest of the world



98.9%

Financial uptime 2020

Financial uptime has remained high despite the operational disruptions from the COVID-19 pandemic.

6.7

Customer satisfaction score 2020 on a scale from one to seven. (2019: 6.5)

0.44

Lost-time incidents frequency (based on man hours)

Safety performance continues to be strong with incident frequencies at their lowest in five years.

22

Number of rigs

During the year, Maersk Drilling continued the high-grading and concentration of the rig fleet with the upgrade of two of its modern harsh environment jack-up rigs to perform hybrid, low-emission drilling in Norway. Concurrently, Maersk Drilling completed the divestment of the non-strategic benign environment jack-up rig Maersk Completer.

Launching a new sustainability strategy

In 2020 Maersk Drilling established a new sustainability strategy based on three strategic pillars: Sustainable Energy Future, Caring for People and Responsible Business.

As part of the oil and gas value chain, Maersk Drilling seeks to do business in a responsible and sustainable manner, acting with integrity and high standards of business ethics. To stay at the forefront, we continuously develop our approach to anticipate and respond to changing requirements in our environment.

In 2020, we concluded a comprehensive sustainability strategy project, which reassessed the main priorities for our future sustainability work. Based on a thorough stakeholder analysis and materiality assessment, the work identified nine of the UN Sustainable Development Goals (SDGs) where the Maersk Drilling business has, or could have, major impact. It also assessed which of the sustainability topic areas were already well addressed and which areas needed special attention to close gaps or address opportunities.

The conclusions of the strategic work are depicted in our sustainability framework, which applies our focus across three strategic pillars, relates our priority areas to the relevant SDGs and outlines the company's strategic sustainability initiatives. Opportunities for improvement were identified within Climate Action and Diversity & Inclusion, and specific targets and action plans have been launched for these topic areas.

Sustainability is integrated into our performance scorecard. We measure progress and results through a combination of qualitative and quantitative measures, resulting in a corporate performance score which directs the collective bonus element of executive and staff remuneration.

Maersk Drilling's sustainability approach is described in further details on our website and in our Sustainability Report which also serves as our reporting pursuant to section 99a of the Danish Financial Statements Act. It can be found online at https://www.maerskdrilling.com/who-we-are/sustainability

Our sustainability framework

We strive to minimise the carbon intensity of our business as well as the activities of our customers and our supply chain

TOPIC AREAS:
- Climate Action
- Preparedness for the Energy Transition
- Responsible Consumption

TARGET:
- Emissions Intensity Target (-50%) by 2030

We want to be a safe, diverse, inclusive, and people-centric company

TOPIC AREAS:
- Safety
- Diversity & Inclusion
- Bringing Value to Local Communities

TARGET:
- Onshore Female Leadership Target (30%) by 2023

We are committed to being a good corporate citizen conducting our business in a way that protects people and minimises adverse effects on environment and society

TOPIC AREAS:
- Marine & Air Environment
- Business Ethics & Compliance
- End-of-Life – Oil & Gas Assets

ESG REPORTING AND DISCLOSURE AMBITION AND INITIATIVES

We aim to conduct transparent, standardised and impactful reporting and disclosure

Five-year summary

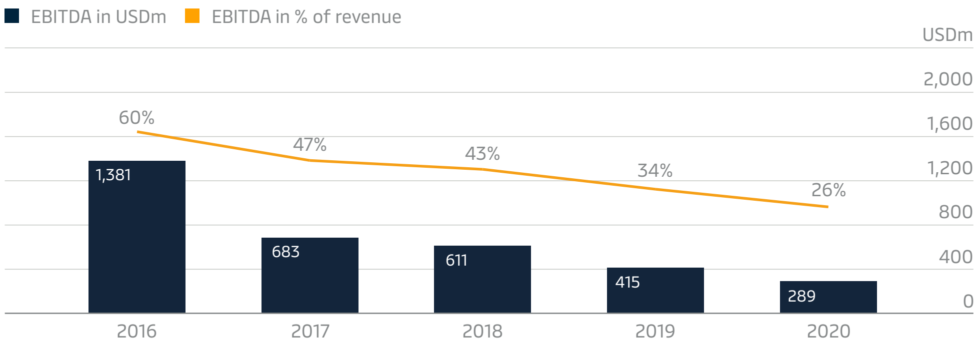
USD Million	2020	2019	2018[2]	2017[2]	2016[2]
Income statement					
Revenue	**1,096**	**1,222**	**1,429**	**1,439**	**2,297**
Profit before depreciation and amortisation, impairment losses and special items (EBITDA before special items)	**289**	**415**	**611**	**683**	**1,381**
Special items	-42	-16	-16	2	16
EBITDA	**247**	**399**	**595**	**685**	**1,397**
Depreciation and amortisation	-286	-387	-403	-468	-589
Impairment losses/reversals, net	-1,580	-34	810	-1,769	-1,510
Gain/loss on sale of non-current assets	-2	8	-	-	-
Share of results in joint ventures	-1	-2	-1	-	-
Profit/loss before financial items (EBIT)	-1,622	-16	1,001	-1,552	-702
Financial items, net	**-72**	**-68**	**-12**	**-19**	**-89**
Profit/loss before tax	**-1,694**	**-84**	**989**	**-1,571**	**-791**
Tax	41	-29	-48	49	1
Profit/loss for the year	**-1,653**	**-113**	**941**	**-1,522**	**-790**
Balance sheet					
Total assets	3,719	5,517	5,718	8,256	11,213
Total equity	2,017	3,680	3,814	6,213	8,761
Net debt/(receivable)	1,059	1,099	1,097	-1,809	-2,668
Investments in Property, Plant & Equipment	158	309	182	518	220
Cash flow statement					
Cash flow from operating activities	267	420	593	652	1,363
Cash flow used for investing activities	-150	-303	-136	-448	-328
Free cash flow[1]	17	32	441	561	1,209

USD Million	2020	2019	2018	2017	2016
Financial ratios[1]					
EBITDA margin before special items	26%	34%	43%	47%	60%
Return on equity	-58%	-3%	19%	-20%	-9%
Cash conversion	108%	105%	100%	95%	98%
Asset turnover	28%	25%	31%	28%	33%
Equity ratio	54%	67%	67%	75%	78%
Leverage	3.7	2.6	1.8	-2.6	-1.9
Performance drivers[1]					
No. of rigs at year end	22	22	23	24	23
Contracted days	5,208	6,310	6,024	5,553	6,318
Available days	8,018	8,204	8,695	8,460	7,894
Utilisation	65%	77%	69%	66%	80%
Average day rate (USDk)	210	194	237	258	361
Financial uptime	98.9%	98.9%	99.1%	98.5%	99.3%
ESG ratios[3]					
Carbon intensity:					
Tonnes CO_2 eq. per contracted day	61.3	57.8	57.9	-	-
Tonnes CO_2 eq. per drilled meter	1.57	1.34	1.66	-	-
Tonnes CO_2 eq. per USDm revenue	364.2	361.7	285.4	-	-
Women in leadership (onshore)	25%	23%	24%	-	-
Lost-time incident frequency	0.44	0.75	0.92	0.53	0.49
Total recordable case frequency	2.48	2.49	2.75	2.66	2.44

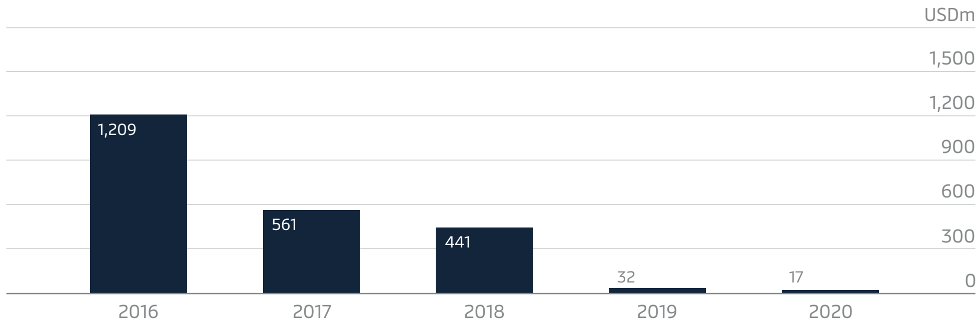
1 See definitions of financial ratios, performance drivers and non-IFRS financial measures on page 93.
2 The 2016–2018 financial figures are prepared based on the consolidated financial statements for 2018 of Maersk Drilling Holding A/S, adjusted to reflect the activities comparable with those in this Annual Report.
3 For definition of ESG ratios, reference is made to Maersk Drilling's 2020 Sustainability report which can be found online at https://www.maerskdrilling.com/who-we-are/sustainability

Five-year summary

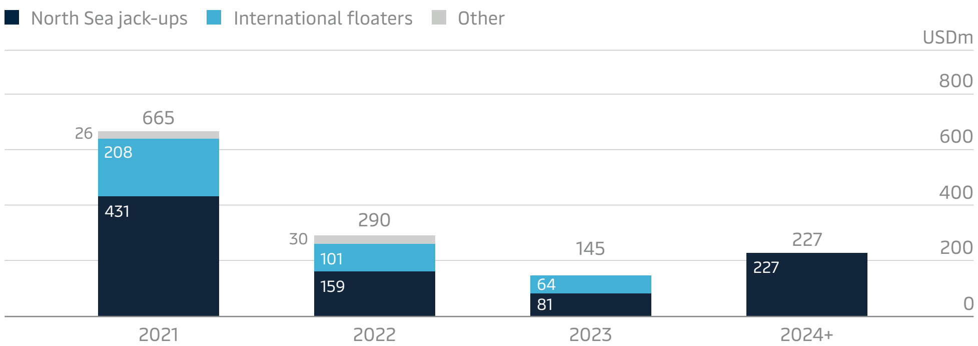
EBITDA[1]



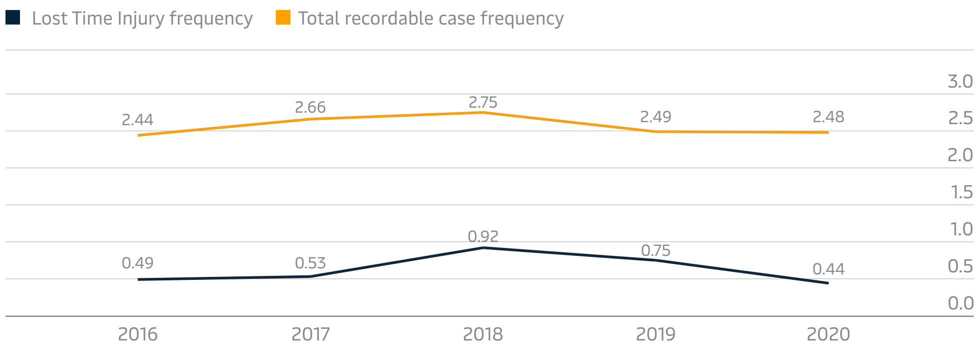
Free cash flow[2]



Revenue backlog



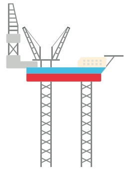
Safety performance



1 EBITDA before special items
2 Free Cash Flow defined as cash flow from operating activities less cash flow used for investing activities, adjusted for newbuild cash flow and proceeds from the divestment of assets or activities, and less net interest payments.

Segment overview

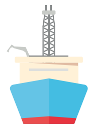
USD Million	**2020**	2019	2018	2017	2016
North Sea Jack-up rigs					
Revenue	608	800	840	829	951
EBITDA before special items	264	385	432	442	517
EBITDA margin before special items	43%	48%	51%	53%	54%
Non-current assets	1,831	2,663	2,716	2,458	2,831
Asset turnover	27%	30%	32%	31%	32%
No. of rigs at year end	13	13	13	14	13
Utilisation	62%	88%	76%	72%	87%
Average day rates (USDk)	208	193	218	233	257
Financial uptime	99.8%	99.6%	99.2%	97.6%	99.1%
International Floaters					
Revenue	460	395	530	541	1,266
EBITDA before special items	18	28	163	209	832
EBITDA margin before special items	4%	7%	31%	39%	66%
Non-current assets	1,162	1,998	1,997	1,678	2,961
Asset turnover	29%	20%	29%	23%	35%
No. of rigs at year end	8	8	8	8	8
Utilisation	66%	65%	62%	56%	77%
Average day rates (USDk)	239	220	293	333	564
Financial uptime	97.9%	97.1%	98.8%	99.5%	99.5%



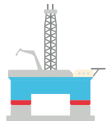
North Sea Jack-ups
Revenue in the North Sea segment of USD 608m in 2020 (USD 800m) was negatively impacted by lower utilisation partly offset by a higher average day rate. Financial uptime remained high at 99.8% in 2020 (99.6%).

The average day rate of USD 208k in 2020 (USD 193k) was positively impacted by performance bonuses for drilling ahead of schedule and additional revenue received for COVID-19 related costs being recharged to customers. Excluding the impact from COVID-19 related recharges and lump sum termination fees received, the average day rate was USD 200k (USD 193k).

EBITDA before special items amounted to USD 264m (USD 385m), reflecting the lower activity levels. The EBITDA margin for the North Sea jack-up segment remained relatively high at 43% (48%), supported by cost reductions.



International Floaters
Revenue in the International floater segment of USD 460m in 2020 (USD 395m) increased compared to 2019 primarily due to better average day rates and a higher activity level, reflected in more contracted days. As available days also increased due to fewer yardstays, utilisation was in line with 2019.



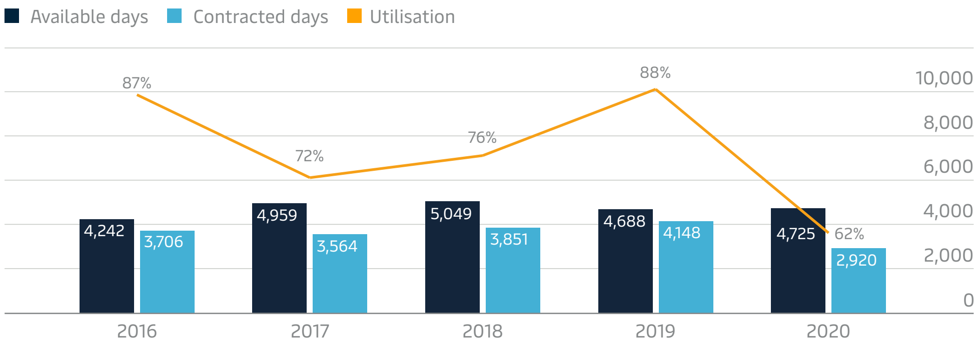
The financial uptime for the year reached 97.9% (97.1%) supported by strong operational performance throughout the COVID-19 pandemic but negatively impacted by unscheduled maintenance down-time.

The average day rate increased to USD 239k (USD 220k) due to the startup of longer-term contracts and additional revenue received for COVID-19 related costs being recharged to customers. Excluding the impact from COVID-19 related recharges and lump sum termination fees received, the average day rate was USD 224k (USD 220k).

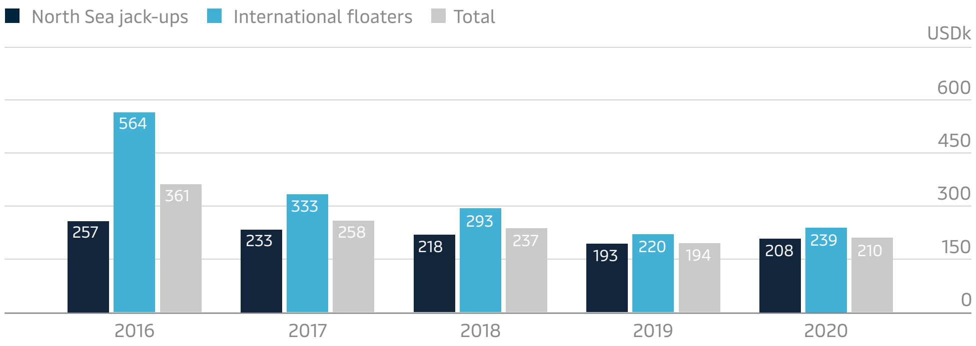
EBITDA before special items amounted to USD 18m (USD 28m), reflecting the low day rates prevailing in this segment as well as reactivation costs for several previously stacked Deepwater units which commenced contracts during 2020. The EBITDA margin for the International Floater segment remained at a depressed level at 4% (7%).

Segment overview

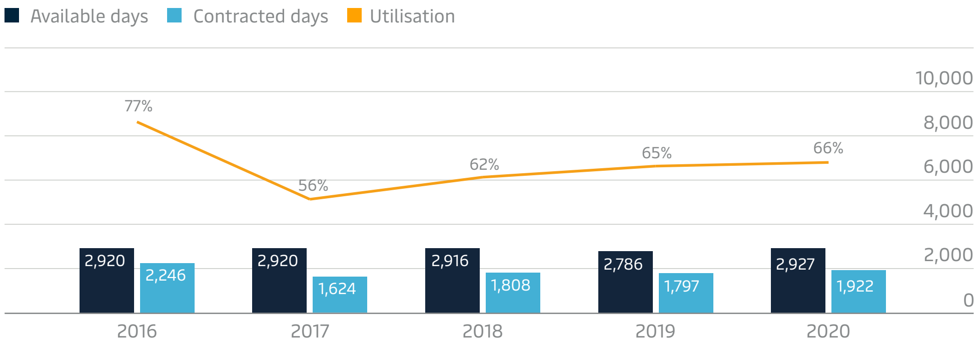
North Sea jack-ups



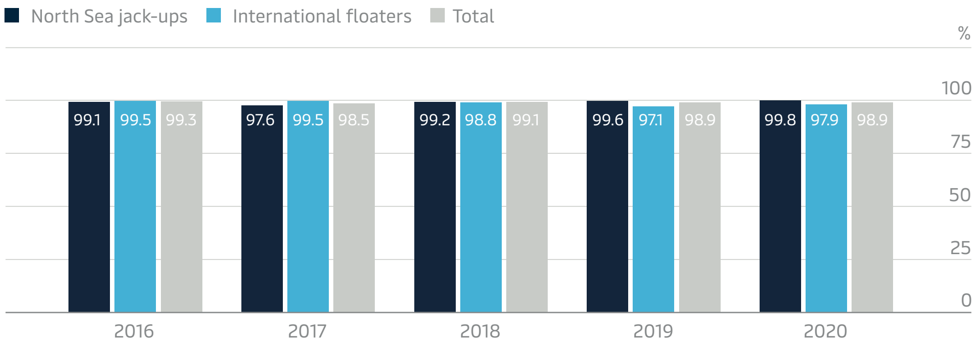
Average day rate



International floaters



Financial uptime



Revenue backlog

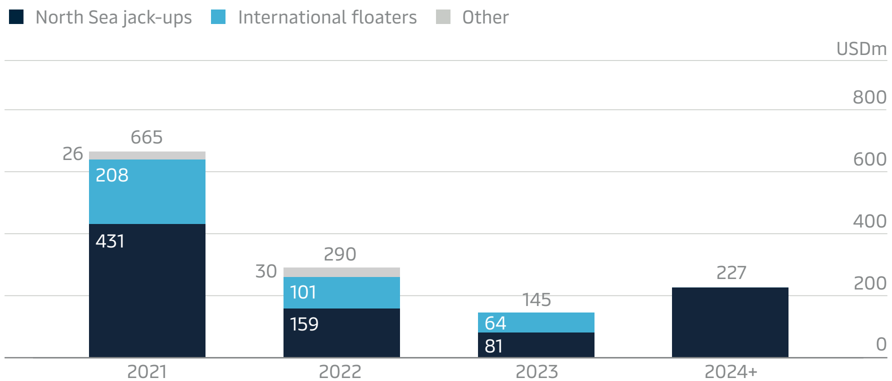
Despite challenging market conditions, Maersk Drilling managed to secure 19 new contracts and contract extensions during 2020, adding USD 469m (USD 828m) to the contract backlog.

At the end of 2020, the contract backlog amounted to USD 1.3bn (USD 2.1bn), of which USD 665m is for execution in 2021. In addition, Maersk Drilling has since the beginning of 2021 secured additional contracts and conditional letters of award with a total value of more than USD 500m.

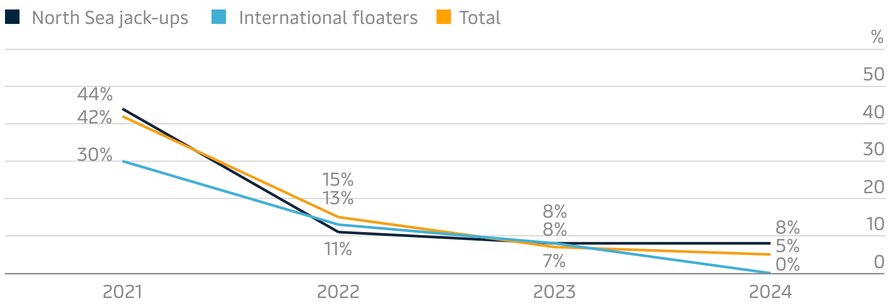
Supported by the recovery of the oil and gas prices and based on bilateral customer dialogues, Maersk Drilling expects the demand pipeline in its key markets to further build in 2021, partly due to projects originally scheduled for execution in 2020 being postponed to 2021.

Details on current and future contract status for the rig fleet is provided in the fleet status report dated 12 February 2021 and included on page 100.

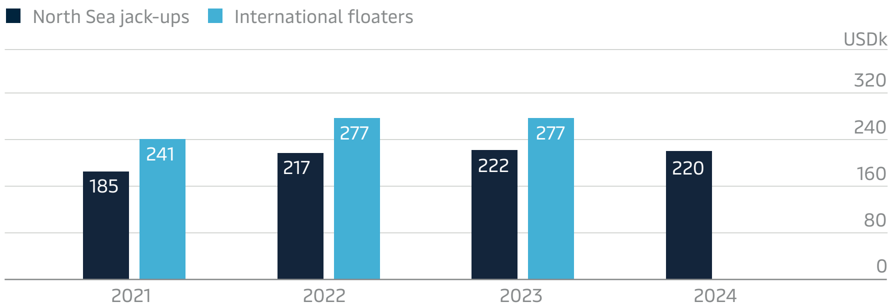
Revenue backlog



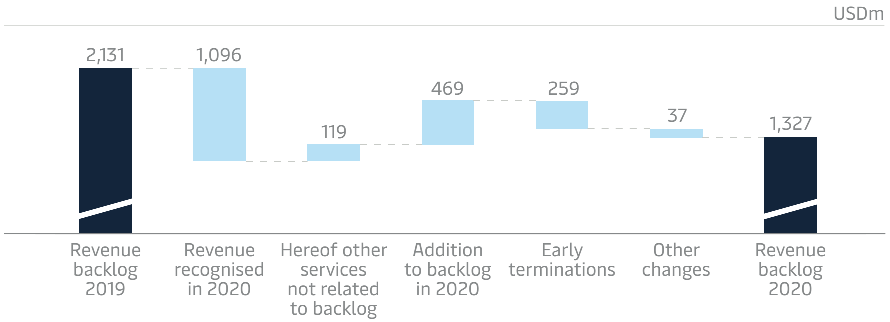
Contract coverage

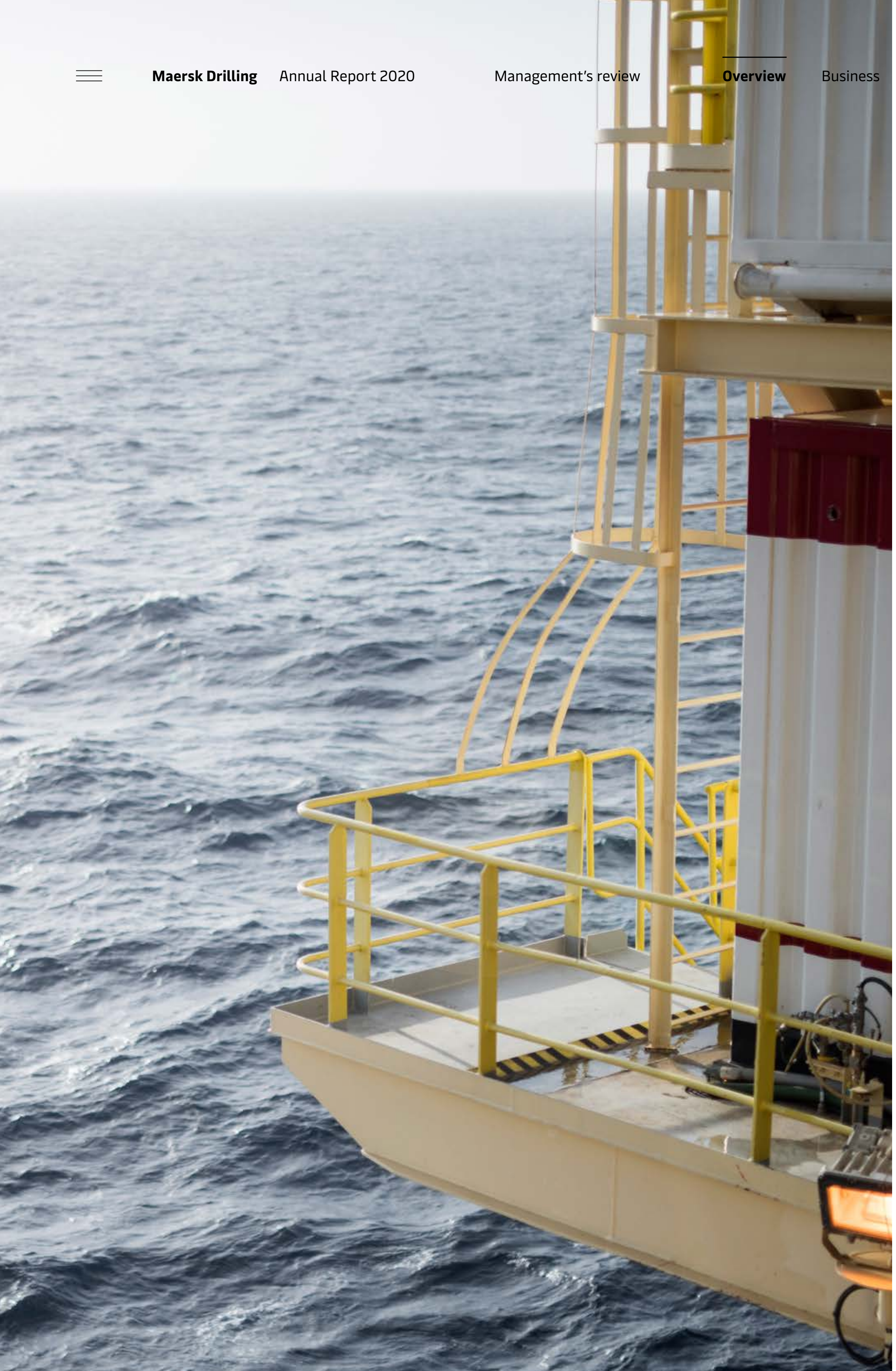


Average backlog day rate



Development of revenue backlog in 2020





Outlook for 2021

For 2021, we expect profit before depreciation and amortisation, impairment losses/reversals and special items (EBITDA before special items) in the range of USD 225m–275m.

Capital expenditures are expected to be in the range of USD 120m–140m.

The profitability guidance for 2021 is partly secured through the current contract backlog. Achieving the higher end of the 2021 guidance range requires that additional contracts are secured within both the North Sea and International divisions.

The capital expenditures guidance is linked to the assumed commercial activity providing certain flexibility in total spend and timing.

Sensitivity guidance

Our guidance for 2021 is subject to risks and uncertainties as various factors, many of which are beyond Maersk Drilling's control, may cause the actual development and results to differ materially from expectations. EBITDA before special items is primarily sensitive to the level of contracting of additional days to the current backlog, especially in the high margin North Sea segment, and the day rates thereon. Capital expenditures are sensitive to final scheduling and scoping of rig upgrades and yard stays, which are subject to commercial and operational planning.

The table below lists two additional sensitivities, all else being equal.

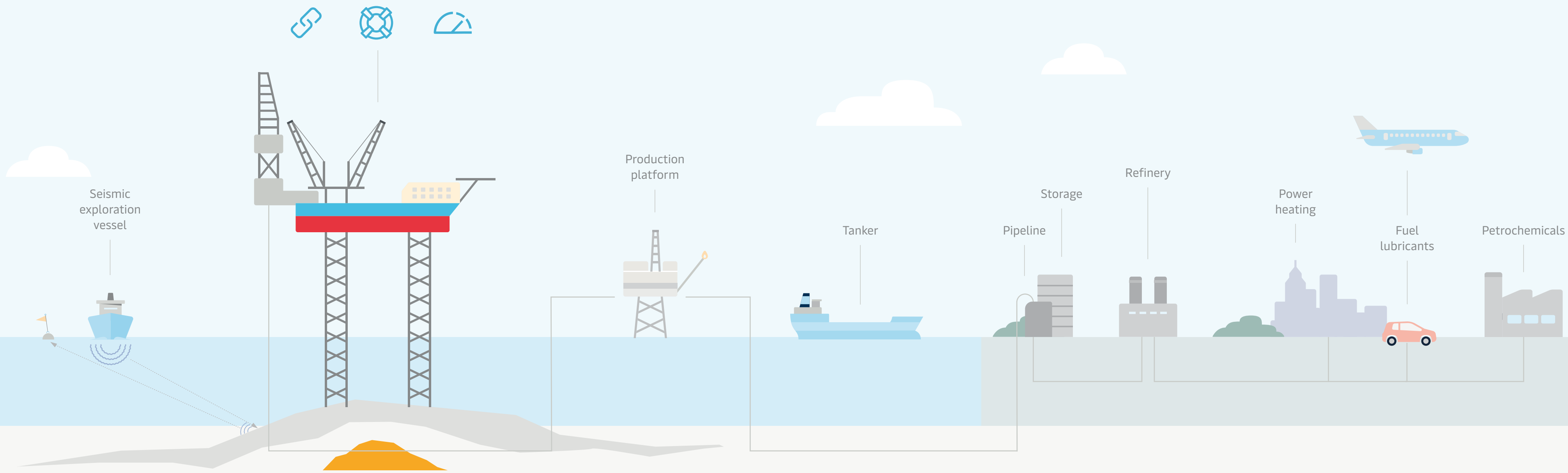
Factors	Change	Impact on EBITDA before special items
Financial uptime	+/- 1.0 percentage point	+/- USD 11m
USD/DKK exchange rate	+/- 5.0%	+/- USD 2m

Business

Maersk Drilling and the oil and gas industry

Maersk Drilling

Offshore drilling rig services
Reliability – Safety – Efficiency



UPSTREAM

Exploration – Finding oil and gas

Development – Drilling wells for exploration, appraisal and production

Production – Extracting oil and gas

Decommissioning the well

MIDSTREAM

Transportation and storage, moving oil and gas to shore

DOWNSTREAM

Refining, marketing and distribution as everyday products and for transportation

Market

In the unprecedented 2020 market, Maersk Drilling's strong financial position stood out from its peers. The demand in key markets is expected to grow in 2021 and beyond. The long-term energy transition towards low-carbon energy will drive efficiency, use of new technologies, repositioning and alternative use of offshore drilling rigs.

Market development in 2020

In 2020, measures to contain the spread of COVID-19 led to an unprecedented decline in demand for oil and gas. Lockdown measures in countries reduced the use of cars and public transport, which in combination with widespread passenger flight cancellations, resulted in lower demand for transportation fuels, and thereby oil.

At the same time, the intervention by OPEC+ member states was insufficient to balance the market. After initially responding to the demand shock by increasing their production, Saudi Arabia and other large producers agreed on historic production cuts, but these were insufficient to offset the decline in oil and gas demand.

As a result, Brent oil prices dropped from pre-COVID levels of USD 50–70 to USD 20–40 per barrel. Since then, Brent oil prices have stabilised at levels around USD 40–50 per barrel, and in December 2020 Brent prices climbed above USD 50 per barrel, the highest level since March 2020[1].

In 2020, operators were better positioned to weather a sharp drop in oil prices than they were during the previous crisis in 2014–15. The corporate 'breakeven price' – the oil price required to generate cash flow to cover capital expenditures and dividends – of the large oil and gas companies has fallen significantly since 2014, providing a degree of resilience in their asset portfolios amid lower oil and gas prices. This trend has been reinforced by capital discipline, as well as ongoing transformations that operators have enacted since the previous downcycle, achieving structural cost deflation through simplification, standardisation and optimisation, and for some operators new partnering models with their suppliers.

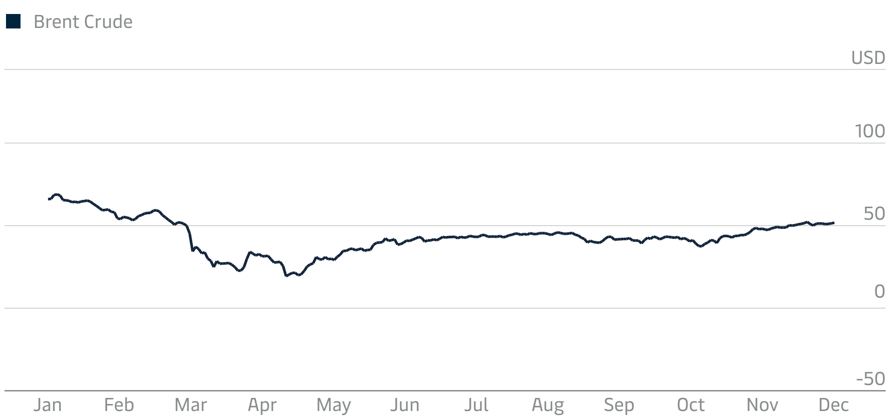
Nonetheless, many oil and gas companies took swift measures to manage liquidity in the first half of 2020: maintaining capital discipline and, in the case of several operators, reducing dividends for the first time. Capital expenditure budgets were reduced, and consequently many exploration and development projects were postponed, offshore rig tenders were cancelled, and existing drilling contracts were suspended or terminated – resulting in reduced demand for offshore drilling rigs.

During 2020, the number of jack-up rigs under contract in the North Sea declined from 28 at the beginning of the year to 21 at the end of the year. During the same period, the total supply of jack-up rigs in the North Sea was nearly unchanged, only marginally declining from 41 to 40 units, and similarly the marketed supply declined marginally from 38 to 37 units. The marketed utilisation declined from 73% to 57% during the year. At the end of 2020, the one-year forward coverage in the North Sea jack-up market was 34% (at the end of 2019: 37%).

During 2020, the number of floaters under contract globally declined from 126 at the beginning of the year to 102 at the end of the year. During the same period, the total supply of floaters was reduced from 235 to 212 units. The marketed supply was reduced from 194 to 173, insufficient to offset the impact of lower demand, and the marketed utilisation declined from 65% to 59% during the year. At the end of 2020, the one-year forward coverage in the global floater market was 37% (at the end of 2019: 41%).

During the year, the decline in utilisation and forward coverage exerted pressure on day rates across most segments, though the market for high-specification harsh environment rigs proved more resilient with a healthier demand and supply balance and only limited impact on day rates.

Brent front month prices[1]



1 Source: Bloomberg

Industry structure and supply-side dynamics

The combination of lower utilisation and day rates adversely impacted earnings and cash flows in 2020 for most offshore drillers at a time when many offshore drillers were already struggling with high debt burdens and liquidity constraints.

It was within this market context that several offshore drillers in 2020 commenced proceedings to restructure their balance sheets and resolve their liquidity situations. In contrast to its distressed peers, Maersk Drilling continued to stand out with a robust balance sheet and strong liquidity position, enabling it to withstand the impact of the current downturn.

Among industry analysts there is a widely held belief that industry consolidation is needed to drive the necessary rationalisation of the supply side. There are numerous potential opportunities in the context of the broad restructuring currently underway in the offshore drilling sector – from traditional corporate and asset M&A transactions, to asset joint ventures and rig management and operating partnerships. The screening of opportunities continues to be based on an assessment of the attractiveness of the different market segments combined with Maersk Drilling's relative competitive strengths.

Short-term and long-term demand outlook

Supported by the recovery of the oil and gas prices and bilateral customer dialogues, Maersk Drilling expects the demand pipeline in its key markets to further build in 2021, partly due to projects originally scheduled for execution in 2020 being postponed to 2021.

In the Norwegian jack-up market, there are currently a few short duration drilling campaigns with commencement in 2021, and a few programmes with longer duration with commencement in early 2022. Maersk Drilling has seen certain projects maturing in 2020 following the tax relief scheme introduced during the summer. In 2021, more approvals for shallow water assets are expected, which will drive demand for jack-up rigs in the following years.

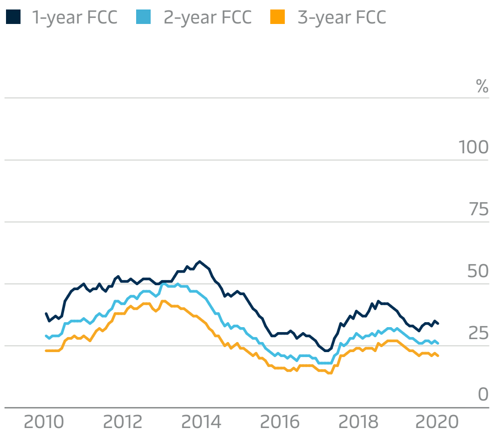
In the North Sea jack-up market outside of Norway, several new rig requirements have come to the market with commencement in 2021 with contract durations ranging from one-well to multi-year.

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

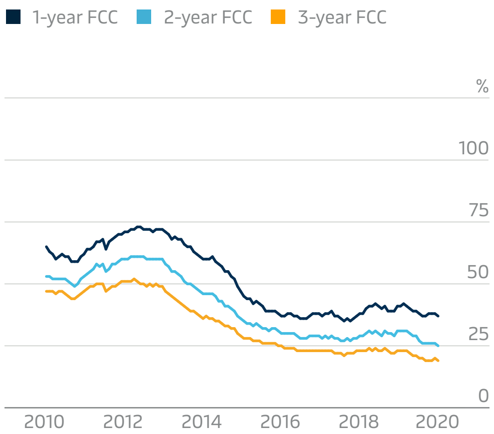
The future capital expenditures targeted for offshore, and thereby the future actual demand for offshore drilling rigs, are subject to several factors, particularly developments in the global oil and gas markets. The demand for oil and gas is dependent on public health, the impact of vaccines, and the policy responses to COVID-19 and the supply side of the oil and gas markets will depend on the associated policy responses of OPEC+ and the influence of US shale.

Given the recent years of underinvestment in new oil and gas developments, there is also potential for short-term dramatic moves, such as price spikes in the oil and gas markets, which may encourage additional investments and drive demand for offshore drilling rigs.

Jack-up forward contract coverage[2]

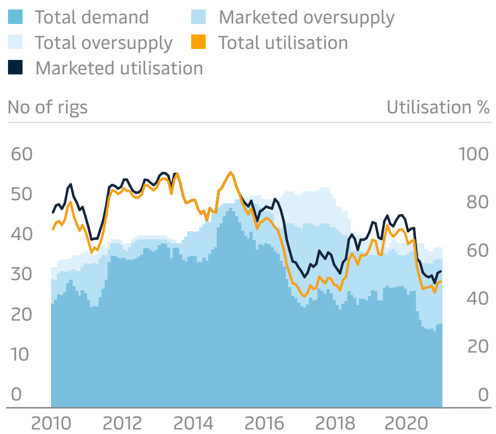


Floater forward contract coverage[2]

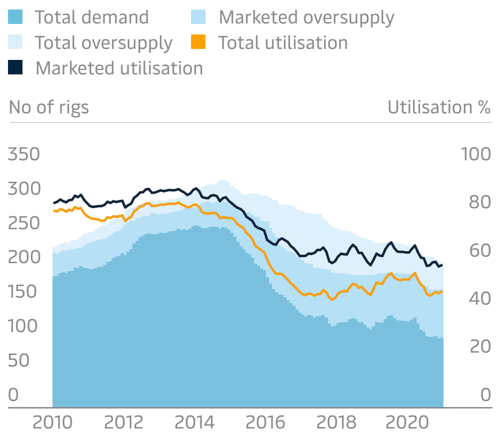


2 Source: IHS Markit and own calculations

North Sea jack-up supply/demand and utilisation[3]



Floater supply/demand and utilisation[3]



3 Source: IHS Markit

Energy transition

The ongoing and accelerating energy transition from hydrocarbons to renewables poses a challenge to the oil and gas sector: oil and gas will continue to play a critical role over the coming decades to maintain and further develop the global economy and meet the needs of a growing global population while the push to drastically reduce emissions, particularly those resulting from the combustion of hydrocarbons, is placing structural pressures on oil and gas demand. Given this degree of uncertainty, there are a range of demand scenarios that could develop over the next 20 years, two of which (from the IEA) are depicted below.

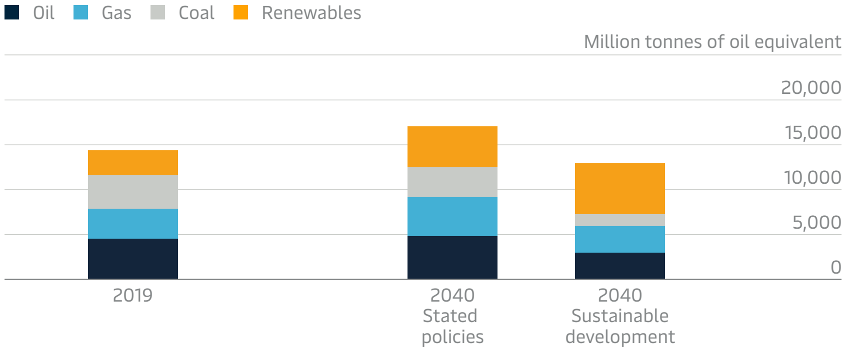
Although the energy transition will likely play out over the course of decades, the increased uncertainty around the transition impacts the energy markets on a much shorter time scale than the transition itself.

Capital allocation towards oil and gas depends on investors' beliefs about returns and risk; oil and gas companies must make decisions regarding growth vs. deleveraging vs. dividends, renewables vs. hydrocarbons, and short- vs. long-cycle investments. Uncertainties associated with the transition have already altered the business strategies of some operators invested in offshore oil and gas projects. This dynamic is further emphasized by an increased push for 'green', ESG-related considerations by institutional investors, who have increasingly advanced this agenda.

In this context, several oil and gas companies have already announced transition plans as they prepare for the shift to low-carbon energy and have implemented company-wide reorganisations to position themselves for the energy transition. While some operators may have accelerated the shift away from fossil fuels, low-cost and low-emission barrels are still needed to fund the transition. Oil and gas companies will thus look to service companies, including offshore drillers, which truly embrace technology and lean ways of working, and which are open to exploring new operating and partnering models; all in an effort to reduce costs and emissions associated with the extraction of hydrocarbons. The oil and gas companies with the highest quality and most resilient portfolios of lowest cost and lowest emissions per barrel of oil equivalents will be the ones best positioned for the energy transition. Maersk Drilling's strategy of Smarter Drilling for Better Value supports this customer need for building future-proof portfolios.

Further, the energy transition also brings with it a mosaic of solutions beyond renewables. Hydrogen and carbon capture and storage are examples of such solutions which will likely play a role in transforming and decarbonising the interconnected energy system. Both of these could offer alternative uses of offshore drilling rigs beyond the traditional drilling operations and are areas where Maersk Drilling can leverage its capabilities.

Change in global energy mix according to the main IEA scenarios



The Stated Policies Scenario includes today's policy intentions and targets, and illustrates the potential results of policy-makers. **The Sustainable Development Scenario** charts a path aligned with the Paris Agreement, holding the rise in global temperatures to "well below 2°C". Source: IEA World Energy Outlook 2020

Strategy

It is a goal of Maersk Drilling to generate superior returns to its shareholders. To achieve this, Maersk Drilling's strategy is anchored on three pillars: Smarter Drilling for Better Value, Responsible Drilling and applying our capabilities and innovation capabilities to selected Energy Transition opportunities.

Smarter Drilling for Better Value

A key challenge for Maersk Drilling's customers is the significant inefficiencies caused by misaligned incentives between the various third-party suppliers involved in a drilling campaign. Maersk Drilling aims to take on an expanded role in order to establish better planning, execution and orchestration across the value chain, with the overarching objective of creating better outcomes for its customers enabling them to maintain and build resilient and future-proof portfolios of assets in a volatile price environment.

Our alliance with Aker BP, which dates back to 2017, demonstrated our early commitment to this strategy. More recently, our contract with OMV (Norge) AS supports the increased focus of our customers on this approach. Our drilling on the Valhall Flank West presented on page 21 quantifies the results for this specific project and is a testimony to the potential of Smarter Drilling for Better Value.

We have transformed our Company to support this strategic ambition, centralised functions in our new location in Gdansk, realigned management reporting lines and set up a dedicated innovation group. We are now taking this a step further by redefining our customer engagement model and digitalising key components of our service delivery, in collaboration with our customers. One example of this is our Drilling Process Platform, presented on page 22.

Customer satisfaction score 2020

6.7

on a scale from one to seven. (2019: 6.5)

Responsible Drilling

In addition to the time and cost efficiency gains, Maersk Drilling's value proposition of providing safe, reliable, and efficient offshore driller services also addresses the greenhouse gas (GHG) emissions related to drilling campaigns. Maersk Drilling is at the forefront of working with oil and gas companies in achieving their goal of improving offshore project economics and lowering GHG emissions. We have committed to reducing our CO_2 emissions by 50% by 2030. The emissions-reduction target is in line with most oil and gas companies' 2030 targets and supports the ambitions of the Paris Agreement.

The reduction target will place Maersk Drilling as a leader among drilling contractors, the ambition goes perfectly together with our focus on reducing time of drilling operations per well. Maersk Drilling estimates that about half of the target can be achieved via further efficiency gains and known technical solutions and concepts, while the other half will be facilitated by investments in innovation in this space.

In 2020, Maersk Drilling installed two emission packages on its harsh environment jack-up rigs, Maersk Intrepid and Maersk Integrator rigs working in the North Sea. Maersk Drilling's first low-emission rig shows very promising emission reduction levels after entering operations in Norway.

The full technology package was expected to deliver a double-digit energy savings potential, and this has now been confirmed on Maersk Intrepid where the first month of operations on Martin Linge produced an initial data point of reducing fuel consumption and CO_2 emissions by approximately 25% compared to the baseline average for the rig. In addition, NO_X emissions were reduced by approximately 95%, an improvement from the original target of 90%. The installation of low-emission technology is one of several initiatives that support Maersk Drilling's efforts to reach the company's CO_2 emissions target. Other initiatives relating to CO_2 reductions include operating rigs on shore power and participation in the Project Greensand consortium which is targeting the use of discontinued oil and gas fields for permanent storage of CO_2 offshore Denmark.

Energy Transition

There are numerous potential opportunities in the Energy Transition space that are adjacent to Maersk Drilling technology, operational capabilities and commercial portfolio. We have dedicated resources to exploring those opportunities within our innovation team and are actively exploring opportunities with customers and partners.

Our participation in Project Greensand, which aims to store CO_2 beneath the Danish North Sea, is presented on page 23 and is one concrete illustration of our support to addressing the climate challenges our customers and the industry at large are seeking to solve.

Working strategically with climate scenarios

Maersk Drilling's strategic work encompasses the short-, mid-, and long-term opportunities and risks relating to current and potential new markets. The climate-related aspects are an inherent part of this work, setting boundaries for the growth of our core drilling activities. These activities are closely related to the future prospects of the global oil and gas markets which we analyse closely using climate and energy scenarios from IEA and leading private energy data providers.

Strong climate action opens up for market share gains by Maersk Drilling, if we can offer superior climate solutions that help customers meet emissions targets in the short- and mid-term. It also creates opportunities for new revenue streams for the mid- and long-term. Our carbon storage activities in the North Sea are an example of the latter, and Maersk Drilling is exploring a multitude of long-term strategic options to leverage the unique assets and competencies of the Company both within and beyond the current offshore markets.

World-class drilling on Valhall Flank West

The drilling programme on Valhall Flank West was completed in June 2020. Over the course of 11 months, Maersk Invincible set 12 conductors, drilled nine wells and drilled 22,000 metres of reservoir.

"The jack-up rig alliance between Aker BP, Maersk Drilling and Halliburton has delivered world-class performance. We're demonstrating that the strategy of creating increased value through alliances yields results," confirms Aker BP's SVP Drilling and Wells Tommy Sigmundstad.

Maersk Invincible arrived on the Valhall field in late June 2019. After the 12 large conductors were set, the rig drilled an average of one well per month. A total of nine wells were drilled and completed. Three of these were multibranch wells.

"This would not have been possible without a strong alliance team capable of bringing out the very best efforts in each other. Compared with a comparable campaign completed outside the alliance, we see an improvement of 88% in average rate of penetration and 186% improvement in connection times. Congratulations go out to everyone involved," says Sigmundstad.

First alliance project for the rig

The drilling programme on Valhall Flank West was the first project delivered through the alliance and Maersk Invincible.

"It all started with batch setting 12 conductors, where we had a fantastic learning curve and ended up 15 days ahead of our estimated time consumption. This learning curve has simply continued to grow. We've had some challenges, but they were resolved in a very good way because the whole team has pulled in the same direction. Now, as we look ahead, it's important that we capture the lessons learned, so the alliance can continue to deliver good projects," says Drilling Superintendent Anders Linndal.

The completion of the conductor campaign 15 days ahead of time amounted to a 36% time saving compared to the original estimate. Maersk Drilling's calculations have shown that this also meant that the operation was completed with a 36% CO_2 emissions reduction compared to the rig's baseline average.

2,278 metres in one day

In February 2020, Maersk Invincible set a new record on the Norwegian Shelf when it drilled 2,278 metres in a 12¼" section in 24 hours. The maximum drilling speed achieved by the rig on the record-breaking day was 280 metres per hour.

"I want to thank the entire drilling and subsurface team offshore and on land. We achieved this milestone because we're constantly improving all parts of our performances. Behind this record lies a lot of hard work, fantastic craftsmanship and a strong team throughout the entire operation," says Assistant Drilling Superintendent Knut Eugen Svendsen at Aker BP.

"We push the envelope because we constantly manage to tackle bottlenecks together, as an alliance team," says Tor Kvinnesland, Rig Manager on Maersk Invincible.

Maersk Invincible also held the previous drilling record in Aker BP, with 1,953 metres drilled in a single day. That record was also set on a well on Valhall Flank West.

"The jack-up rig alliance between Aker BP, Maersk Drilling and Halliburton has delivered world-class performance. We're demonstrating that the strategy of creating increased value through alliances yields results."

Tommy Sigmundstad SVP Drilling and Wells, Aker BP

Drilling Process Platform

By digitalising Maersk Drilling's core business of well construction operations while establishing digital integration towards oil companies, the Drilling Process Platform introduces a whole new way of working in drilling operations.

The Drilling Process Platform (DPP) is a digital solution to be part of Maersk Drilling´s future operating model driving efficient well construction execution.

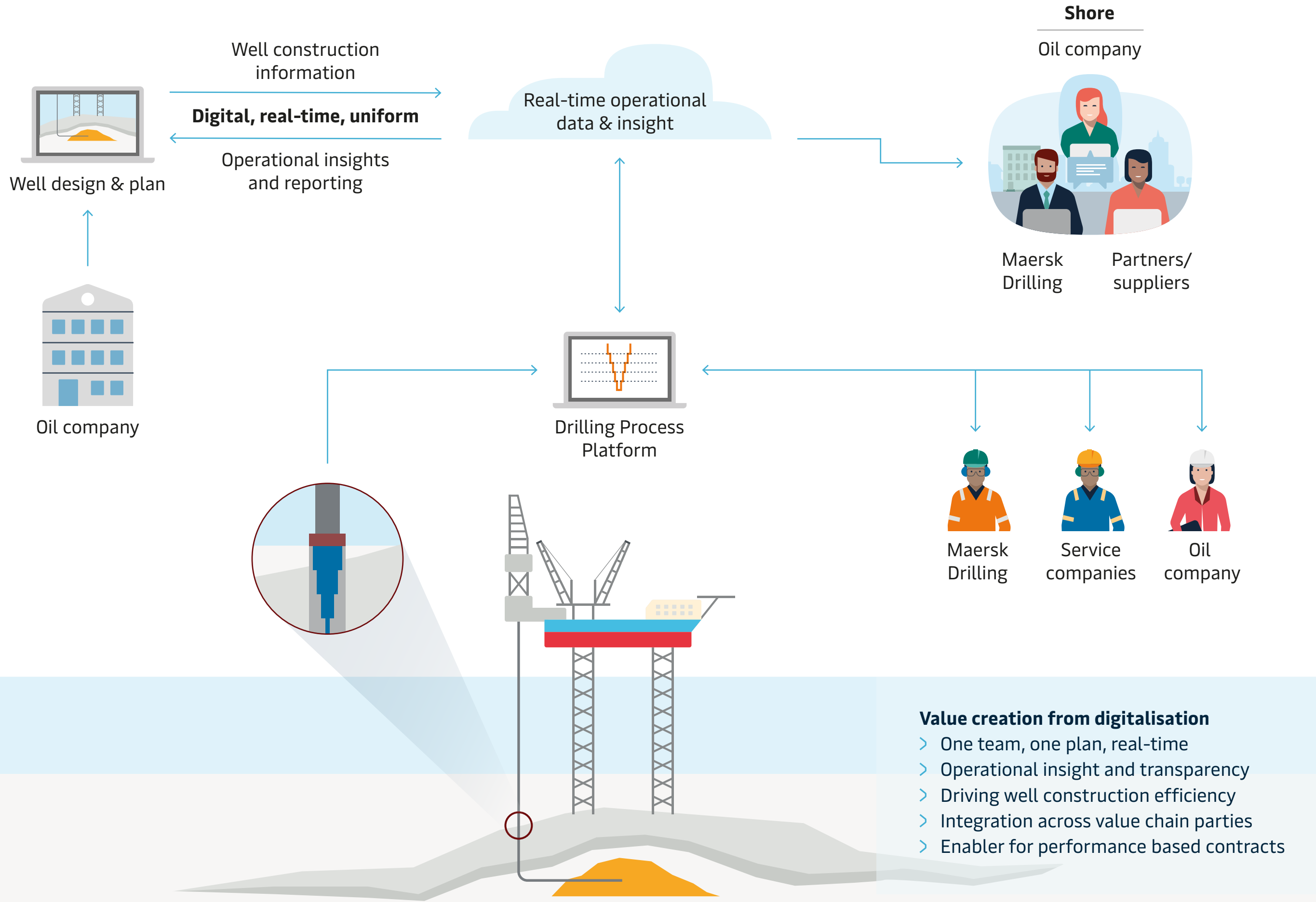
DPP will integrate in the oil company's well programme and digitalises the information flow of well construction activities on a rig enabling Maersk Drilling, the service companies and the oil company to perform as one team with **consistency, efficiency and transparent operations**.

DPP consumes digital instructions, replacing mails and printed copies and enabling instant changes to plans, all with a smart distribution of information. It enables a joint accessible real-time plan of the well construction activities both by onshore teams and rig crew, providing situational awareness and better coordination.

Faster and more efficient drilling operations directly translates into emissions reduction, making DPP a key part of Maersk Drilling's sustainability journey.

Driving faster and more predicable well construction operations, whilst establishing better operational insight makes DPP a key enabler for performance based contracts.

Orchestrating efficient well construction



Value creation from digitalisation
- One team, one plan, real-time
- Operational insight and transparency
- Driving well construction efficiency
- Integration across value chain parties
- Enabler for performance based contracts

Carbon Capture and Storage

In addition to decarbonising drilling activities, it will be important to apply Carbon Capture, Utilisation and Storage (CCUS) and hereby prevent CO_2 from entering the atmosphere.

The IEA Sustainable Development Scenario expects increased investment and rapid growth in CCUS. The annual capacity is expected to increase from 33 million tonnes CO_2 per year today to 850 million tonnes CO_2 in 2030 and 5,000 million tonnes CO_2 in 2050. For comparison, total global CO_2 emissions were around 30,000 million tonnes in 2020.

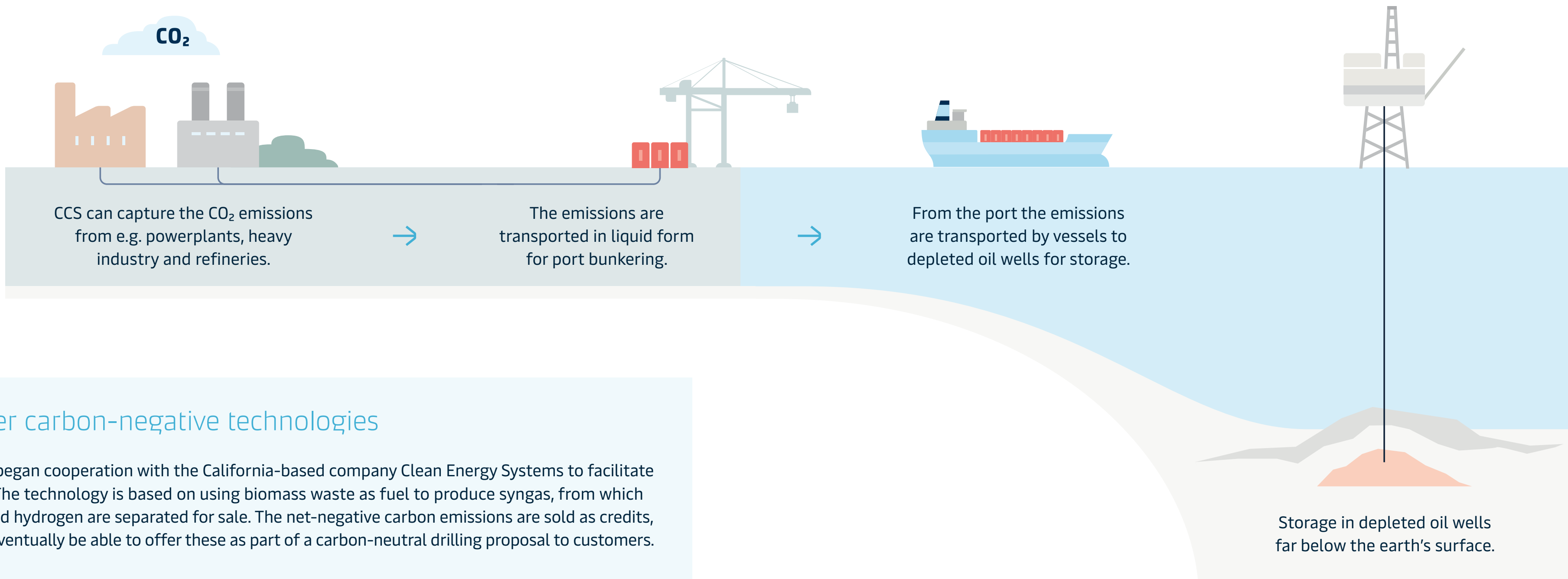
During 2020, Maersk Drilling joined INEOS Oil & Gas Denmark and Wintershall Dea in the Project Greensand consortium, which is maturing one of the most advanced Carbon Capture and Storage (CCS) projects inside Danish jurisdiction. Project Greensand targets the development of CO_2 storage capacity beneath the Danish North Sea by re-using discontinued oil and gas fields for permanent CO_2 storage.

The project has received support from the Energy Technology Development and Demonstration Program (EUDP) via the Danish Energy Agency and entered the validation phase in 2020, including successful feasibility studies for the chosen reservoir's compatibility for CO_2 injection. Laboratory experiments and results analysis were conducted by the project's research partner, the Geological Survey of Denmark and Greenland (GEUS), and the external verifier DNV GL has issued a certificate of feasibility for the reservoir.

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 CO_2 per year by 2030. CCS is one of the four pillars of the green research strategy announced by the Danish government in September 2020.

Storage in depleted offshore reservoirs is a relatively new concept and involves challenges, particularly in terms of ensuring cost- and carbon-efficient transportation of the CO_2 from shore to the injection site. However, employing CCS in offshore reservoirs also has significant advantages since the geological structures are well understood, existing infrastructure can be utilised, and the injection sites are situated far away from populated areas.

Carbon Capture and Storage – how does it work?



Supporting other carbon-negative technologies

In 2020, Maersk Drilling began cooperation with the California-based company Clean Energy Systems to facilitate carbon-neutral drilling. The technology is based on using biomass waste as fuel to produce syngas, from which renewable natural gas and hydrogen are separated for sale. The net-negative carbon emissions are sold as credits, and Maersk Drilling will eventually be able to offer these as part of a carbon-neutral drilling proposal to customers.

Organisation and people

Maersk Drilling has a global footprint with offices on four continents supporting our 22 drilling rigs.

During 2020 Maersk Drilling's offshore and onshore organisations averaged 2,678 employees of 59 different nationalities with 1,917 working offshore and 761 working onshore. At the end of the year, Maersk Drilling had 2,383 employees, which is a reduction of around 450 employees since the end of 2019. The reduction is a consequence of the lower activity level following the outbreak of COVID-19 and the oil price fluctuations in the first half of the year partly offset by the insourcing of certain support functions.

We want to uphold a supportive and productive working environment where all of our people are valued for their contributions, accepted for who they are, and can develop a meaningful career in a trusted environment that is free from discrimination – regardless of gender, nationality, religion, sexual orientation, socioeconomic background, or disability.

In an industry facing transformation, it is imperative to attract, develop and retain the best talent effectively. Maersk Drilling is actively focusing on tapping into a wider diverse talent pool to meet challenges and generate sustainable value.

In 2020, Maersk Drilling developed a dedicated Diversity & Inclusion plan with targets and initiatives to make significant progress within a time-frame of three years.

As the cornerstone of this plan, Maersk Drilling is tackling the industry-specific challenge of under-representation of women. We are pursuing a significant leap forward on gender diversity to increase female representation in all onshore leadership levels through a target of 30% across leadership levels, 25% for senior leaders and 20% for the Executive Leadership Team by end-year 2023.

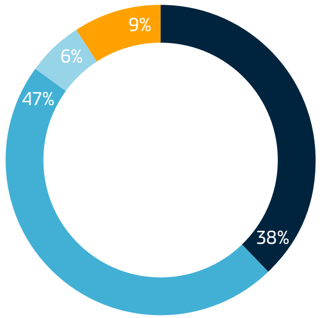
Nationality distribution 2020 – total population

Europe (outside Scandinavia) · Scandinavia · Southeast Asia · Other

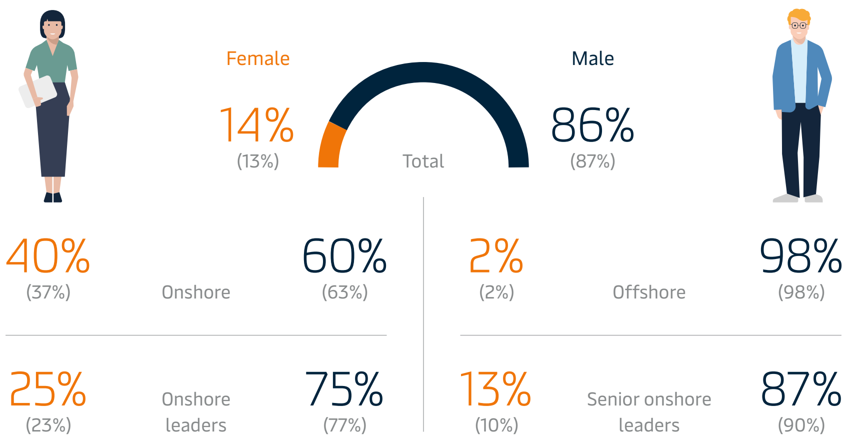
Maersk Drilling has a highly international workforce with

59

different nationalities represented. Around half are Scandinavians, a share which has been relatively stable in recent years.



Gender distribution in 2020 (2019)



Targets for female representation in onshore leadership by end-year 2023

30% across leadership levels

25% for senior leaders

20% for the Executive Leadership Team

In 2020, Maersk Drilling saw a slight improvement in diversity performance and with the new strategic focus, these developments will be accelerated. Our share of female employees increased from 13% in 2019 to 14% in 2020. Onshore, women represent 40% of our workforce. Female leaders made up 25% of our onshore leadership in 2020 compared to 23% in 2019. Offshore, women only make up 2% of the workforce. In 2020, we appointed our second female rig manager in the history of the company.

Employee turnover
We saw an improvement throughout the year with our onshore turnover rate moving from 10.2% in Q1 to 6.6% accumulated in Q4 and offshore moving from 7.3% in Q1 to 4.5% accumulated in Q4.

6.6%
onshore turnover rate

4.5%
offshore turnover rate

Organisational set-up and delivery model

Following the appointment of Christine Morris as Chief Financial Officer, Maersk Drilling's Executive Leadership Team consists of Jørn Madsen (Chief Executive Officer), Christine Morris (Chief Financial Officer), Morten Kelstrup (Chief Operating Officer) and Nikolaj Svane (Chief Strategy & People Officer).

Maersk Drilling is further organised in a divisional structure with a North Sea division, comprising the harsh environment jack-up rigs capable of working in the most challenging environments in the North Sea, including the ultra-harsh Norwegian environments, and an International division, comprising all drillships and semi-submersible rigs designed to operate in benign mid- and deepwater environments. The head of each division reports to the Chief Operating Officer.

During 2020, Maersk Drilling continued to strengthen its Global Business Solutions function and successfully insourced all operational finance functions into its central office in Gdansk, Poland, which also provides supply chain management and HR services to the global organisation.

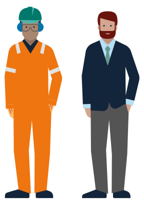
The current market environment with a high number of short-term contracts requires agility and flexibility from all Maersk Drilling departments as the teams are working within short time frames in ever changing environments. Maersk Drilling is therefore exploring the concept of virtual rig teams.

In order to deliver the best possible services to customers, a small core team is co-located alongside the customer with a support team working out of one of Maersk Drilling's permanent locations – a Virtual Rig Team.

The Virtual Rig Team pilot is setting a strong foundation for future rig operations, as the lessons learned will be used to establish a concrete model for future work in the virtual set-up.

The impact of COVID-19

Maersk Drilling is accustomed to operating in an industry which is cyclical by nature. The COVID-19 pandemic combined with substantial oil price fluctuations caused some customers to either cancel ongoing contracts or postpone future contracts. As a consequence, it was necessary to reduce the number of employees. Prior to the decision, multiple options were explored, including re-deployment, early retirement and a hiring freeze but these measures were deemed insufficient given the magnitude of the downturn. The total workforce was reduced by around 30%, but the number of employees offshore has since increased again due to the pickup in activity levels towards the end of the year.



Reduction of workforce following the outbreak of COVID-19

~30%
decline in workforce due to the downturn

Please refer to our Sustainability Report for more information around our approach towards diversity and people development. The report can be found online at https://www.maerskdrilling.com/who-we-are/sustainability

The road to 50%

As part of the new sustainability strategy launched in 2020, Maersk Drilling established a Climate Action Plan comprising the drilling industry's most ambitious emissions reduction target. By 2030, Maersk Drilling will have reduced its relative scope 1 and 2 GHG emissions by 50% compared to 2019, which is the baseline year. We are actively staying abreast of developments and technological advancements to ensure that our target can be met as effectively as possible. The target will be measured on GHG emissions relative to revenue, contracted days and drilled meters.

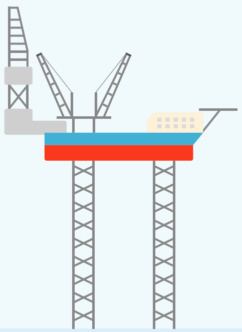
At the onset of the strategy implementation, Maersk Drilling expects that around half of the needed savings can be achieved via known solutions. The other half will be achieved by deploying new technologies or existing technologies that are not yet commercially viable.

Carbon offsets, e.g. via investments in carbon-saving projects, may be applied to achieve any residual savings.

The ambitious Climate Action Plan rests on three main levers

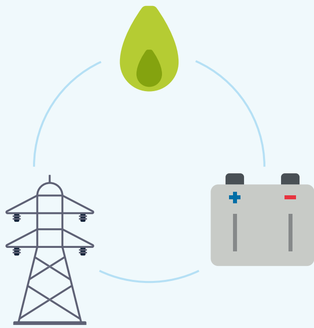
Efficiency gains through our Smarter Drilling for Better Value ambition

Smarter Drilling for Better Value



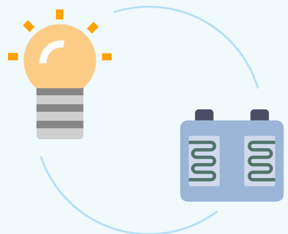
Options include new digital solutions, closer collaboration models and shared incentive structures to optimise across the well construction partner network.

Implementation of known technical solutions



Options can include for example electrified jack-up rigs, low-emission rigs utilising battery power, extended use of lower-carbon fuels and additives, optimisation of equipment including pumps and utility systems, as well as slow-steaming when transporting rigs.

Development of new solutions



Options can include for example extension of existing technologies, e.g. developing electrified floaters, but also encompass future technologies such as fuel cells, hydrogen and ammonia-based power and offshore wind.

Target to reach in 2030

↓50%

Relative scope 1 and 2 GHG emissions

Financial policy and capital allocation

The overall objective of the financial policy is to enable Maersk Drilling to manage through the cyclicality that characterises the offshore drilling industry, with the aim to create long-term shareholder value.

The financial policy ensures:

- Financial flexibility, including adequate liquidity reserves;
- A long-term funding view to minimise refinancing risk; and
- A robust capital structure through the business cycle.

In order to meet these objectives, free cash flow is to be allocated based on the following prioritisation:

1. Maintain a robust capital structure with sufficient funding available to support the business through the cycle;
2. Pursue investment opportunities supporting long-term shareholder value creation; and
3. Return surplus capital to shareholders.

Maersk Drilling will generally work towards a leverage ratio (net debt divided by EBITDA before special items) of around 2.5x.

This means that if the leverage ratio is below 2.5x over time, and no attractive investment opportunities have been identified, Maersk Drilling will seek to return capital to shareholders by means of dividends and/or share buy-backs.

If value adding investment opportunities that require additional funding arise, or if EBITDA is reduced in a business down cycle, the leverage may exceed the target level of around 2.5x for a period of time. The focus here will be to reduce net debt to reach the targeted leverage level of around 2.5x.

As of 31 December 2020, the leverage ratio was 3.7x. In line with the principles set out above, Maersk Drilling will not propose any dividends based on the 2020 Annual Report.

Until the Annual General Meeting in 2024, the Board of Directors is authorised to acquire treasury shares of up to 10% of the share capital provided that the purchase price does not deviate by more than 10% from the price quoted on Nasdaq Copenhagen at the time of the acquisition.

Financial review

Financial performance in 2020

The sharp drop in oil prices in Q1 2020, caused by COVID-19 and OPEC+ actions, drove 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, drilling contracts for Maersk Venturer, Mærsk Developer, Maersk Reacher, Maersk Resilient, Mærsk Innovator and Maersk Guardian were terminated for convenience and drilling contracts for Maersk Voyager in Angola and Namibia and Mærsk Deliverer in Australia were suspended from end April and into September. Apart from the termination for Maersk Venturer, Maersk Drilling has received 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.

Despite challenging market conditions, Maersk Drilling managed to secure 19 contracts and contract extensions during 2020 adding USD 469m (USD 828m) to the contract backlog.

At the end of 2020, the contract backlog amounted to USD 1.3bn (USD 2.1bn), of which USD 665m is for execution in 2021. In addition, Maersk Drilling has since the beginning of 2021 secured additional contracts and conditional letters of award with a total value of more than USD 500m.

In close cooperation with customers, Maersk Drilling has since March 2020 implemented a number of measures to reduce the risk of transmission of COVID-19. Generally, the organisation has managed to navigate the increased complexity related to crew changes, supply chain and logistics and has thereby kept operations largely unaffected.

The number of contracted days decreased to 5,208 (6,310) resulting in a utilisation of 65% (77%) mainly due to the North Sea segment being negatively impacted by contract terminations and more idle rigs.

Substantial incremental costs were incurred due to COVID-19, and such costs are generally recharged to customers. COVID-19 related costs not recharged to customers amounted to USD 18m, which are presented under special items due to their one-off nature.

To adapt the cost structure to the changed business environment, Maersk Drilling took precautionary measures in the form of stacking of rigs and adjusting maintenance programmes to the revised activity levels.

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

For 2020, EBITDA before special items amounted to USD 289m (USD 415m), in line with the latest guidance of EBITDA before special items in the range of USD 275–300m.

Capital expenditures of USD 162m was in line with the most recent guidance of around USD 150m but a substantial reduction over last year (USD 309m). Capital expenditures in 2020 comprised three Special Periodic Surveys (SPS), rig upgrades linked to contracts and general maintenance of the fleet.

Income statement

Revenue

Revenue for 2020 was USD 1,096m compared to USD 1,222m in 2019, negatively impacted by lower utilisation, especially in the North Sea segment as a result of contract terminations and general lower activity levels. This was partly offset by additional compensation for COVID-19 related costs and termination fees.

The Other share of total revenues increased to USD 155m from USD 123m in 2019, equal to 14% (10%) 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.

The average day rate was USD 210k in 2020 compared to USD 194k in 2019. Excluding lump sum termination fees and additional other revenue for COVID-19 related costs, the average day rate was USD 200k.

Costs

Despite cost reduction measures initiated, operating costs increased to USD 725m from USD 710m in 2019 primarily due to reactivation costs for previously stacked rigs, which were reactivated to commence contracts during the first half of 2020.

Incremental costs related to COVID-19 amounted to USD 40m, of which USD 22m are to be reimbursed. The residual costs of USD 18m are presented under special items due to their non-recurring nature and operating costs thus include USD 22m of COVID-19 related costs.

Sales, general and administrative expenses (SG&A) decreased to USD 76m compared to USD 87m in 2019 due to general cost saving initiatives. Similarly, Innovation costs decreased from USD 10m in 2019 to USD 6m in 2020.

EBITDA before special items

EBITDA before special items amounted to USD 289m (USD 415m) resulting in an EBITDA margin of 26% (34%).

Special items

Special items of USD 42m (USD 16m) comprised redundancy costs from the reduction of the offshore and the onshore organisations of USD 24m and COVID-19 related costs not recharged to customers of USD 18m.

Impairment losses/reversals

Following the revised market outlook with lower expectations as to utilisation and day rates for the coming years, Maersk Drilling initially recognised a net impairment loss of USD 1,476m in its Interim Financial Report as of and for the six months ended 30 June 2020. The impairment calculations have been updated as of 31 December 2020 due to changes in fiscal regimes in certain markets and to reflect the most current expected commercial outlook resulting in a further impairment loss of USD 104m bringing the total impairment loss for the year to USD 1,580m. Potential impairment reversals of USD 82m have not been recognised as not arising from a substantially improved market outlook.

In 2019, a write-down of USD 34m was recognised in connection with the re-classification of Maersk Completer to held for sale. No further impairment write-downs or impairment reversals were recognised in 2019.

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 of USD 2m (gain of USD 8m related to the sale of Mærsk Giant).

Financial income and expenses

The net financial expenses increased to USD 72m (USD 68m) due to currency exchange movements. Net interest expenses decreased from USD 81m to USD 68m. The average funding costs including fees were around 5% in 2020.

Tax

Tax for the year was an income of USD 41m (expense of USD 29m), impacted by a USD 42m deferred tax adjustment from the impairment charge recognised. Cash tax paid during the year of USD 9m (USD 24m) primarily comprised income and withholding taxes paid in the countries in which Maersk Drilling operates, offset by joint taxation contributions from jointly taxed entities outside the Maersk Drilling Group.

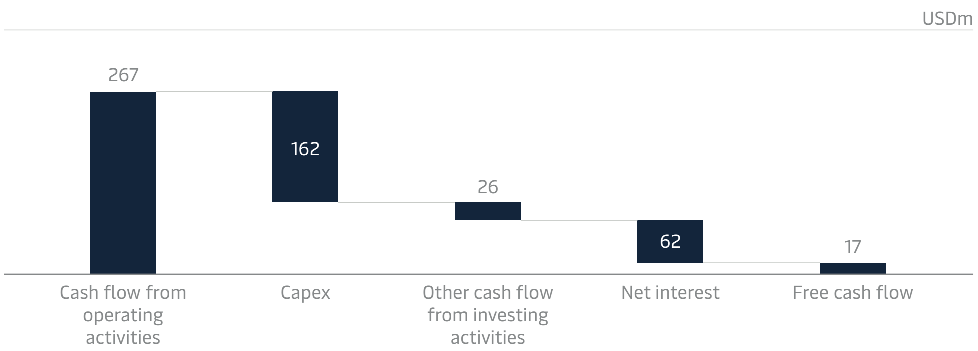
Profit/loss for the year

The net loss for the year of USD 1,653m (loss of USD 113m) is primarily impacted by the impairment charge recognised.

EBITDA before special items

USD Million	2020	2019
Revenue	1,096	1,222
Costs	807	807
EBITDA before special items	**289**	**415**
Margin	26%	34%

Free cash flow bridge



Cash flows

Cash flow from operating activities

Cash flow from operating activities was USD 267m (USD 420m), equal to a cash conversion of 108% (105%).

Cash flow used for investing activities

In line with expectations, cash flow used for investing activities decreased in 2020 to USD 150m (USD 303m), impacted by the proceeds from the disposal of Maersk Completer and a lower number of rig upgrades and yard stays in connection with SPSs for three rigs (nine rigs in 2019).

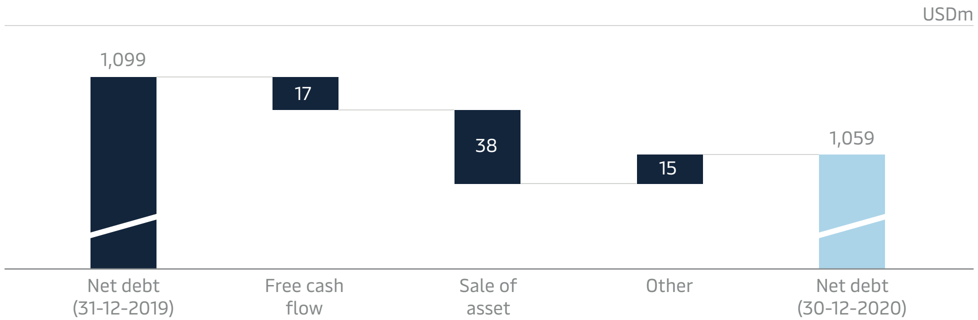
Cash flow from financing activities

Cash flow from financing activities was an outflow of USD 204m (USD 180m), comprising amortisation of borrowings including lease liabilities of USD 137m (USD 103m), net interest payments of USD 62m (USD 77m) and purchase of treasury shares of USD 5m (nil).

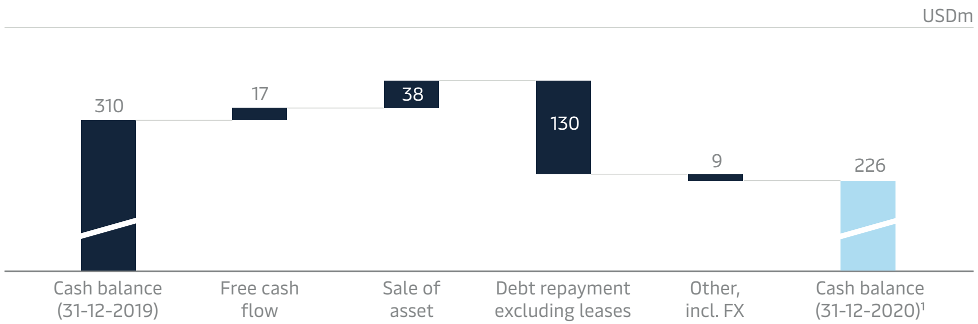
Free cash flow

Excluding the USD 38m proceeds from the sale of Maersk Completer, the free cash flow after interest payments amounted to USD 17m (USD 32m).

Development in net debt



Development in cash and bank balances



1 Includes USD 14m in restricted cash

Capital structure and funding

Equity

At 31 December 2020, equity amounted to USD 2,017m (USD 3,680m), impacted by the loss for the year of USD 1,653m, negative value adjustment of hedges of USD 7m and purchase of treasury shares of USD 5m.

Net debt and capital structure

At 31 December 2020, the net debt amounted to USD 1,059m (USD 1,099m), comprising gross borrowings of USD 1,254m (USD 1,378m) and lease liabilities of USD 31m (USD 31m), offset by total cash and bank balances of USD 226m (USD 310m).

Maersk Drilling's policy is to partly hedge interest rate risk using a model under which a larger proportion of risk is hedged in the short to medium term and a smaller proportion is hedged in the longer term. As of 31 December 2020, the average fixed ratio of gross funding is 54% for the whole term with 62% and 49% fixed for 2021 and 2022, respectively.

Maersk Drilling continues to have a solid capital structure with a high degree of financial flexibility. At 31 December 2020, the leverage ratio (net debt to EBITDA before special items) was 3.7 (2.6), while the equity ratio was 54% (67%).

The liquidity reserves amounted to USD 626m (USD 710m), comprising cash and bank balances of USD 226m (USD 310m) and a committed but undrawn revolving credit facility of USD 400m (USD 400m).

Asset base

At 31 December 2020, total assets amounted to USD 3,719m (USD 5,517m). The reduction is primarily due to the impairments of USD 1,580m recognised during 2020. For 2020, capital expenditures comprised additions to property, plant and equipment of USD 158m (USD 309m) and additions to intangible assets of USD 4m (nil).

Governance and risk

Corporate governance

Our five core values remain unchanged and have been ingrained in Maersk Drilling's way of conducting business since its founding in 1972. They remain guiding principles for the work of the Board of Directors, the Executive Management and all activities in Maersk Drilling and translate into our approach to corporate governance.

Governance structure

Shareholders and General Meeting

The governing body of Maersk Drilling is the General Meeting, at which the shareholders exercise their rights in such matters as the election of board members and the external auditor, approval of the Annual Report and deciding on proposals submitted by the shareholders. Except for resolutions to amend the articles of association, resolutions can generally be passed by a simple majority.

Board of Directors

Maersk Drilling has a two-tier management structure consisting of the Board of Directors and the Executive Management. The Board of Directors supervises the work of the Executive Management and is responsible for the overall strategic management and proper organisation of the Group's business and operations. The Executive Management handles the day-to-day management of the Group. No person may serve as a member of both corporate bodies.

Diversity of shareholder-elected board members 2020

In 2020, the Board of Directors consisted of seven members elected by the General Meeting and two members elected among the employees. Members elected by the General Meeting are elected for a term of one year, whereas employee representatives are elected for a term of four years. Re-election of board members may take place.

The General Meeting elects a Chairman of the Board of Directors, and the Board of Directors elects a Vice Chairman among its members. The Chairman and the Vice Chairman together constitute the Chairmanship.

The Board of Directors held nine meetings in 2020. All members attended all meetings, except that Alastair Maxwell attended eight meetings.

Diversity, competencies and board evaluation

Maersk Drilling strives towards diversity in the composition of the Board of Directors, including gender as well as nationality, international experience, qualifications and competencies.

Maersk Drilling's overall ambition is to work towards having an equal gender distribution of the Board of Directors. Maersk Drilling's target of having two female board members elected by the General Meeting no later than 2022 was satisfied at the Annual General Meeting in 2020. Additionally, Maersk Drilling's current target is that at least 1/3 of the Board of Directors should be non-Danish citizens.

At 31 December 2020, three shareholder-elected board members were female and four were male, while five shareholder-elected board members were non-Danish citizens and two were Danish citizens.

Our Values

Our five core values were far ahead of their time when they were created by the founders of the Maersk Group. Today they remain our guiding principles, calling upon us to remain conscientious as we strive to do better.

Constant Care
Take care of today, actively prepare for tomorrow.

Humbleness
Listen, learn, share and give space to others.

Uprightness
Our word is our bond.

Our Employees
The right environment for the right people.

Our Name
The sum of our values: passionately striving higher.

Our corporate governance structure

Annually, the Board of Directors conducts an evaluation of its composition considering the competencies needed to perform its tasks, and of the cooperation between the Board of Directors and the Executive Management. The key competencies and areas of experience and expertise required by the Board of Directors are currently defined as: Capital markets, offshore oil & gas operations and industry, executive leadership and financial acumen, corporate transformations and ESG, including health & safety.

In 2020, the evaluation was facilitated by an external consulting firm by way of a written questionnaire combined with individual interviews with the Directors of the Board and the Executive Management. The evaluation included, among other things, the Board of Directors' general competencies and overall effectiveness and value contribution, transparency and openness of information and discussions, cooperation with the Executive Management, the Chairman's role, the work and the structure of the Board committees and a "time-spent analysis" of the Board meetings.

All members of the Board of Directors and the Executive Management participated in the evaluation and provided their detailed input via both the questionnaire and individual interviews, which formed the basis of a comprehensive evaluation report. The findings and conclusions were presented to and discussed by the Board of Directors in December 2020.

The evaluation concluded that overall, the Board is well set to become a top performing board. Identified key strengths include:

- The Board consists of experienced executives, and employee elected Board members are well positioned to contribute meaningfully. All Board members are highly committed, seeking to understand the dynamics of the business and to add as much value as possible;
- The Board is particularly strong in terms of financial experience and has a broad and deep understanding of financial issues. With the recruitment of the two most recent Board members, the Board's composition has improved with more varied experience and cognitive diversity.

In order to take the Board to the next level, an action plan has been prepared pursuing improvements in 2021. The Board agreed on two focus areas:

- **Effectiveness:** Increasing Board effectiveness aimed at spending more time on strategy and discussions and less time on management reporting;
- **Culture:** The Board becoming "one team", better leveraging the competences by aligning expectations and creating an even more conducive and forward leaning dialogue between the Executive Management and the Board.

In 2021, the Board of Directors will focus on long-term strategy development.

Executive Management

During 2020, the Executive Management consisted of Jørn Madsen as Chief Executive Officer (CEO) and Jesper Ridder Olsen as Chief Financial Officer (CFO). From January 2021, Christine Morris succeeded Jesper Ridder Olsen as CFO.

The Executive Management is responsible for the day-to-day management and compliance with the procedures, instructions, guidelines and recommendations issued by the Board of Directors.

The Chairmanship and the Executive Management regularly discuss the cooperation between the Board of Directors and the Executive Management. The Board of Directors also regularly and at least annually evaluates the work and performance of the Executive Management.

Board committees

In order to support the Board of Directors, Maersk Drilling has established an Audit & Risk Committee, a Remuneration Committee, a Nomination Committee and a Safety & Sustainability Committee.

The purpose of the Board committees is to report and make recommendations to the Board of Directors on the matters assigned to each committee. The committees are not authorised to make independent decisions but to examine all matters within the scope of their charters, which are available on Maersk Drilling's website at https://investor.maerskdrilling.com/governance/corporate-governance.

All members of the committees are elected by the Board of Directors from among its members, considering the optimal composition given the individual members' key competencies.

Audit & Risk Committee

In 2020, the Audit & Risk Committee consisted of Kathleen McAllister as chair and Alastair Maxwell and Martin Larsen as members.

The overall purpose and main activities of the Audit & Risk Committee are to monitor and review the Group's financial reporting and related procedures, and to evaluate the accounting policies, estimates and judgements as well as transactions with related parties. Further, the Audit & Risk Committee is to monitor the Group's external audit, including the provision of non-audit services.

Moreover, the Audit & Risk Committee oversees the Company's risk management systems, including the ethics hotline.

The Audit & Risk Committee held five meetings in 2020. All members attended all meetings.

Remuneration Committee

In 2020, the Remuneration Committee consisted of Claus V. Hemmingsen as chair and Alastair Maxwell and Robert M. Uggla as members.

The overall purpose and main activities of the Remuneration Committee are to maintain and oversee the Remuneration Policy and to evaluate the actual remuneration for the members of the Board of Directors and the Executive Management. Additionally, the Remuneration Committee annually reviews the compensation level for Maersk Drilling's Executive Leadership Team and the general incentive framework for other employees.

The Remuneration Committee held four meetings in 2020. All members attended all meetings.

Nomination Committee

In 2020, the Nomination Committee consisted of Robert M. Uggla as chair and Claus V. Hemmingsen as member.

The overall purpose and main activities of the Nomination Committee are to ensure that appropriate plans and processes are in place for nomination of candidates to the Board of Directors, the Executive Management and the Board committees. The Nomination Committee annually evaluates the composition of the Executive Management and, if requested, assists with the annual evaluation of the Board of Directors.

The Nomination Committee held two meetings in 2020. Both members attended both meetings.

Safety & Sustainability Committee

In 2020, the Safety and Sustainability Committee consisted of Claus V. Hemmingsen as chair and Ann-Christin G. Andersen and Kristin H. Holth as members.

The overall purpose and main activities of the Safety & Sustainability Committee are to assist the Board of Directors with overseeing Maersk Drilling's identification, management and mitigation of risks associated with matters of health, safety, security, environment and sustainability, including the annual Sustainability Report.

The Safety and Sustainability Committee held two meetings in 2020. All members attended both meetings.

Overview of committee members and attendance rate for 2020

Board member	Audit & Risk Committee member	Remuneration Committee member	Nomination Committee member	Safety& Sustainability Committee member	Board Meetings Attended	Nationality	Joined the board	Election Period
Claus V. Hemmingsen (Chairman)		Chair	Member	Chair	9	Danish	2019	1 year
Robert M. Uggla (Vice Chairman)		Member	Chair		9	Swedish	2019	1 year
Ann-Christin G. Andersen				Member	9	Norwegian	2020	1 year
Kristin H. Holth				Member	9	Norwegian	2020	1 year
Martin Larsen	Member				9	Danish	2019	1 year
Kathleen McAllister	Chair				9	American	2019	1 year
Alastair Maxwell	Member	Member			8	British	2019	1 year
Caroline Alting (employee elected)					9	Danish	2019	4 years
Glenn Gormsen (employee elected)					9	Danish	2019	4 years

Chair of the committee   Member of the committee

Statutory report on corporate governance

Pursuant to section 107b of the Danish Financial Statements Act and the Rules for Issuers of Shares of Nasdaq Copenhagen A/S, listed companies must provide an annual statement on how they address the recommendations on corporate governance issued by the Danish Committee on Corporate Governance.

Our adoption of the recommendations, including descriptions of internal controls and risk management systems related to financial reporting, is set out in our Statement on Corporate Governance for 2020, which is available at https://investor.maerskdrilling.com/governance/corporate-governance.

Statutory report on gender and diversity

The Sustainability Report for 2020 serves as the statutory reporting according to sections 99a, 99b and 107d of the Danish Financial Statements Act. Read the full report at: https://www.maerskdrilling.com/who-we-are/sustainability.

Authority to acquire treasury shares

Until the Annual General Meeting in 2024, the Board of Directors is authorised to acquire treasury shares of up to 10% of the share capital provided that the purchase price does not deviate by more than 10% from the price quoted on Nasdaq Copenhagen at the time of the acquisition.

Disclosure regarding change of control

As part of the demerger of A.P. Møller - Mærsk A/S, Maersk Drilling entered into a branding agreement with A.P. Møller - Mærsk A/S and A.P. Møller Holding A/S regarding Maersk Drilling's future use of a number of trademarks, names, vessels and rig names and other designations including "Maersk Drilling", the Maersk blue colour and the seven-pointed star. In addition to the parties' right to terminate the branding agreement in case of breach and insolvency proceedings, the branding agreement is further subject to a number of termination provisions allowing A.P. Møller - Mærsk A/S and/or A.P. Møller Holding A/S to terminate (generally at 12 months' notice) in case of certain events constituting a change of control under the branding agreement.

Upon termination, Maersk Drilling must cease use of the Maersk trademarks and remove any references thereto.

Authority to increase share capital

Until the Annual General Meeting in 2024, the Board of Directors is authorised to increase the share capital without pre-emption rights for existing shareholders by up to nominally (i) DKK 20,816,000 at or above market price for general corporate purposes, and/or (ii) DKK 12,490,000 for executives and employees of Maersk Drilling at a subscription price determined by the Board of Directors, which may be below market price.

Board of Directors

Claus V. Hemmingsen

Chairman

Chair of Remuneration Committee and Safety & Sustainability Committee; member of Nomination Committee

Born	1962
Gender	Male
Nationality	Danish

Non-executive board member

Qualifications
Extensive international, commercial and managerial experience from the offshore oil & gas and shipping industries, including HSSE & Sustainability, M&A, capital markets and non-executive directorships.

Other management duties, etc.
DFDS A/S (Chairman; Chair of Nomination Committee and Remuneration Committee); A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal (The A.P. Moller Foundation) (board member); A.P. Møller Holding A/S (board member); Den A.P. Møllerske Støttefond (board member); Det Forenede Dampskibs-Selskabs Jubilæumsfond (board member); Fonden Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping (board member); Global Maritime Forum Fonden (board member); HusCompagniet Holding A/S and HusCompagniet A/S (Chairman); Bacher A/S, Bacher Work Wear A/S, BWW Logistics A/S and Webmore Uniformer A/S (board member); CVH Consulting ApS (CEO).

Education
- A.P. Moller Maersk Certified Shipping Education (1983)
- Executive MBA (honours) from International Institute for Management Development (IMD) (2007)
- International Directors Programme (INSEAD) (2020)

Shareholding: 5,424 shares

Not considered independent

Robert M. Uggla

Vice Chairman

Chair of Nomination Committee; Member of Remuneration Committee

Born	1978
Gender	Male
Nationality	Swedish

CEO of A.P. Møller Holding A/S

Qualifications
International, commercial and managerial experience within investments, incubation, shipping and marine services, including HSSE and other ESG aspects, M&A, capital markets and non-executive directorships.

Other management duties, etc.
A.P. Møller - Mærsk A/S (board member; member of Nomination Committee, Transformation & Innovation Committee and Remuneration Committee); A.P. Møller Capital P/S (Chairman); Maersk Tankers A/S (Chairman); Maersk Product Tankers A/S (Chairman); IMD (Foundation Board member); ZeroNorth A/S (board member); Agata ApS (CEO); Estemco XII ApS (CEO) and board positions in a number of controlled subsidiaries of A.P. Møller Holding A/S.

Education
- MSc in Finance and Economics from Stockholm School of Economics, including studies at Università Commerciale Luigi Bocconi
- Executive education at the Wharton School of the University of Pennsylvania, Harvard Business School, Stanford Business School and IMD

Shareholding: 4,430 shares

Not considered independent

Ann-Christin G. Andersen

Member of Safety & Sustainability Committee

Born	1966
Gender	Female
Nationality	Norwegian

Non-executive board member

Qualifications
More than 30 years' international and managerial experience from the oil & gas industry, with extensive experience in project execution and orchestrating transformation in areas like HSE and technology, including digital.

Other management duties, etc.
4ADA AS (strategic advisor and CEO); Glitre Energi AS (Chairman); Rotork Plc (board member; Chair of ESG Committee).

Education
- IMD Executive MBA (honours), Lausanne, Switzerland
- IMD programme for Executive Development (PED)
- Bachelor degree with 1st Class Honours in Offshore Electrical Engineering, Heriot Watt University, Edinburgh, UK

Shareholding: 760 shares

Considered independent

Kristin H. Holth

Member of Safety & Sustainability Committee

Born	1956
Gender	Female
Nationality	Norwegian

Non-executive board member

Qualifications
Significant international, managerial and analytic insight in shipping, offshore, oil & gas and oilfield services industries, with a strong focus on ESG matters, as well as significant experience in capital markets and funding.

Other management duties, etc.
GasLog Ltd. (board member); Maersk Tankers A/S (board member); Moelven Industrier ASA (board member); HitecVision AS (board member); ABP AS (board member); BI International Advisory Board (member).

Education
- Bachelor in Economics and Business Administration, BI Norwegian Business School
- Scandinavian Executive Institute/INSEAD – Executive Management programme, Lund University, IMD Business School

Shareholding: 700 shares

Considered independent

Martin Larsen

Member of Audit & Risk Committee

Born	1979
Gender	Male
Nationality	Danish

CFO of A.P. Møller Holding A/S

Qualifications
International, managerial and financial experience within offshore supply services, shipping, energy and insurance, including M&A and capital markets experience.

Other management duties, etc.
A.P. Møller Capital P/S (board member); Maersk Tankers A/S (board member; Chair of Audit Committee); Maersk Product Tankers A/S (board member; Chair of Audit Committee); Navigare Capital Partners A/S (board member); Assuranceforeningen Skuld (Gjensidig) (board member; Chair of Audit Committee; member of Risk Committee); MVKH ApS (CEO) and board positions in a number of controlled subsidiaries of A.P. Møller Holding A/S.

Education
- Executive MBA from London School of Economics/ Columbia University
- Master of Science, Economics and Finance from Warwick University
- Bachelor of Economics from University of Copenhagen

Shareholding: 797 shares

Not considered independent

Alastair Maxwell

Member of Audit & Risk Committee and Remuneration Committee

Born	1964
Gender	Male
Nationality	British

CFO of Signifier Medical Technologies Ltd.

Qualifications
Extensive international and financial experience within energy markets, including M&A, privatisation, restructuring and equity and debt capital markets.

Other management duties, etc.
None

Education
- MA (Hons) Modern Languages (Spanish and Portuguese) from Oxford University
- Successful completion of London Business School Corporate Finance Evening Programme (1988/89)

Shareholding: 1,337 shares

Considered independent

Kathleen McAllister

Chair of Audit & Risk Committee

Born	1964
Gender	Female
Nationality	American

Non-executive board member

Qualifications
Extensive international, financial and managerial experience within the offshore oil & gas industry, including M&A, capital markets, listed company CEO and CFO roles and non-executive directorships.

Other management duties, etc.
Höegh LNG Partners LP (board member; member of Audit Committee and Conflicts Committee); Black Hills Corp. (board member; member of Audit Committee).

Education
- B.S. Accounting (honours), University of Houston – Clear Lake
- Certified Public Accountant
- NACD Board Leadership Fellow

Shareholding: 0 shares

Considered independent

Caroline Alting

Employee representative

Born	1975
Gender	Female
Nationality	Danish

Head of Integrity and Projects at Maersk Drilling

Qualifications
Technical and operational experience within the offshore oil & gas industry, including HSSE, sustainability and the competitive landscape and customer relationships.

Other management duties, etc.
Advisory board member for MCEDD Deepwater Development conference.

Education
- MSc. Chemistry
- PMD IESE Business School

Shareholding: 325 shares

Not considered independent due to employment within the Group

Glenn Gormsen

Employee representative

Born	1972
Gender	Male
Nationality	Danish

Offshore installation Manager at Maersk Drilling

Qualifications
In-depth technical, operational and leadership experience within the offshore oil & gas operations and industry, including compliance, risk management and HSSE, as well as a deep cross-organisational understanding of Maersk Drilling.

Other management duties, etc.
None

Education
- Master Mariner
- Officer of reserves, Royal Danish Navy
- In process: Bachelor in leadership, financial management and asset management (Blue Diploma)

Shareholding: 205 shares

Not considered independent due to employment within the Group

Executive Management

Jørn Madsen

Chief Executive Officer (CEO)

Born	1964
Gender	Male
Nationality	Danish
Year of first employment	1990
In current position since	2016

Jørn Madsen has been CEO of Maersk Drilling since November 2016. Prior to his appointment as CEO, Jørn Madsen was CEO of Maersk Supply Service A/S from 2015–2016. Prior thereto, he held various positions in Maersk Drilling amongst others as COO and Managing Director of Maersk Drilling in Norway. Jørn Madsen is currently Chairman of the Board of Directors of Maersk Decom A/S. Jørn Madsen holds an Executive MBA from IMD/ University of Geneva, and a Master of Science, Mechanical Engineering from the Technical University of Denmark.

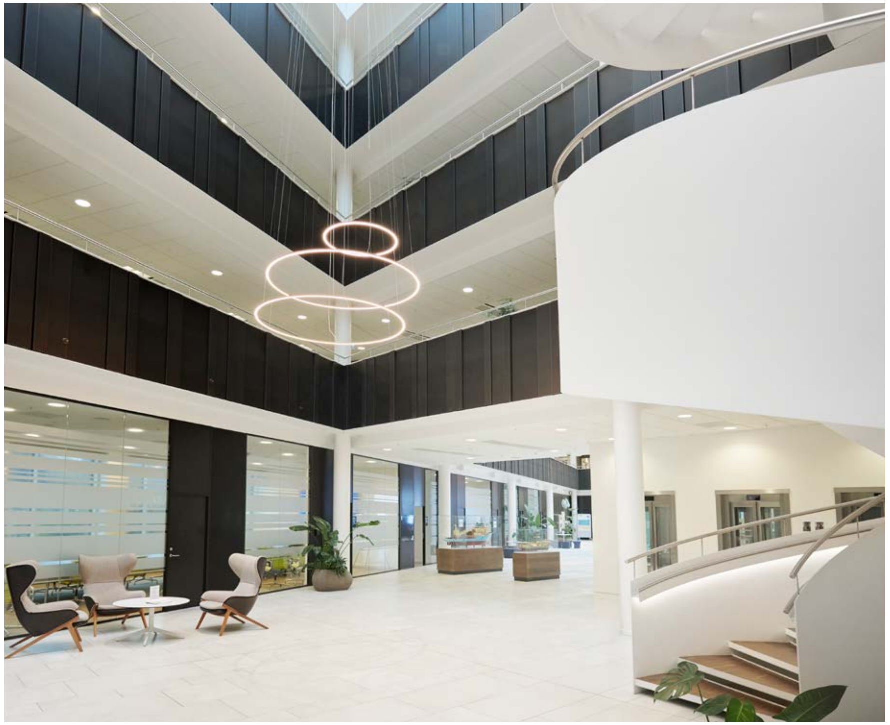
Christine Morris

Chief Financial Officer (CFO)

Born	1966
Gender	Female
Nationality	Dual Belgian and American citizenship
Year of first employment	2021
In current position since	2021

Christine Brennet (generally referred to as Christine Morris) has been CFO of Maersk Drilling since January 2021. Prior to her appointment as CFO, Christine Morris was CFO of BJ Services, a US based oilfield services company. Prior to this, Christine Morris held executive finance positions with Haliburton from 2010–2017. Christine Morris holds an MBA from the Stanford Graduate School of Business, USA and a Master in Actuarial Sciences from Université Catholique de Louvain, Belgium.

Remuneration



Remuneration Policy

The Remuneration Policy was approved at Maersk Drilling's Annual General Meeting in April 2020. No changes will be proposed to the Remuneration Policy at Maersk Drilling's Annual General Meeting in 2021, but some sections in the Annual Remuneration Report for 2020 have been expanded for clarification. The next mandatory vote on the Remuneration Policy is in 2024. The description below is a summary of the current Remuneration Policy.

The Remuneration Policy includes the overall guidelines on incentive pay for the Board of Directors and the Executive Management in accordance with sections 139 and 139a of the Danish Companies Act and based on the Corporate Governance Recommendations.

The Remuneration Policy promotes the objectives of:

- ensuring alignment of interests between the Board of Directors, the Executive Management and shareholders,
- attracting and retaining qualified members of the Board of Directors and the Executive Management, constantly maintaining the motivation of both the Board of Directors and the Executive Management for achieving the Group's strategic long- and short-term targets, and
- promoting value creation for the benefit of the shareholders.

Board of Directors

Each ordinary member of the Board of Directors will receive a fixed annual base fee, while the Chairman and the Vice Chairman receive fixed multiples of the fixed annual base fee. Participation in a board committee entitles a board member to an additional fixed annual fee based on a proportion of the fixed annual base fee. Members of the Board of Directors and the board committees do not receive any incentive or share- based pay. Fee levels are reviewed periodically taking into account independent advice (on comparisons with other large companies of similar size and complexity based in Denmark and Europe, supplemented by a perspective based on global drilling industry remuneration levels for industry specific expertise) and the time commitment required of the board members.

Executive Management

Remuneration of the Executive Management will be decided by the Board of Directors based on recommendations from the Remuneration Committee. When determining the fixed pay of the Executive Management, the Board of Directors takes into consideration:

- our policy generally to provide a total reward opportunity at around the median for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity in Denmark and in Europe;
- a perspective based on global drilling industry remuneration levels for industry specific expertise.

The remuneration and benefits package for the Executive Management will consist of:

- **Fixed pay:** A fixed annual cash salary.
- **Other benefits:** Telephone, insurance coverage, annual health check, newspaper subscriptions, training/education and similar benefits.
- **Short-term incentive:** A short-term cash incentive based on the achievement of the targets established for the current year.
- **Long-term incentive:** A share-based incentive scheme is offered to incentivise long-term performance, commitment and retention of the Executive Management, as well as to promote alignment of their interests with the shareholders. All long-term incentives must have a vesting or maturity period of at least three years from the relevant date of grant. The Executive Management will not be able to sell any shares vesting until the total period from grant is five years, i.e. an additional "holding period" of two years in addition to the three-year "vesting period". The Executive Management is also subject to a share ownership requirement of twice the annual long-term incentive grant level applicable.

- **Transition of long-term incentives:** To ensure the Executive Management had an equity interest in the Company from the date of the demerger, they were required to forfeit all unvested A.P. Møller - Mærsk A/S shares and share options as of 1 January 2019 and instead received restricted share units in Maersk Drilling.
- **Termination benefits:** The period of notice applicable to the Executive Management is 12 months for the employer and 6 months for the executive. In addition to company notice, the Executive Management is entitled to a severance payment of up to 6 months' fixed pay at the time of termination.

Remuneration Report

Maersk Drilling has published an Annual Remuneration Report pursuant to section 139b of the Danish Companies Act and based on the recommendations published by the Danish Committee on Corporate Governance and implemented by Nasdaq Copenhagen A/S.

Other remuneration disclosures

Further information on remuneration and share-based incentives for 2020 is set out in notes 1.3 and 4.3 to the consolidated financial statements.

Board Remuneration 2020 (USD 000s)

Board Member	Base fee	Committee fees	**Total**
Claus V. Hemmingsen (Chairman)	206.6	45.9	252.5
Robert M. Uggla (Vice Chairman)	137.7	17.2	154.9
Ann-Christin G. Andersen	51.6	12.9	64.5
Kristin H. Holth	51.6	12.9	64.5
Martin Larsen	68.9	23.0	91.9
Alastair Maxwell	68.9	35.8	104.7
Kathleen McAllister	68.9	45.9	114.8
Robert Routs	22.9	19.1	42.0
Caroline Alting (employee elected)	68.9	0	68.9
Glenn Gormsen (employee elected)	68.9	0	68.9
Total	**814.9**	**212.7**	**1,027.6**

Executive Management Remuneration 2020

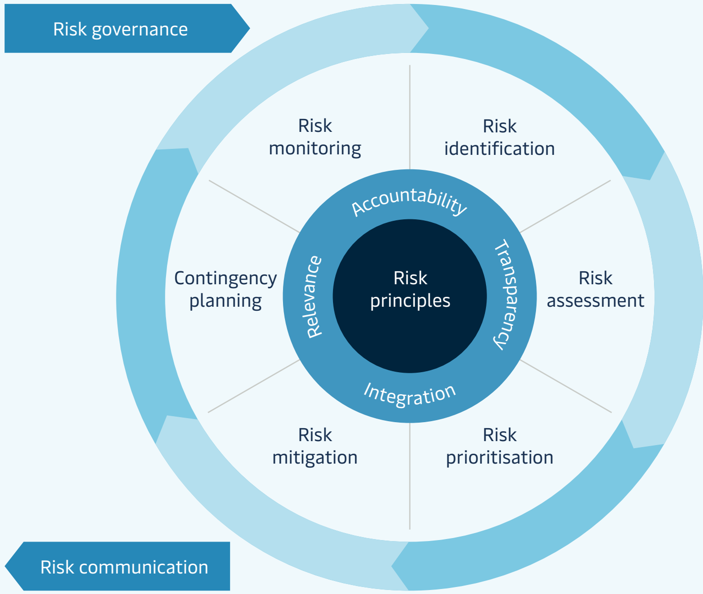
		Fixed pay and cash bonus (USD 000s)				Long-term incentive (no of restricted share units)				
		Fixed pay including benefits	Annual bonus[1]	Discretionary Cash Award[3]	**Total**	Unvested RSUs beginning of year	**Shares received in 2020**	RSUs granted in 2020[5]	RSUs forfeited in 2020[2]	Unvested RSUs end of year
Jørn Madsen	(CEO)	1,096	329	-	1,425	39,093	1,836[4]	19,279	-	56,536
Jesper Ridder Olsen	(CFO)	746	0[2]	119	865	17,243	0	10,466	27,709	0

1 To be paid in April 2021 and reflects the achievement of business objectives in 2020.
2 In July 2020, Maersk Drilling announced the resignation of former CFO, Jesper Ridder Olsen. As a consequence thereof, the former CFO forfeited his Annual Bonus for 2020 and 2021 as well as all unvested RSUs under the LTI programme.
3 The Board of Directors decided to grant the former CFO a Discretionary Cash Award, further information is provided in the Annual Remuneration Report.
4 Shares received on 30 April 2020 when the share price closed at DKK 160.30 per share. The shares were granted on 30 April 2019 at a share price of DKK 511.00 and vested over one year.
5 Shares granted on 1 April 2020 at a share price of DKK 133.20 per share. The shares will vest after three years.

Risk management

Risk management structure

Maersk Drilling's ERM framework is based on four elements; Risk Principles, Risk Governance, Risk Communication and Risk Processes



The objective of Maersk Drilling's risk management is to contribute to the fulfilment of the Company's strategy by ensuring that risks are identified, assessed, reported, monitored and addressed in a way that is aligned with the business operations, objectives and risk appetite.

The processes are structured through an Enterprise Risk Management (ERM) framework, setting forth the necessary elements for having coordinated actions and alignment among the various stakeholders with regards to addressing the key risks. Climate related risks are treated in the same way as all other risks and in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The Executive Management assesses risks on an ongoing basis to address mitigation and contingency planning activities. Risks are reported to and discussed with the Board of Directors on a regular basis and top risks are reported annually to external stakeholders through the Annual Report.

The 2020 risk management framework is generally unchanged from the prior year, but has been expanded to also cover TCFD requirements. During 2019, a risk management maturity assessment conducted by an external party concluded that Maersk Drilling's risk management process is at a "Mature" level on a scale ranging from Undeveloped, Basic, Intermediate, Mature and Advanced.

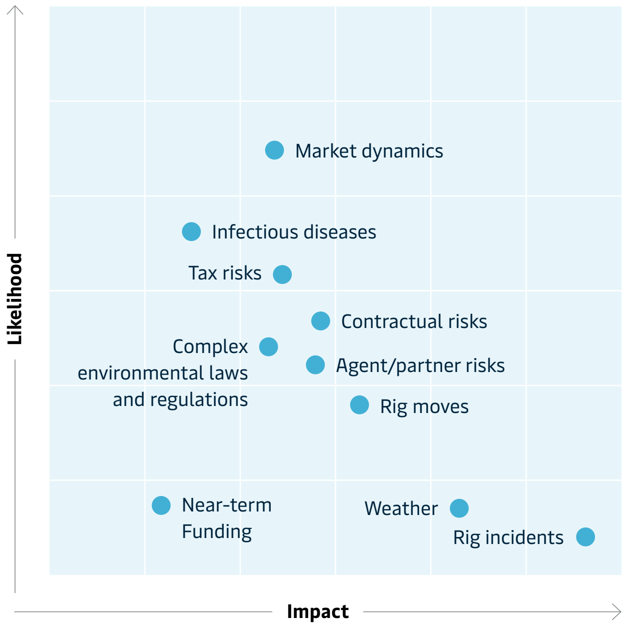
The most significant risks and their potential impact are listed on the following pages together with the appropriate mitigation activities.

Maersk Drilling and climate-related risks

Climate-related risks are identified and managed in accordance with procedures laid down in the Enterprise Risk Management system, in the same way as other risks affecting Maersk Drilling. In accordance with the framework, major risks are reviewed on a bi-annual basis. A distinction is made between risks with expected impact in the near term (12–18 months) and emerging risks with a longer-term impact.

This approach captures both **physical risks** – in the case of Maersk Drilling, the increased risk of severe weather impacting the future operations of our rigs – but more importantly, **transition risks** e.g in the form of emerging market developments, changing political framework conditions and reputational stigmatisation due to the climate issue.

Key risks in 2020



Rig incidents

Risk Description

Offshore drilling requires use of heavy equipment and exposure to hazardous conditions which carry inherent health and safety risks. Maersk Drilling's operations are subject to hazards inherent in drilling for oil and gas, such as blow-outs, reservoir damage, loss of production, loss of well control, punch through, lost or stuck drill strings, equipment defects, craterings, fires, explosions and pollution.

Maersk Drilling's operations are also subject to hazards inherent in marine operations, such as capsizing, grounding, navigation errors, collision, oil and hazardous substance spills, extensive uncontrolled fires and marine life infestations.

Such hazards present a potential risk to the safety of people, to the environment, assets, liquidity position and reputation.

Risk Mitigation

The risks associated with operational accidents are mitigated through safety and maintenance standards, response preparedness, continuous training and rigorous monitoring. In addition to operational activity mitigations, our drilling contracts provide for varying levels of indemnity and allocation of liabilities between our customers and us. Also, people, assets and activities remain comprehensively insured against personal injuries, physical damage and liabilities.

Weather

Risk Description

Some of our drilling rigs are located in areas that frequently experience hurricanes and other forms of severe weather conditions which can cause damage or destruction to the drilling rigs. Further, high winds and turbulent seas could cause suspension of operations, and revenue, on drilling rigs for significant periods of time. The increasing severity and frequency of severe weather and rising sea levels is considered a climate related risk for Maersk Drilling which is likely to exacerbate the weather related risk longer term.

Risk Mitigation

Maersk Drillings jack-up rigs can potentially be operated with an increased safety height to cater for higher waves. Furthermore, Maersk Drilling has shut-down, moving and down-manning procedures in place in case of severe weather conditions. Additionally, in order for Maersk Drilling to ensure a high level of safety, tests of processes are conducted at regular intervals for rigs operating in risk areas.

Market dynamics

Risk Description

The offshore drilling industry is highly competitive, and profitability is strongly impacted by developments in rig supply and drilling demands. In addition, the industry is volatile and cyclical, which is largely the result of changes in oil and gas prices and their impact on exploration and production company expenditures. In addition, the long-term transition to a lower carbon economy is likely to impact long term offshore exploration & productions activity levels with the risk of longer periods of rig over-supply.

Periods of low drilling demand and excess rig supply intensify competition in the industry and may result in rigs being idle or earning substantially lower day rates than the historical average for long periods of time. Additionally, general contractual terms and conditions are under pressure during periods of low industry activity, potentially further reducing the commercial value of available rig contracts.

Risk Mitigation

Maersk Drilling mitigates the risks associated with low demand through a high focus on customers and their requirements, a continuous strong operational delivery and maintaining a fleet of modern and technologically advanced drilling rigs. Maersk Drilling is also focused on co-developing new compensation and business models with customers, focusing on reducing waste and costs related to drilling a well. Further, Maersk Drilling has adopted a warm stacking strategy for its fleet, enabling shorter time for reactivation and lower risks in reactivation to meet customer demands and keep utilisation high.

Environmental laws and regulations

Risk Description

Maersk Drilling's operations are subject to a variety of laws, regulations and requirements in multiple jurisdictions controlling the discharge of various materials into the environment, requiring removal and clean-up of materials that may harm the environment, controlling carbon dioxide emissions, or otherwise relating to the protection of the environment such as restrictions on E&P licensing areas to protect sensitive marine geographies and/or to limit new oil & gas exploration as society transitions to a lower carbon economy. In general, the laws and regulations protecting the environment are becoming increasingly numerous, stringent and complex. Failure to comply with applicable environmental laws and regulations or to obtain or maintain necessary environmental permits or approvals, or even an accidental release of oil or other hazardous substances in connection with operations, could subject Maersk Drilling to significant administrative and civil fines and penalties, criminal liability, remediation costs for natural resource damages, third-party damages and material adverse publicity, or may result in the suspension or termination of its operations.

Risk Mitigation

We are committed to doing business in accordance with applicable regulatory standards and have adopted policies and procedures which are designed to promote legal and regulatory compliance.

In accordance with industry practice, Maersk Drilling's customers typically take primary responsibility for any environmental pollution resulting from the customer's use of the drilling rigs under the contracts, and Maersk Drilling typically assumes liability for pollution originating from its own equipment. Maersk Drilling has generally been able to obtain a certain degree of contractual indemnification pursuant to which our customers agree to hold harmless and indemnify Maersk Drilling against liability for pollution, well and environmental damage.

Rig moves

Risk Description

The offshore drilling market is a global market as rigs can relocate and operate in various environments. However, mobilisation of rigs is expensive and time-consuming and can be impacted by several factors, including weather and currents. When mobilising a rig, additional risks are introduced such as risk of collision, loss of tow, loss of stability/water tight integrity, mooring line failure and anchor dragging, which can cause human fatalities, damage to the rig or to other units.

Risk Mitigation

Maersk Drilling mitigates the risks associated with rig moves through timely preparation of the mobilisation, which includes extensive planning and verification processes.

Contractual risks

Risk Description

Maersk Drilling may be subject to the risk of its customers seeking to terminate or renegotiate contracts generally or in the event of our non-compliance with the terms and conditions of the contract.

Risk Mitigation

Contractual risks are addressed during the negotiation of new contracts or re-negotiation of existing contracts, where significant efforts are undertaken to ensure that contracts leave minimal opportunity for termination or that the impact from termination will not result in a significant financial loss.

Agent / partner risks

Risk Description

Maersk Drilling relies on third-party suppliers to provide parts, crew and equipment. The reliance on third-party suppliers, manufacturers and service providers used in the drilling operations exposes us to the risk of these partners not adhering to company values and/or corporate policies and exposes us to volatility in the quality, price and availability of such items, especially where the number of suppliers is limited.

Risk Mitigation

Maersk Drilling seeks to mitigate the risks associated with partners not adhering to company values and/or corporate policies through due diligence procedures, including termination clauses in contracts and assigning clear roles and responsibilities with partners. Additionally, continuous monitoring of partners and education in our values and corporate policies mitigate these risks. Maersk Drilling also seeks to ensure that we have good working relationships with multiple suppliers to reduce the risks of over-reliance on single suppliers.

Near-term funding

Risk Description

Maersk Drilling is funded through a combination of shareholders' equity and borrowings. Access to near-term funding is not considered a major risk however, as society transitions to a lower carbon economy, funding for the oil and gas industry may become more scarce reducing the overall debt financing available for the offshore drilling industry.

Risk Mitigation

By maintaining its position as a top tier contractor in the industry known for reliable, safe and responsible drilling with best-in-class financial results and robustness, Maersk Drilling should be best possibly positioned to retain its access to funding sources. Maersk Drilling's current funding arrangements provides a solid capital structure and a high degree of financial flexibility, with longer term funding in place. Through the strategic sustainability agenda, putting Maersk Drilling at the forefront of the industry, Maersk Drilling may be able to tap into funding sources which would otherwise not be accessible to companies within our industry.

Tax risks

Risk Description

Maersk Drilling operates worldwide, which entails an inherent tax risk with respect to regulatory tax compliance, including corporate taxes, value added taxes and excise duties, as well as withholding taxes and taxes regarding specific rig taxation.

As tax laws are complex and subject to interpretation, there is a risk that these interpretations could affect the taxes Maersk Drilling pays in various jurisdictions. Maersk Drilling's tax positions are also subject to audit by relevant tax authorities who may disagree with our interpretations or assessments of the effects of tax laws, treaties or regulations, or their applicability to our corporate structure or specific transactions we have undertaken.

Risk Mitigation

As outlined in our Tax Policy, tax-related risks are mitigated through an upright approach, cooperation with the authorities in respect of investigations and enquiries, as well as ensuring that an efficient organisation of specialists with the necessary competencies is in place to best meet the requirements and tax regulations relevant to operations. Tax exposures are assessed before entering new commercial contracts and monitored systematically on an ongoing basis and presented to the Audit & Risk Committee.

Infectious diseases

Risk Description

Maersk Drilling is an international offshore drilling company with global operations and therefore exposed to the risk that a global pandemic disease will impact Maersk Drilling negatively, and with varied levels of impact in different countries. Mobilising rigs, changing crews and supplying rigs on an ongoing basis exposes Maersk Drilling staff, subcontractors and customers to the risk of infection in the event of a global pandemic. If authorities worldwide respond by implementing travel restrictions, lockdowns, workplace hazard controls, and facility closures etc, thereby causing disruption to the global economy, demand for Maersk Drilling's rigs and operations could be significantly impacted.

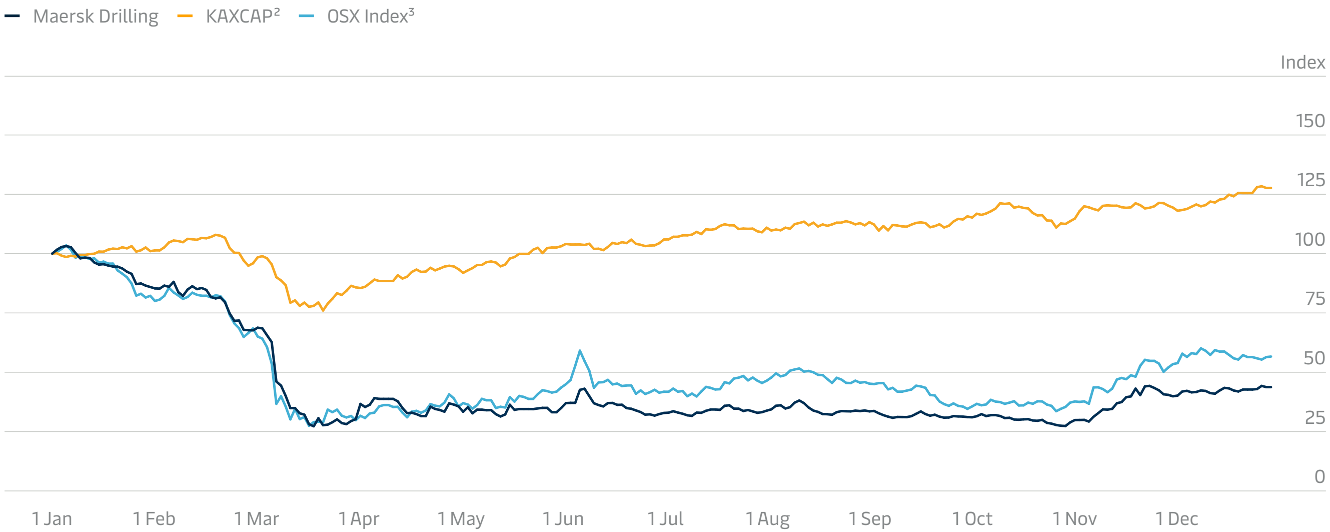
Risk Mitigation

Implementation of official recommendations during a pandemic such as social distancing, working from home, private jet charter for crew changes, testing, isolation and quarantine procedures etc. in combination with contractual terms with customers and subcontractors. In general, mitigations will put further emphasis on the use of IT solutions and additional safety focus. During peak infection periods, suspension of operations may be necessary.

Shareholder information

The shares in The Drilling Company of 1972 A/S ("Maersk Drilling") have been listed on the Nasdaq Copenhagen stock exchange since 4 April 2019 and trade under the ticker symbol, DRLCO.

Share price development 2020[1]



1 DRLCO and KAXCAP rebased at index 100 on 1 January 2020.
2 KAXCAP is a capitalisation-weighted index of all the stocks traded on the Copenhagen Stock Exchange.
3 Philadelphia Oil Service Sector Index ("OSX") is a price-weighted index composed of companies involved in the oil services sector

Share price development and trade volume

The Maersk Drilling share started the year at a price of DKK 441.20 and closed the year at DKK 192.7, which equals a decline of 56%. The year's highest price of DKK 462.2 was on 6 January. The year's lowest price of DKK 112.0 was on 19 March.

Over the same period, the Danish KAXCAP index, a market capitalisation-weighted index of all of the stocks traded on Nasdaq Copenhagen, increased by 28%, while the Philadelphia Oil Service Sector Index ("OSX"), a price-weighted index composed of companies involved in the oil services sector, decreased by 43%.

In 2020, a total of 47 million of the Company's shares were traded on Nasdaq Copenhagen. The average daily traded volume was around 187,000 shares corresponding to approximately 0.9% of the free float. The average daily traded value of the Company's shares was approximately DKK 32 million, and the volume-weighted average price for the full year 2020 was DKK 195.0.

Share capital

Maersk Drilling's share capital of DKK 415,321,120 is divided into 41,532,112 shares with a nominal value of DKK 10 each, enjoying the same voting and representation rights. The Company's share capital remained unchanged in 2020.

Shareholder composition

On 31 December 2020, Maersk Drilling had more than 65,000 registered shareholders.

Major shareholders owning more than 5% of the share capital and votes were APMH Invest A/S, a subsidiary of A.P. Møller Holding A/S (41.6%) and A.P. Møller og Hustru Chastine Mc-Kinney Møllers Familiefond (8.9%). When excluding major shareholders and certain other related shareholdings, the free float of Maersk Drilling's outstanding shares is estimated to be around 48%.

The majority (78%) of the share capital is held by Danish investors. The United States, the United Kingdom, and Spain are other key markets, with 7%, 6%, and 4% of the share capital, respectively.

Major shareholders

Shareholder	Size of holding
APMH Invest A/S	41.6%
A.P. Møller og Hustru Chastine Mc-Kinney Møllers Familiefond	8.9%

It is estimated that global institutional investors own approximately 23% of the share capital, of which the United States and United Kingdom make up the largest groups.

Approximately 14% of Maersk Drilling's shares are held by retail investors, of which 13 percentage points reside in Denmark.

Due to nominee shareholding structures and different ownership disclosure rules across jurisdictions, there is no complete record of all shareholders. This means that the beneficial owners of approximately 0.3% of the issued capital remain unidentified.

Share buy -back programme

On 6 April 2020, Maersk Drilling initiated a share buy-back programme to cover obligations arising under its long-term incentive programme. The share buy-back programme was to comprise up to 245,000 shares, corresponding to 0.6% of Maersk Drilling's share capital, subject to a maximum total purchase price of DKK 70m. The share buy-back programme was completed on 20 May. The share buy-back programme was undertaken in accordance with the 'Safe Harbour Regulation'.

Treasury shares

On 31 December 2020, Maersk Drilling held a total of 243,164 treasury shares, corresponding to 0.6% of the share capital, which will be used to cover incentive schemes.

Investor Relations

To ensure that capital market participants, including current and prospective shareholders, are able to make well-informed investment decisions, the Company seeks to ensure a high level of openness and stability in its financial communication. The Executive Management team and the Investor Relations team engage in regular dialogues with investors and equity analysts. The dialogues take the form of quarterly conference calls, roadshows, conferences, capital markets days and regular meetings with individuals or groups of investors and analysts. The dialogues are subject to certain restrictions prior to the publication of Maersk Drilling's financial reporting.

Maersk Drilling is currently covered by 15 sell-side analysts, including analysts from large international banks, who regularly publish equity research reports about Maersk Drilling. A full list of analysts covering Maersk Drilling and their recommendations can be found at Maersk Drilling's Investor Relations website https://investor.maerskdrilling.com. The site also contains financial reports and presentations, historical financials, and current and historic share price data.

Treasury shares

At 1 January	
Acquired through share buy backs	245,000
Delivered under long-term incentive programmes	-1,836
Treasury shares at 31 December	**243,164**

Maersk Drilling share data

No. of shares
41,532,112

Share classes
1

Listing
Nasdaq Copenhagen

Trading symbol
DRLCO

Financial calendar for 2021

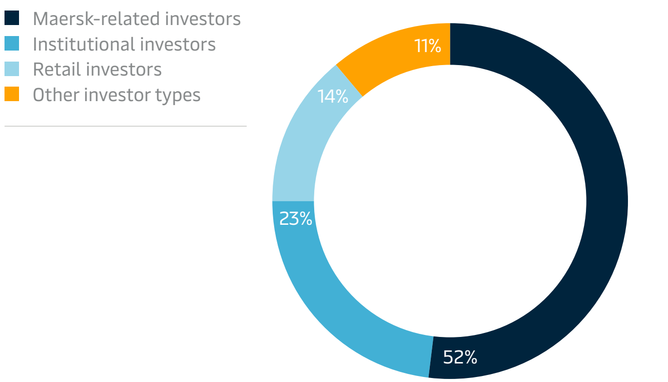
8 April 2021
Annual General Meeting

20 May 2021
Q1 Trading Statement

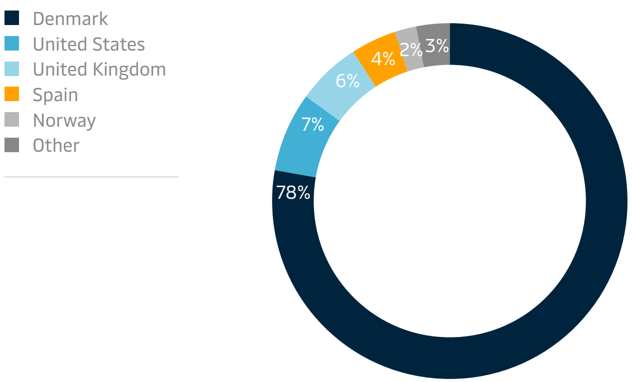
20 August 2021
H1 Interim Financial Report

3 November 2021
Q3 Trading Statement

Investor type



Geographical shareholder distribution



Financials

Consolidated financial statements 2020

Consolidated income statement

USD Million	Note	2020	2019
Revenue	1.1, 1.2	1,096	1,222
Costs	1.3	-807	-807
Profit before depreciation and amortisation, impairment losses/reversals and special items (EBITDA before special items)		**289**	**415**
Special items	1.4	-42	-16
Profit before depreciation and amortisation and impairment losses/reversals (EBITDA)		**247**	**399**
Depreciation and amortisation	2.1, 2.2, 2.3	-286	-387
Impairment losses/reversals	2.4	-1,580	-34
Gain/loss on sale of non-current assets		-2	8
Share of results in joint ventures		-1	-2
Profit/loss before financial items		**-1,622**	**-16**
Financial expenses, net	1.5	-72	-68
Profit/loss before tax		**-1,694**	**-84**
Tax	1.6	41	-29
Profit/loss for the year		**-1,653**	**-113**
Earnings in USD per share of DKK 10 for the year	4.1	-39.9	-2.7
Diluted earnings in USD per share of DKK 10 for the year	4.1	-39.9	-2.7

Consolidated statement of comprehensive income

USD Million	Note	2020	2019
Profit/loss for the year		**-1,653**	**-113**
Cash flow hedges:			
Value adjustment of hedges for the year	3.5	-20	-29
Reclassified to income statement		13	8
Total items that have or will be reclassified to the income statement		**-7**	**-21**
Actuarial gains/losses on defined benefit plans, etc.		-	-2
Total items that will not be reclassified to the income statement		**-**	**-2**
Other comprehensive income, net of tax		**-7**	**-23**
Total comprehensive income for the year		**-1,660**	**-136**

Consolidated cash flow statement

USD Million	Note	2020	2019
Profit/loss before financial items		-1,622	-16
Depreciation, amortisation and impairment losses/reversals, net	2.1, 2.2, 2.3, 2.4	1,866	421
Gain on sale of non-current assets, etc., net		2	-8
Change in working capital	2.11	27	57
Change in provisions, etc.		5	-13
Other non-cash items		-2	3
Taxes paid, net		-9	-24
Cash flow from operating activities		**267**	**420**
Purchase of intangible assets and property, plant and equipment	2.11	-186	-307
Sale of intangible assets and property, plant and equipment		38	8
Other financial investments, net		-2	-4
Cash flow used for investing activities		**-150**	**-303**
Interest received		2	6
Interest paid		-64	-83
Repayment of borrowings	3.3	-137	-103
Purchase of treasury shares		-5	-
Cash flow from financing activities		**-204**	**-180**
Net cash flow for the year		**-87**	**-63**
Cash and bank balances 1 January		310	372
Currency translation effect on cash and bank balances		3	1
Cash and bank balances 31 December		**226**	**310**
Free cash flow			
Cash flow from operating activities		267	420
Cash flow used for investing activities		-150	-303
Sale of assets or activities		-38	-8
Net interest payments		-62	-77
Free cash flow		**17**	**32**

Cash and bank balances comprise cash on hand and short-term deposits which are readily convertible to cash.

Cash and bank balances at 31 December 2020 include USD 14m (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 at 31 December

USD Million	Note	2020	2019
Intangible assets	2.1	15	31
Property, plant and equipment	2.2, 2.4	3,053	4,731
Right-of-use assets	2.3	28	31
Financial non-current assets, etc.		6	5
Deferred tax	2.5	15	3
Total non-current assets		**3,117**	**4,801**
Trade receivables	3.4	210	264
Tax receivables		14	16
Other receivables	2.6	76	47
Prepayments	2.7	76	41
Receivables, etc.		**376**	**368**
Cash and bank balances		226	310
Assets held for sale	2.2	-	38
Total current assets		**602**	**716**
Total assets		**3,719**	**5,517**

USD Million	Note	2020	2019
Share capital		63	63
Reserves and retained earnings		1,954	3,617
Total equity		**2,017**	**3,680**
Borrowings, non-current	3.3	**1,149**	**1,273**
Provisions	2.8	5	2
Deferred tax	2.5	12	47
Derivatives	3.5	33	22
Other non-current liabilities		**50**	**71**
Total non-current liabilities		**1,199**	**1,344**
Borrowings, current	3.3	**136**	**136**
Provisions	2.8	15	13
Trade payables		167	180
Tax payables		65	69
Other payables	2.9	58	63
Deferred income	2.10	62	32
Other current liabilities		**367**	**357**
Total current liabilities		**503**	**493**
Total liabilities		**1,702**	**1,837**
Total equity and liabilities		**3,719**	**5,517**

Consolidated statement of changes in equity

USD Million	Share capital	Reserve for hedges	Retained earnings	**Total equity**
Equity 1 January 2019	63	-2	3,753	3,814
Other comprehensive income, net of tax	-	-21	-2	-23
Profit/loss for the year	-	-	-113	-113
Total comprehensive income for the year	**-**	**-21**	**-115**	**-136**
Value of share based payments	-	-	3	3
Other equity movements	-	-	-1	-1
Total transactions with shareholders	**-**	**-**	**2**	**2**
Equity 31 December 2019	**63**	**-23**	**3,640**	**3,680**
2020				
Other comprehensive income, net of tax	-	-7	-	-7
Profit/loss for the year	-	-	-1,653	-1,653
Total comprehensive income for the year	**-**	**-7**	**-1,653**	**-1,660**
Value of share based payments	-	-	2	2
Purchase of own shares	-	-	-5	-5
Other equity movements	-	-	-	-
Total transactions with shareholders	**-**	**-**	**-3**	**-3**
Equity 31 December 2020	**63**	**-30**	**1,984**	**2,017**

Equity
At 31 December 2020, equity amounted to USD 2,017m (USD 3,680m), impacted by the loss for the year of USD 1,653m (loss of USD 113m) and negative value adjustment of hedges of USD 7m (USD 21m). The loss for the year was primarily due to the non-cash impairment charge of USD 1,580m (USD 38m) recognised during the year. In addition, share buybacks of USD 5m were completed during the year (nil).

Reserves
The reserve for hedges is the only reserve presented in the consolidated statement of changes in equity. The reserve for hedges represents the accumulated fair value of hedging instruments qualifying for cash flow hedge accounting, net of tax. The reserve is transferred to the income statement when the hedged transaction is settled.

The Group does not have a translation reserve as all material subsidiaries have the United States Dollar (USD) as their functional currency.

Other comprehensive income
Other comprehensive income consists of income and costs not recognised in the income statement, cash flow hedges as well as actuarial gains/losses on defined benefit plans, etc. Other comprehensive income includes current and deferred income tax to the extent that the items recognised in other comprehensive income are taxable or deductible.

Notes

Basis of preparation

Basis of preparation

This Annual Report reflects the consolidated figures for The Drilling Company of 1972 A/S (the "Company") and its subsidiaries (the "Group" or "Maersk Drilling"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

All amounts in the Annual Report are stated in United States Dollars (USD) and rounded to the nearest million. The accounting policies described have been applied consistently for the financial year and for the comparative figures.

Consolidation

Consolidation is performed by summarising the financial statements of the entities within the Group. Internal income and expenses, shareholdings, dividends, balances and gains on internal transactions within the Group are eliminated. Certain entities in which Maersk Drilling has an ownership share of less than 100% but holds the full right to govern and receive dividends through shareholder agreements etc. are considered subsidiaries and consolidated without any non-controlling interest.

Foreign currency translation

The consolidated financial statements are presented in USD, which is also the functional currency of most material companies within the Group.

Transactions in currencies other than the functional currency are translated at the exchange rate prevailing at the date of the transaction. Monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rate as at the balance sheet date. Foreign exchange gains and losses are included in the income statement as financial income or expenses.

Cash flow statement

Cash flow from operating activities includes all cash transactions other than cash flows arisen from investments and divestments, principal payments of loans, instalments on finance lease liabilities, financial income received, financial expenses paid and equity transactions. Capitalisation of borrowing costs are considered as non-cash items, and the actual payments of those are included in cash flow from financing activities.

New reporting requirements

The accounting policies described have been applied consistently for the financial year and for the comparative figures for 2019 and new standards and amendments effective for the financial year 2020 have not had any material impact on the accounting policies applied. Maersk Drilling expects no material impact of endorsed but not yet implemented amendments or interpretations of IFRS standards.

Management's judgments and estimates

The preparation of consolidated financial statements requires management, on an ongoing basis, to make judgements and estimates and form assumptions that affect the reported amounts. Management forms its judgements and estimates based on historical experience, independent advisors and external data points as well as in-house specialists and on other factors believed to be reasonable under the circumstances.

In certain areas, the outcome of business plans, including ongoing negotiations with external parties to execute those plans or to settle claims that are raised against Maersk Drilling, is highly uncertain. Therefore, assumptions may change or the outcome may differ in the coming years, which could require a material upward or downward adjustment to the carrying amounts of assets and liabilities.

The most significant accounting judgments and estimates are described in the following notes to the consolidated financial statements:

Significant judgement/estimate	Note	Potential impact from estimates and judgments on company value
Useful lives and residual values of drilling rigs	2.2 Property, plant and equipment	
Valuation of non-current assets (impairment testing)	2.4 Impairment test	
Measurement of deferred tax assets and uncertain tax positions	2.5 Deferred tax	
Measurement of provisions	2.8 Provisions	

Note 1.1 Segment information

USD Million	2020			2019		
	North Sea Jack-up rigs	International Floaters	Total	North Sea Jack-up rigs	International Floaters	Total
Revenue						
Segments	608	460	1,068	800	395	1,195
Unallocated activities			28			27
Total revenue			**1,096**			**1,222**
EBITDA before special items						
Segments	264	18	282	385	28	413
Unallocated activities			7			2
Total EBITDA before special items			**289**			**415**
EBITDA margin before special items						
Segments	43%	4%	26%	48%	7%	35%
Unallocated activities			25%			7%
Total EBITDA margin before special items			**26%**			**34%**
Depreciation and amortisation						
Segments	-177	-91	-268	-205	-157	-362
Unallocated activities			-18			-25
Total depreciation and amortisation			**-286**			**-387**
Total impairment losses/reversals						
Segments	-714	-846	-1,560	-	-	-
Unallocated activities			-20			-34
Total impairment losses/reversals			**-1,580**			**-34**
Investments in non-current assets						
Segments	59	99	158	138	171	309
Unallocated activities			4			-
Total investments in non-current assets			**162**			**309**
Non-current assets						
Segments	1,831	1,162	2,993	2,663	1,998	4,661
Unallocated activities			75			101
Total non-current assets			**3,068**			**4,762**

The allocation of business activities into segments is in line with the internal management reporting provided to the chief operating decision maker. The reportable segments are as follows:

North Sea segment
Jack-up rigs operating in depths up to 500 ft and comprise the aggregated operating segments ultra-harsh environment jack-up rigs and harsh environment jack-up rigs.

International segment
Semi-submersible rigs and drillships designed to operate in benign mid- and deepwater environments in depths up to 12,000 ft.

The benign jack-up rigs Maersk Completer, which was sold on 7 January 2020, and Maersk Convincer are not included in either segment and are reported under unallocated activities based on their different nature and limited materiality.

Segment profit/loss (defined as profit/loss before depreciation and amortisation, impairment losses/reversals and special items) comprise items directly related to or which can be allocated to segments. Costs in group functions are allocated to reportable segments if they can be allocated to segments. Financial assets, liabilities, income and expenses from these items, and tax are not attributed to reportable segments.

Total revenue, total EBITDA before special items, total depreciation and amortisation and total impairment losses/reversals reconcile directly to the income statement and further reconciliations are therefore not included.

Total investment in non-current assets and total non-current assets comprise intangible assets and property, plant and equipment.

Quarterly revenue figures and business drivers for both segments are disclosed under Additional information on page 99.

Note 1.1 Segment information – continued

Revenue and non-current assets

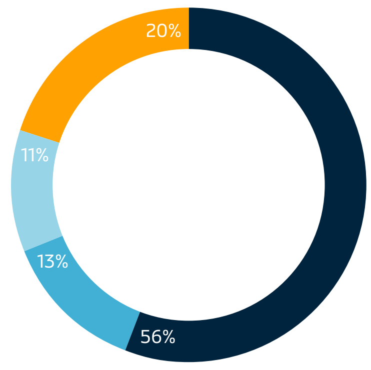
USD Million	Revenue		Non-current assets[1]	
	2020	2019	**2020**	2019
Geographical split				
Denmark	34	37	748	304
Norway	424	559	1,054	1,912
United Kingdom	118	156	63	440
The Netherlands	35	52	212	114
Angola	62	-	134	328
Australia	76	-	163	-
Egypt	28	92	-	181
Azerbaijan	110	79	118	143
Singapore	-	-	-	208
Ghana	55	149	-	301
Suriname	19	-	135	-
Trinidad	28	-	176	-
Mexico	54	18	-	495
Myanmar	24	9	-	279
Other	29	71	293	88
Total	**1,096**	**1,222**	**3,096**	**4,793**

1 Comprise intangible assets and property, plant and equipment and right-of-use assets.

Geographical information
Information on revenue is based on geographical location. For non-current assets, such as drilling rigs, the geographical location is where the assets are located as per 31 December. For all other assets, geographical location is based on the legal ownership.

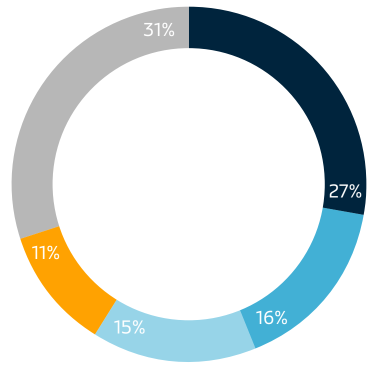
Geographical presence by revenue 2020

North Sea | Africa | Asia Pacific | Rest of the world



Revenue by customer 2020

Aker BP | Total | BP | Equinor | Other



Note 1.2 Revenue

USD Million	2020				2019			
	North Sea Jack-ups	Interna-tional floaters	Other	Total	North Sea Jack-ups	Interna-tional floaters	Other	Total
Composition of revenue								
Day rate revenue	533	385	23	941	730	348	21	1,099
Other revenue	75	75	5	155	70	47	6	123
Total	**608**	**460**	**28**	**1,096**	**800**	**395**	**27**	**1,222**
Type of revenue								
Services component	293	344	25	662	385	274	24	683
Lease component	315	116	3	434	415	121	3	539
Total	**608**	**460**	**28**	**1,096**	**800**	**395**	**27**	**1,222**

Revenue from drilling activities typically comprises 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 are 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.

For revenue, geographical information is based on geographical location where earned. For non-current assets, such as drilling rigs, the geographical location is where the assets were located at 31 December. For all other assets, geographical location is based on the legal ownership.

Significant customers
Revenue from four international oil companies that individually amount to more than 10% of revenue represents 69% of the Group's revenue in 2020. The four international oil companies accounted for USD 299m, 169m, 164m and 121m, respectively and approximately 100%, 100%, 0% and 100%, respectively of these revenues were in the North Sea jack-up segment, with the remaining in the international segment.

In 2019, revenue from four international oil companies that individually amounted to more than 10% of revenue represented 71% of the Group's revenue. The four international oil companies accounted for USD 418m, 171m, 162m, and 117m, respectively and approximately 95%, 0%, 100% and 100%, respectively of these revenues were in the North Sea jack-up segment, with the remaining in the international floaters segment.

Revenue backlog

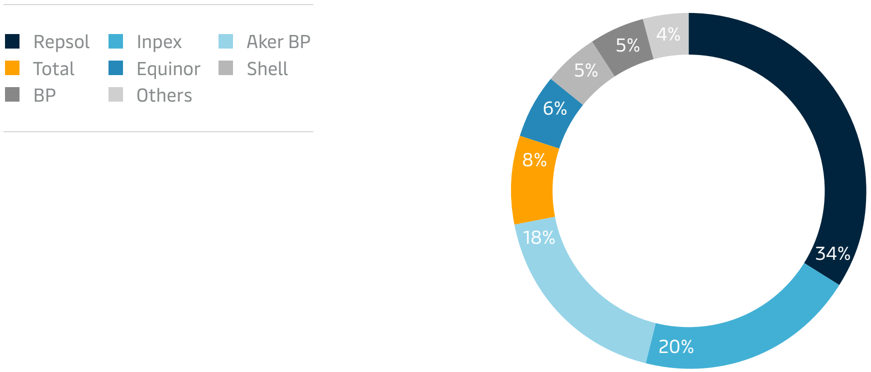
Despite challenging market conditions, Maersk Drilling managed to secure 19 new contracts and contract extensions during 2020, adding USD 469m (USD 828m) to the contract backlog.

At the end of 2020, the contract backlog amounted to USD 1.3bn (USD 2.1bn), of which USD 665m is for execution in 2021. In addition, Maersk Drilling has, since the beginning of 2021, secured additional contracts and conditional letters of award with a total value of more than USD 500m.

Supported by the recovery of the oil and gas prices and based on bilateral customer dialogues, Maersk Drilling expects the demand pipeline in its key markets to further build in 2021, partly due to projects originally scheduled for execution in 2020 being postponed to 2021.

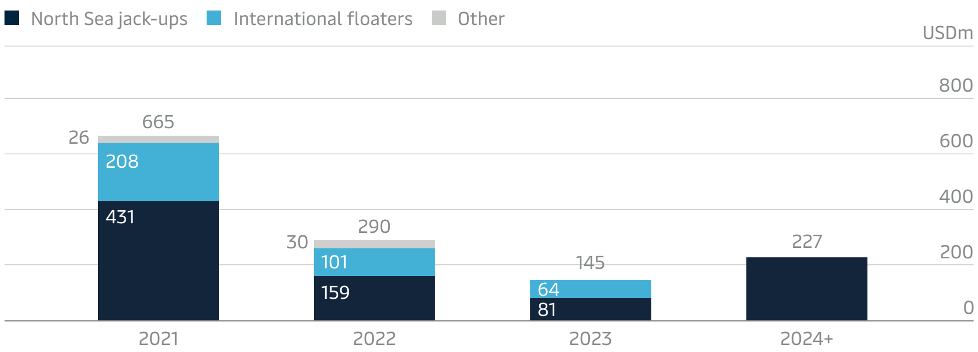
Details on current and future contract status for the rig fleet is provided in the fleet status report dated 12 February 2021 and included on page 100.

Backlog composition per customer

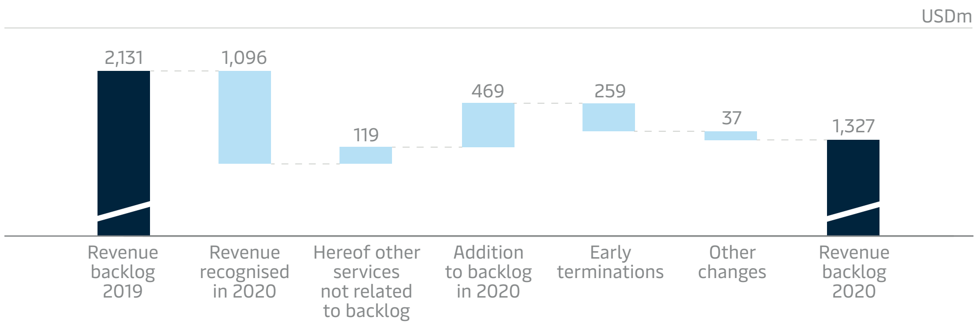


Revenue backlog – continued

Revenue backlog



Development of revenue backlog in 2020



Operating leases as lessor
Property, plant and equipment include jack-up rigs and floaters which are leased out as part of the Group's activities. Future minimum lease payments are set out below.

Performance obligations in contracts
Amounts allocated to performance obligations that are to be completed under existing customer contracts are set out as service elements below.

Jointly the two elements amount to Maersk Drilling's revenue backlog.

USD Million			**2020**
	Future minimum lease payments	Performance obligations	Total backlog
Within one year	324	341	665
Between one and two years	159	131	290
Between two and three years	74	71	145
Between three and four years	49	32	81
Between four and five years	49	32	81
After five years	40	25	65
Total	**695**	**632**	**1,327**

USD Million			2019
	Future minimum lease payments	Performance obligations	Total backlog
Within one year	454	559	1,013
Between one and two years	343	282	625
Between two and three years	129	120	249
Between three and four years	66	30	96
Between four and five years	61	18	79
After five years	54	15	69
Total	**1,107**	**1,024**	**2,131**

Note 1.3 Costs

USD Million	**2020**	2019
Operating costs	725	710
Innovation	6	10
Sales, general and administrative costs	76	87
Total costs	**807**	**807**
Other external costs	**468**	**440**
Of which:		
Included in Operating costs	425	383
Included in Innovation	3	7
Included in Sales, general and administrative costs	32	40
Included in Special items	8	10
Staff costs		
Wages and salaries	330	362
Severance payments	26	4
Share based remuneration	2	2
Pension costs	30	33
Other social security costs	11	6
Total Staff costs	**399**	**407**
Of which:		
Included in Operating costs	300	327
Included in Innovation	3	3
Included in Sales, general and administrative costs	44	47
Included in Special items	34	8
Recognised in the cost of assets	18	22
Average number of employees	2,678	2,852

Operating costs comprise costs incurred in generating revenue for the year, including costs for crew, repair and maintenance but excludes Innovation costs and Sales, general and administrative costs, which are presented separately.

USD Million	**2020**	2019
Fees to the statutory auditors		
Statutory audit	1.7	0.9
Other assurance services	-	1.0
Tax and VAT advisory services	0.1	-
Other services	0.1	0.9
Total fees	**1.9**	**2.8**

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskabs amounted to less than USD 0.1m in 2020. Non-audit services provided in 2019 of USD 1.8m mainly consisted of services related to the separation and listing of Maersk Drilling, including advisory services related to implementation of a new treasury system.

Remuneration of the Board of Directors, Executive Management and Key Employees

Board of Directors

The Board of Directors receives a fixed annual base fee, while the Chairman and Vice Chairman receive fixed multiples of the fixed annual base fee. Participation in a Board Committee entitles a member of the Board of Director to an additional fixed annual fee based on a proportion of the fixed annual base fee.

Claus V. Hemmingsen has received prorated Board fees since 2 April 2019, as his services to the Maersk Drilling Group prior to this point in time were considered part of his position as Vice-CEO in A.P. Møller - Mærsk A/S. Alastair Maxwell, Caroline Alting and Glenn Gormsen were appointed to the Board of Directors on 2 April 2019. Ann-Christin G. Andersen and Kristin H. Holth were appointed to the Board of Directors on 2 April 2020 at which date Robert Routs retired from the Board of Directors.

Executive Management

During 2020, the Executive Management consisted of Jørn Madsen as Chief Executive Officer (CEO) and Jesper Ridder Olsen as Chief Financial Officer (CFO). From January 2021, Christine Morris succeeded Jesper Ridder Olsen as CFO. The compensation of the Executive Management consists of a combination of fixed pay (a fixed annual cash salary, from which any contribution made by Maersk Drilling towards the cost of any pension or company car elections is deducted), other non-monetary benefits such as, phone, insurance coverage, annual health check, newspaper subscriptions, training/education and similar benefits, and short-term and long-term incentive pay. In addition, the Executive Management received in 2019 a one-time cash-based bonus related to the demerger and listing of the Company.

Note 1.3 Costs – continued

Under the Short-term Incentive Plan, the target annual cash-based bonus payable can constitute an amount of up to 50% of the member of the Executive Management's fixed pay at the end of the performance period of earning the cash incentive. The maximum bonus is 200% of the individual target.

Under the Long-term Incentive Programme, the Executive Management was awarded an annual grant of restricted share units with a three year vesting period and a further two year holding period amounting to 100% (CEO) and 65% (CFO) of fixed pay. In addition, a transition award in lieu of unvested A.P. Møller - Mærsk A/S' shares and options of twice the annual grant level was awarded.

For additional information about share-based remuneration reference is made to note 4.3.

USD Million	CEO	CFO	**Total**
Remuneration of Executive Management			
2020			
Fixed pay	1.1	0.8	1.9
Short-term incentive	0.3	0.1	0.4
Long-term share based incentive[2]	1.0	-0.3	0.7
Total remuneration	**2.4**	**0.6**	**3.0**
2019			
Fixed pay	1.1	0.7	1.8
Short-term incentive[1]	1.7	1.1	2.8
Long-term share based incentive	0.7	0.3	1.0
Total remuneration	**3.5**	**2.1**	**5.6**

1 The cash bonus in 2019 was composed of USD 0.9m (CEO) and USD 0.7m (CFO) for the completion of the demerger of A.P. Møller - Mærsk A/S and separate listing of Maersk Drilling and USD 0.8m (CEO) and USD 0.4m (CFO) for the short-term incentive plan for Executive Management.

2 In July 2020, Maersk Drilling announced the resignation of former CFO, Jesper Ridder Olsen. As a consequence thereof, the former CFO forfeited all unvested RSUs under the LTI programme (which includes the grants in 2019 and 2020), and as a result the cost for the LTI that was expensed in 2019 is reversed.

Remuneration of Key Management Personnel

For all of 2020, the Group's key management personnel included the Board of Directors, the Executive Management (CEO and CFO) and two Other Key Employees who together with the Executive Management have the authority and responsibility for planning, directing and controlling the Group's day-to-day activities. During 2019, Other Key Employees comprised up to six individuals simultaneously. The compensation of Other Key Employees is generally structured in a similar way as for the Executive Management.

USD Million	Board of Directors	Executive Management	Other Key Employees	**Total**
2020				
Fixed pay	1.0	1.9	1.1	4.0
Short-term cash incentive		0.4	0.3	0.7
Long-term share based incentive		0.7	0.5	1.2
Total remuneration	**1.0**	**3.0**	**1.9**	**5.9**
2019				
Fixed pay	0.8	1.8	2.2	4.8
Short-term cash incentive[3]	-	2.8	2.7	5.5
Termination benefits	-	-	1.1	1.1
Long-term share based incentive	-	1.0	0.8	1.8
Total remuneration	**0.8**	**5.6**	**6.8**	**13.2**

3 The cash bonus to Other Key Employees in 2019 was composed of USD 1.6m for the completion of the demerger of A.P. Møller - Mærsk A/S and separate listing of Maersk Drilling and USD 1.1m for the short-term incentive plan for Senior Leaders.

The termination notice period applicable to the Executive Management is twelve months for the Company and six months for the members of the Executive Management. In addition to the Company's termination notice, Executive Management are entitled to a severance payment of up to six months' fixed pay. The members of the Executive Management are subject to non-competition and non-solicitation clauses.

The termination notice period applicable to the Other Key Employees is twelve months for the Company and six months for the employee. In addition to the Company's termination notice, the Key Employees are entitled to statutory severance pay in accordance with the Danish Salaried Employees Act.

Note 1.4 Special items

USD Million	2020	2019
Compensation from shipyard due to late delivery of rig, warranties etc.	-	2
Special items, income	**-**	**2**
Separation and demerger/listing costs	-	13
Transformation and restructuring costs	24	5
COVID-19 costs not recharged to customers	18	-
Special items, costs	**42**	**18**
Special items, net	**-42**	**-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 2020 comprised redundancy costs from the reduction of the offshore and the onshore organisations of USD 24m and COVID-19 related costs not recharged to customers of USD 18m. COVID-19 related costs are defined as additional costs triggered by the COVID–19 pandemic in the form of costs incurred to comply with local travel and quarantine rules and customer requirements, additional costs incurred with procuring testing kits for crews operating rigs, additional crew change costs for quarantine hotels, charter flights, per diems as well as additional costs to reimburse subcontractors in instances where they need to comply with quarantine regulations.

The separation and listing costs incurred in 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.

Of total Special items costs, USD 34m related to staff costs (2019: USD 8m) and USD 8m to other external costs (2019: USD 10m). If these costs had not been classified as Special Items, USD 40m would have been classified as Operating costs (2019: USD 3m) and USD 2m as Sales, general and administrative costs (2019: USD 15m).

In the classification of Special items, judgment is applied in ensuring that only exceptional items not associated with the ordinary operations of Maersk Drilling are included.

Note 1.5 Financial income and expenses

USD Million	2020	2019
Interest expenses on liabilities	-56	-84
Of which borrowing costs capitalised on assets[1]	-	-
Interest income on loans and receivables	2	6
Realised loss on interest rate derivatives – transferred from equity	-14	-3
Net interest expenses	**-68**	**-81**
Exchange rate gains on bank balances, borrowings and working capital	12	20
Exchange rate losses on bank balances, borrowings and working capital	-16	-7
Net foreign exchange gains/losses	**-4**	**13**
Fair value gains from derivatives	1	-
Fair value losses from derivatives	-1	-
Net fair value gains/losses	**-**	**-**
Financial expenses, net	**-72**	**-68**
Of which:		
Financial income	15	26
Financial expenses	-87	-94

1 No borrowing costs have been capitalised in 2020 or 2019.

Financial income and expenses comprise interest income and expenses including the interest element of lease payments related to leases capitalised under IFRS 16, foreign exchange gains/losses, realised and unrealised gains/losses on financial instruments, bank fees and amortisation of transaction costs related to borrowings. Financial income and expenses are recognised in the income statement on an accrual basis.

For an analysis of gains and losses from derivatives reference is made to note 3.5.

Note 1.6 Tax

USD Million	**2020**	2019
Tax recognised in the income statement		
Current tax on profit/loss for the year	-27	-22
Adjustment for current tax of prior periods	21	-22
Total current tax	**-6**	**-44**
Temporary differences	60	2
Adjustment for deferred tax of prior periods	-13	13
Reassessment of recoverability of deferred tax assets, net	-	-
Total deferred tax	**47**	**15**
Total tax	**41**	**-29**
Tax reconciliation		
Profit/loss before tax	-1,694	-84
Tax using the Danish corporation tax rate (22%)	373	18
Impairment losses/reversals with no tax impact	-302	-7
Tax rate deviations in foreign jurisdictions net of withholding tax	-31	-10
Interest limitation tax rules in Denmark	-6	-17
Non-deductible expenses	-	-3
Adjustment to previous years' taxes	8	-9
Unrecognised tax assets and change in tax assets not previously recognised	-1	-1
Total tax	**41**	**-29**

Maersk Drilling's total tax comprises current and deferred income tax as well as adjustments to previous years for the individual entities covered by the consolidated financial statements. Income tax is tax on taxable profits and consists of corporate income tax and withholding tax paid in lieu of corporate income tax (revenue tax), etc. Tax is recognised in the income statement to the extent it arises from items recognised in the income statement.

Current tax liabilities and receivables are recognised in the balance sheet at the amounts calculated on the taxable income for the year adjusted for tax on taxable incomes for prior years and for taxes paid on account. Of the USD 65m of current tax liabilities it is estimated that USD 31m may only be settled after 12 months from the balance sheet date.

In line with the published Tax Policy, Maersk Drilling support the development, growth and prosperity of the countries in which we operate by paying taxes in accordance with local legislation. The Tax Policy is reviewed and approved by the Board of Directors once a year.

Taxable profits are generally split between the countries of operation and the flag states of the drilling rigs, which are Denmark, United Kingdom or Singapore. Under current market conditions with limited profitability, the majority of taxes paid are paid in the countries of operation which for 2020 were primarily Norway, United Kingdom, Ghana, Angola and Azerbaijan.

In Denmark, Maersk Drilling is subject to a mandatory joint taxation scheme with all other Danish entities under the common control of A.P. Møller Holding A/S. To the extent Maersk Drilling incurs tax losses in Denmark or have tax losses carried forward from previous years, such losses may be utilised by other jointly taxed entities. In such events, Maersk Drilling is compensated through a joint taxation contribution.

Note 2.1 Intangible assets

USD Million	Customer contracts	IT software	Total
2019			
Cost			
1 January 2019	67	68	135
Addition	-	-	-
31 December 2019	**67**	**68**	**135**
Amortisation and impairment losses			
1 January 2019	31	48	79
Amortisation	13	12	25
31 December 2019	**44**	**60**	**104**
Carrying amount at 31 December 2019	**23**	**8**	**31**
2020			
Cost			
1 January 2020	67	68	135
Addition	-	4	4
31 December 2020	**67**	**72**	**139**
Amortisation and impairment losses			
1 January 2020	44	60	104
Amortisation	13	7	20
31 December 2020	**57**	**67**	**124**
Carrying amount at 31 December 2020	**10**	**5**	**15**

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets. Customer contracts are amortised over the contract term. Estimated useful lives and residual values are reassessed on a regular basis.

Useful life (years)		**Residual value**
Customer contracts	Contract term	0%
IT Software	3–5 years	0%

Note 2.2 Property, plant and equipment

USD Million	Jack-up rigs	Floaters	Equipment and other	Construction work in progress	**Total**
2019					
Cost					
1 January 2019	5,377	5,023	162	93	10,655
Addition	-	-	-	309	309
Disposal	185	315	-	-	500
Transfer	47	119	-	-166	-
Transfer to assets held for sale	233	-	-	-	233
31 December 2019	**5,006**	**4,827**	**162**	**236**	**10,231**
Depreciation and impairment losses					
1 January 2019	2,623	3,128	55	-	5,806
Amortisation and depreciation	199	155	1	-	355
Impairment losses	34	-	-	-	34
Disposal	185	315	-	-	500
Transfer	-	-	-	-	-
Transfer, assets held for sale	195	-	-	-	195
31 December 2019	**2,476**	**2,968**	**56**	**-**	**5,500**
Carrying amount 31 December 2019	**2,530**	**1,859**	**106**	**236**	**4,731**
2020					
Cost					
1 January 2020	5,006	4,827	162	236	10,231
Addition	-	-	-	158	158
Disposal	53	10	6	-	69
Transfer	80	131	27	-234	4
31 December 2020	**5,033**	**4,948**	**183**	**160**	**10,324**
Depreciation and impairment losses					
1 January 2020	2,476	2,968	56	-	5,500
Amortisation and depreciation	167	91	1	-	259
Impairment losses	734	846	-	-	1,580
Disposal	53	10	3	-	66
Transfer	-	-	-2	-	-2
Transfer, assets held for sale	-	-	-	-	-
31 December 2020	**3,324**	**3,895**	**52**	**-**	**7,271**
Carrying amount 31 December 2020	**1,709**	**1,053**	**131**	**160**	**3,053**

Note 2.2 Property, plant and equipment – continued

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives to an estimated residual value. The cost of an asset is divided into separate components, which are depreciated separately if the useful lives of the individual components differ:

	Useful life (years)	Residual value
Rigs, Hull	25 years	20–30%
Rigs, Drilling Equipment/owner furnished equipment long	20 years	10%
Rigs, Drilling Equipment/owner furnished equipment short	10 years	0%
Rigs, Initial offshore inventory	10 years	0%
Rigs, Other	5 years	0%
Rigs, five-year special periodic survey	5 years	0%

Estimated useful lives and residual values are reassessed on a regular basis.

The five-year special periodic survey costs are recognised in the carrying amount of rigs when incurred and depreciated over the period until the next five year special periodic survey. Costs of on-going routine maintenance of the assets are expensed as incurred.

The cost of assets constructed by Maersk Drilling includes directly attributable expenses. For assets with a long construction period, borrowing costs during the construction period from specific as well as general borrowings are capitalised.

Grants received from governments or similar institutions are recognised when there is reasonable certainty that they will be received. Grants for capital expenditures are offset against the cost of the assets to which the grants relate. During 2020, grants of USD 13m have been offset against non-current assets (2019: nil).

Useful lives are estimated based on past experience. Management decides from time to time to revise the estimates for individual assets or groups of assets with similar characteristics due to factors such as standard of maintenance and repair, technical development and environmental requirements.

Residual values are difficult to estimate given the long lives of rigs, the uncertainty as to future economic conditions and the future price of steel, which are considered as the main determinant of the residual price. The long-term view is prioritised in order to disregard, to the extent possible, temporary market fluctuations which may be significant.

Pledges

Property plant and equipment with carrying amount of USD 2,997m (2019: USD 4,655m) has been pledged as security for borrowings with a carrying amount of USD 1,254m (2019: USD 1,378m).

Asset held for sale

Assets held for sale comprise assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets are classified as held for sale when activities to carry out a sale have been initiated, when the assets are available for immediate sale in their present condition and when the assets are expected to be disposed of within 12 months. Liabilities directly associated with assets held for sale, if any, are presented separately from other liabilities.

Assets held for sale are measured at the lower of their carrying amount immediately before classification as held for sale and the fair value less costs to sell. Non-current assets are not depreciated while classified as held for sale.

No assets are classified as held for sale as of 31 December 2020.

At the end of 2019, the jack-up rig Maersk Completer was classified as held for sale with a carrying amount of USD 38m. The sale of the rig was finalised on 7 January 2020.

Note 2.3 Leases

USD Million	Land and buildings	Equipment and other	**Total**
Right-of-use assets			
Recognition of right-of-use asset on initial application of IFRS 16 as of 1 January 2019	35	1	36
Additions	2	-	2
Depreciation	6	1	7
31 December 2019	**31**	**-**	**31**
Additions	6	-	6
Disposals	2	-	2
Depreciation	7	-	7
31 December 2020	**28**	**-**	**28**

Lease contracts, under which the Group is the lessee, are capitalised using an incremental borrowing rate and recognised in the balance sheet as right-of-use assets and corresponding lease liabilities. The right-of-use assets are generally depreciated over the lease term on a straight-line basis. Lease payments made are split into an interest element presented under financial expenses and amortisation of the lease liability. Both elements are included under cash flow from financing activities in the cash flow statement.

Lease contracts with a term shorter than 12 months or for which the underlying asset are of low value are not capitalised but expensed straight-line over the lease term. Service components included in lease costs are not recognised as part of the lease liability. Such costs are recognised in the income statement as incurred.

The weighted average incremental borrowing rate applied was 4.0% (2019: 4.4%).

USD Million	**2020**	2019
Lease liabilities		
1 January	**31**	**36**
Additions	6	2
Disposals	-1	-
Interest expense	1	1
Lease payments	-8	-7
Foreign exchange movements	2	-1
31 December	**31**	**31**
Lease liabilities are recognised in the balance sheet as follows:		
Non-current liabilities, presented in 'Borrowings, non-current'	25	25
Current liabilities, presented in 'Borrowings, current'	6	6
Total lease liabilities	**31**	**31**
Recognised in the profit and loss statement as follows:		
Interest expense related to lease liabilities	-1	-1
Expense relating to short term leases, not capitalised	-9	-2
Expense relating to leases of low-value assets, not capitalised	-1	-1
Sublease income presented in 'Other revenue'	1	1
Recognised in the cash flow statement as follows:		
Interest elements of lease payments, presented in 'Interest paid'	-1	-1
Principal elements of lease payments, presented in 'Repayment of borrowings'	-7	-6
Total cash outflow in respect of leases in the year	**-8**	**-7**

There are no significant lease commitments for leases not commenced at year-end.

Note 2.4 Impairment test

The oil and gas markets have during 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 initial intervention by OPEC+ member states struggled to balance the market. As a result, Brent oil prices dropped from pre-COVID levels of USD 50–70 to USD 20–40 per barrel. Since then, Brent oil prices have stabilised at levels around USD 40–50 per barrel, and in the end of 2020, the one-year forward coverage in the December 2020 Brent prices climbed above USD 50 per barrel, the highest level since March 2020.

The decline in oil prices has driven reductions in spending budgets by upstream oil and gas companies and consequently many exploration and developments projects were postponed, offshore rig tenders were cancelled, and existing drilling contracts were suspended or terminated – resulting in reduced demand for offshore drilling rigs. The decline in utilisation and forward coverage exerted pressure on day rates across most segments, though the market for high-specification harsh environment rigs proved more resilient with a healthier demand and supply balance and only limited impact on day rates.

Based on bilateral dialogues with oil and gas companies, Maersk Drilling expects the demand pipeline in its key markets to further build in 2021, partly due to projects originally scheduled for execution in 2020 being postponed to 2021.

The future capital expenditures targeted for offshore, and thereby the future actual demand for offshore drilling rigs, are subject to several factors, particularly the development in the global oil and gas markets. The demand for oil and gas is depending on the public health, the impact of vaccines, and the policy responses to COVID-19, and the supply side of the oil markets will depend on the associated policy responses of OPEC+ and the influence of US shale.

Outcome of impairment test
Following the revised market outlook with lower expectations as to utilisation and day rates for the coming years, Maersk Drilling initially recognised a net impairment loss of USD 1,476m in its Interim Financial Report as of and for the six months ended 30 June 2020. The impairment calculations have been updated as of 31 December 2020 due to changes in fiscal regimes in certain markets and to reflect the most current expected commercial outlook and updated budget for 2021 resulting in further impairment losses of USD 104m. The impairment loss relates to both jack-ups and floaters. Potential impairment reversals of USD 82m have not been recognised as mostly arising from the passage of time.

USD Million	Impairment losses/reversals	Recoverable amount[3]
Cash generating unit		
North Sea jack-ups[1]	714	1,914
International floaters[2]	846	1,219
Benign jack-up	20	69
Total	**1,580**	

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 three cash generating units operating globally.
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 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 as set out in note 2.2.

Note 2.4 Impairment test – continued

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 -1,181m and USD -1,932m with a -/+ 1 percentage point change in the discount rate, keeping all other assumptions unchanged.
- USD -1,379m and USD -1,765m with a +/- 1 percentage point change in the growth rate after the 5-year forecast period, keeping all other assumptions unchanged.
- USD -768m and USD -2,256m with a +/- 5 percentage point change in EBITDA margin after the 5-year forecast period, keeping all other assumptions unchanged.
- USD -1,133m and USD -2,027m with a +/- 5 percentage point change in utilisation after the 5-year forecast, keeping all other assumptions unchanged.

Note 2.5 Deferred tax

Recognised deferred tax assets and liabilities are attributable to the following:

USD Million			**2020**			2019
	Assets	Liabilities	Net Liabilities	Assets	Liabilities	Net Liabilities
Property, plant and equipment	30	29	-1	10	56	46
Tax loss carry forwards	-	-	-	1	-	-1
Other	4	2	-2	4	3	-1
Total	**34**	**31**	**-3**	**15**	**59**	**44**
Offsets	-19	-19	-	-12	-12	-
Total	**15**	**12**	**-3**	**3**	**47**	**44**

USD Million	**2020**	2019
Change in deferred tax, net during the year		
1 January	**44**	**58**
Property, plant and equipment	-47	-1
Tax loss carry forwards	1	-1
Other	-1	-12
Recognised in the income statement	**-47**	**-14**
Recognised in other comprehensive income	-	-
31 December	**-3**	**44**

USD Million	**2020**	2019
Unrecognised deferred tax assets		
Deductible temporary differences	-	-
Tax loss carry forwards	45	25
Total	**45**	**25**

The unrecognised deferred tax assets have no significant time limitations.

Note 2.5 Deferred tax – continued

Deferred tax is calculated on temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax is not recognised for differences on the initial recognition of assets or liabilities where at the time of the transaction neither accounting nor taxable profit/loss is affected, unless the differences arise in a business combination. In addition, no deferred tax is recognised for undistributed earnings in subsidiaries, when Maersk Drilling controls the timing of dividends, and no taxable dividends are currently expected. A deferred tax asset is recognised to the extent that it is probable that it can be utilised within a foreseeable future.

Maersk Drilling is engaged in a limited number of disputes with tax authorities of various scope. In evaluating the accounting impact of uncertain tax positions, Maersk Drilling applies a two stage test in accordance with IAS 12 and IFRIC 23. If it is probable (i.e. a probability of more than 50%) that a tax authority will accept a particular uncertain tax position, then the tax position reported in these consolidated financial statements is consistent with what is or will be used in the tax returns of the entity and no further liability is recognised. However, if it is not probable that a tax authority will accept a particular uncertain tax position then the income tax accounting is adjusted generally by recognising an additional liability. The adjustment could also be a decrease in tax receivables or an adjustment to deferred tax balances, depending on the tax position. The uncertain tax position is measured using either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position.

The classification as deferred or current tax is often encumbered with uncertainty due to the nature of these disputes and effects within joint taxation including calculated interest, and final assessments could impact the classifications and estimates of the disputes.

Estimation has been applied in the measurement of deferred tax assets with respect to Maersk Drilling's ability to utilise the assets. Management considers the likelihood of utilisation based on the latest business plans and recent financial performances of the individual entities.

Note 2.6 Other receivables

USD Million	**2020**	2019
Derivatives	4	-
Deposits	1	1
VAT and similar receivables	31	19
Costs to be reimbursed	37	24
Other	3	3
Total	**76**	**47**

Note 2.7 Prepayments

USD Million	**2020**	2019
Mobilisation and start-up costs (costs to fulfil contracts)	54	22
Other	22	19
Total	**76**	**41**

Prepayments comprise consumables and prepaid cost including mobilisation and start-up costs that are considered costs to fulfil contracts under IFRS 15 (contract assets). For contract assets, any need for loss provisions are estimated using the simplified approach under IFRS 9.

Note 2.8 Provisions

USD Million	Restructuring	Legal disputes, etc.	Total
1 January 2019	**20**	**8**	**28**
Provision made	5	-	5
Amount used	-13	-3	-16
Amount reversed	-	-2	-2
31 December 2019	**12**	**3**	**15**
Of which:			
Classified as non-current	-	2	2
Classified as current	12	1	13
1 January 2020	**12**	**3**	**15**
Provision made	24	16	40
Amount used	-34	-	-34
Amount reversed	-1	-	-1
31 December 2020	**1**	**19**	**20**
Of which:			
Classified as non-current	-	5	5
Classified as current	1	14	15

No provisions are expected to be realised after more than five years.

Provisions are recognised when Maersk Drilling has a present legal or constructive obligation from past events. The item includes, among other, provisions for legal disputes, disputes over indirect taxes or duties and provisions for decided and publicly announced restructuring. Provisions are recognised based on best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

Reversals of provisions primarily relate to settlement of contractual disagreements, which are recognised in the income statement under operating costs.

Management's estimate of the provisions in connection with legal disputes, including disputes on indirect taxes and duties, is based on the knowledge available on the actual substance of the cases and a legal assessment of these. The resolution of legal disputes, through either negotiations or litigation, can take several years to complete and the outcome is subject to considerable uncertainty.

Note 2.9 Other payables

USD Million	2020	2019
Derivatives	-	1
Interest payable	1	1
VAT, duties and similar payables	12	22
Payables to staff and management	38	30
Other	7	9
Total	**58**	**63**

The Danish Holiday Act has been changed into a scheme under which vacation is accrued and used concurrently. Previously, vacation was accrued by employees in Denmark over a full calendar year and only subsequently used. As part of this transition, vacation accrued from 1 September 2019 to 31 August 2020 is accrued but only paid out when the respective employees leave the company or ultimately retire. At 31 December 2020, payables to staff and management amount to USD 38m (2019: USD 30m) of which USD 10m (2019: USD 3m) relate to the transition period which may only be settled after 12 months from the balance sheet date.

Note 2.10 Contract balances

USD Million	Note	**2020**	2019
Contract assets			
Mobilisation and start-up costs (costs to fulfil a contract)	2.7	54	22
Costs to be reimbursed	2.6	37	24
Total		**91**	**46**
Contract liabilities			
Deferred income		62	32
Total		**62**	**32**

Revenue recognised in 2020 that was included in the contract liability at the beginning of each year relates to mobilisation fees from customers that are deferred and recognised over the contract term. The amount recognised in 2020 was USD 14m (2019: USD 18m).

Costs to fulfil contracts relate to mobilisation costs paid that are capitalised and amortised over the contract term. The amortisation in 2020 amounted to USD 29m (2019: USD 17m).

Amounts allocated to performance obligations that are to be completed under existing contracts (the service element in contracts) are set out in note 1.2.

Note 2.11 Cash flow specifications

USD Million	**2020**	2019
Working capital		
Trade receivables	210	264
Other receivables excluding derivatives and capex receivables	62	47
Prepayments	76	41
Trade payables excluding capex payables	-142	-152
Other payables excluding interest accruals and derivatives	-57	-61
Deferred income	-62	-32
Net working capital	**87**	**107**
Change in working capital in balance sheet	20	45
Non-cash movements including exchange rate adjustment	7	12
Change in working capital in cash flow statement	**27**	**57**

USD Million	Note	**2020**	2019
Purchase of intangible assets and property, plant and equipment			
Additions to Intangible assets	2.1	-4	-
Additions to Property, plant and equipment	2.2	-158	-309
Change in payables/receivables relating to capital expenditures		-24	2
Total		**-186**	**-307**

Note 3.1 Equity

Share capital
The share capital comprises 41,532,112 shares of DKK 10 each. The Company has only one share class, and all shares hold one vote. No shares hold special rights, preferences or restrictions. All shares are fully paid up.

	2020	2019
No of shares at 1 January[1]	41,532,112	41,532,112
No of shares at 31 December	**41,532,112**	**41,532,112**
Treasury shares at 1 January	-	-
Acquired through share buy-backs	245,000	-
Delivered under long-term incentive programmes	-1,836	-
Treasury shares at 31 December	**243,164**	**-**
Average number of shares in circulation	**41,410,530**	**41,532,112**

1 The number of shares issued upon incorporation of the Company on 2 April 2019.

Reserves
The reserve for hedges is the only reserve presented in the consolidated statement of changes in equity. The reserve for hedges represents the accumulated fair value of hedging instruments qualifying for cash flow hedge accounting, net of tax. The reserve is transferred to the income statement when the hedged transaction is settled.

The Group does not have a translation reserve as all material subsidiaries have the United States Dollar (USD) as their functional currency.

Other comprehensive income
Other comprehensive income consists of income and costs not recognised in the income statement, cash flow hedges as well as actuarial gains/losses on defined benefit plans, etc. Other comprehensive income includes current and deferred income tax to the extent that the items recognised in other comprehensive income are taxable or deductible.

Note 3.2 Capital structure and capital allocation

The overall objective of the 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:
- Financial flexibility including adequate liquidity reserves;
- A long-term funding view to minimise refinancing risk; and
- A robust capital structure through the business cycle.

In order to meet these objectives, free cash flow is to be allocated based on the following prioritisation:
1. Maintain a robust capital structure with sufficient funding available to support the business through the cycle;
2. Pursue investment opportunities supporting long-term shareholder value creation; and
3. Return surplus capital to shareholders.

Maersk Drilling will generally work towards a leverage ratio (net debt divided by EBITDA before special items) of around 2.5x.

This means that if the leverage ratio is below 2.5x over time and no attractive investment opportunities have been identified, Maersk Drilling will seek to return capital to shareholders by means of dividends and/or share buy-backs.

If value adding investment opportunities that require additional funding arise, or if EBITDA is reduced in a business downcycle, the leverage may exceed the target level of around 2.5x for a period of time.

Note 3.3 Borrowings and net debt reconciliation

USD Million	2020	2019
Borrowings		
Term loans	1,254	1,378
Lease liabilities	31	31
Total borrowings	**1,285**	**1,409**
Of which:		
Classified as non-current	1,149	1,273
Classified as current	136	136

USD Million	2020	2019
Net debt reconciliation		
Borrowings	1,285	1,409
Total financial liabilities and assets from financing activities	**1,285**	**1,409**
Cash and bank balances	-226	-310
Net debt	**1,059**	**1,099**

Financial liabilities are initially recognised at fair value less transaction costs. Subsequently, the financial liabilities are measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities.

USD Million	2020	2019
Change in financial liabilities and assets from financing activities		
1 January	1,409	1,468
Impact from new accounting policy		36
Repayment of borrowings	-137	-103
Non-cash changes:		
Foreign exchange adjustments	2	-1
Discounting/amortisation	6	6
New lease boligations	6	2
Disposal of lease obligations	-1	-
Other	-	1
31 December	**1,285**	**1,409**

In addition to the collateral rigs set out in note 2.2, certain bank accounts and shares in the subsidiaries being owners of the collateral rigs and certain intra-group charterers in respect of the collateral rigs are pledged as security for term loans and credit facilities with a carrying amount at 31 December 2020 of USD 1,254m. In certain circumstances, earnings in respect of drilling contracts for the collateral rigs will be assigned in favour of the lenders under the loan agreements.

Note 3.4 Financial risks

Financial risk management
The Group's operating and financing activities expose it to a variety of financial risks, comprising:

- Liquidity risk
- Interest rate risk
- Currency risk
- Credit risk

Management of these financial risks is carried out by a central treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges each financial risk if appropriate. The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risks.

Exposure from each of the financial risks, together with the Group's policies and mitigation procedures are further described below.

Note 3.4 Financial risks – continued | Liquidity risk

Liquidity risk is the risk that Maersk Drilling will encounter difficulty in meeting its obligations when they occur or ceasing to have access to adequate funding to pursue its strategic ambitions. The overall objective is to maintain adequate liquidity reserves to meet the Group's obligations and to withstand volatility in cash flow from operations.

The Group's revenue backlog provides visibility into the Group's future cash flow generation and is a key component in the Group's mitigation of the liquidity risk inherent in the Group's financial liabilities. At 31 December 2020, the Group had a revenue backlog of USD 1,327m (31 December 2019: USD 2,131m) which provides clarity of the Group's ability to meet its obligations as they fall due.

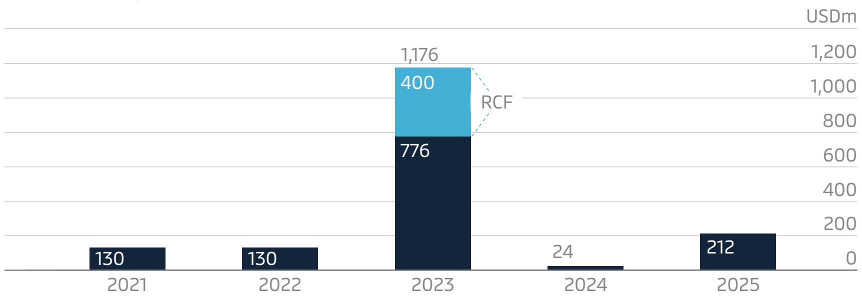
The Group has a centralised and structured approach to liquidity, capital funding and cash management, focusing on repatriating and concentrating cash. Short-term funding of subsidiaries is handled by the central treasury department, primarily through a group wide cash pool structure.

The liquidity reserve, which consists of cash and bank balances plus the aggregate amount of undrawn or unutilised committed credit facilities that remain committed for a period of not less than 365 days, amounts to USD 626m (2019: USD 710m).

The Group's USD 400m revolving credit facility remains undrawn. The Group's loan facilities including its revolving credit facility contain customary representations, certain covenants and undertakings (including on minimum requirements of the aggregate fair market value and insurance of the pledged rigs, customary restrictions on the flag and classification society applicable to the pledged rigs and restrictions on creating liens on the pledged rigs) and customary events of default (in each case, subject to customary agreed exceptions, materiality tests, carve-outs and grace periods). In addition, the loan facilities contain minimum free liquidity, leverage ratio and equity ratio financial covenants, with which the Group must comply throughout the tenor of the facilities. The covenants have all been complied with in 2020.

The maturities of the Group's total loan facilities, comprising term loans drawn in full and the undrawn committed revolving facility, are illustrated in the chart below.

Maturity of loan facilities



USD Million				Cash flows including interest	
Maturities of liabilities and commitments	Carrying amount	0-1 year	1-5 years	5- years	**Total**
2020					
Term loans	1,254	168	1,220	-	1,388
Lease liabilities	31	8	23	4	35
Trade and other payables	225	225	-	-	225
Derivatives	33	-	33	-	33
Total recognised in balance sheet	**1,543**	**401**	**1,276**	**4**	**1,681**
Capital commitments		30	0	-	30
Total		**431**	**1,276**	**4**	**1,711**
2019					
Term loans	1,378	190	1,210	220	1,620
Lease liabilities	31	7	22	5	34
Trade and other payables	243	243	-	-	243
Derivatives	23	1	22	-	23
Total recognised in balance sheet	**1,675**	**441**	**1,254**	**225**	**1,920**
Capital commitments		95	0	-	95
Total		**536**	**1,254**	**225**	**2,015**

Note 3.4 Financial risks – continued | Interest rate risk

Interest rate risk is the risk that future cash flows from financial instruments will fluctuate because of changes in market interest rates. The interest rate exposure arises from loans and other credit facilities carrying floating interest rates. The exposure towards interest rates is mitigated by entering into fixed rate loans or interest rate swaps.

Maersk Drilling's policy is that a minimum of 50% of the gross debt is at fixed interest rates using a model under which a larger proportion of risk is hedged in the short to medium term and a smaller proportion is hedged in the longer term. As of 31 December 2020, the average fixed ratio of gross funding is 54% for the whole term with 62% and 49% for 2021 and 2022, respectively. As of 31 December 2019, the average fixed ratio of gross funding was 48% for the whole term with 63% and 50% for 2020 and 2021, respectively. At 31 December 2020, the weighted average duration of term loans was 1.5 years (2019: 2.0 years).

USD Million		Next interest rate fixing		
	Carrying amount	0-1 year	1-5 years	5- years
Borrowings by interest rate levels inclusive of interest rate swaps				
2020				
<3%	501	498	0	3
3–6%	784	1	775	8
Total	**1,285**	**499**	**775**	**11**
2019				
3–6%	1,409	507	875	27
Total	**1,409**	**507**	**875**	**27**

Interest rate sensitivity
An increase in interest rates by one percentage point is estimated to decrease profit for the year by USD 5m and increase other comprehensive income (and thereby equity) by USD 14m (2019: decrease profit for the year by USD 6m and increase other comprehensive income (and thereby equity) by USD 20m). This analysis is based on borrowings and loans receivable at 31 December and assumes that all other variables remain constant. A one percentage point decrease would have a corresponding inverse effect.

Currency risk

Currency risk is the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The currency exposure arises from Maersk Drilling operating in countries with different local currencies. Revenue is primarily denominated in USD, the functional currency of all material entities in the Group, while related operating expenses are incurred in both USD and local currencies. The Group's net liability is also primarily denominated in USD and only a minimum of the Group's other net liability is in other currencies such as DKK and AUD.

The exposure to changes in foreign exchange rates is mitigated by entering into customer contracts where an element of the contract value is in local currency to create a natural hedge between the contracted revenue and local operating costs. Subsequently, foreign exchange forwards are used to hedge any excess exposure.

Exposure to currency risk is generally low and does not significantly affect the Group's profit or the value of financial instruments. It is the Group's policy to hedge significant net cash flows in currencies other than USD using a layered model with a 12-month horizon.

Cash kept in countries with limited access to repatriating surplus cash is subject to currency risks. As of 31 December, the Group had the equivalent of USD 14m of restricted cash (2019: USD 14m).

Currency sensitivity
Depreciation of the most material currencies in which Maersk Drilling trades (DKK, NOK, EUR, GBP, EGP, AUD and AOA) against USD by five percent is estimated to increase profit for the year by USD 3m and decrease other comprehensive income (and thereby equity) by USD 3m (2019: decrease profit for the year by USD 0m and decrease other comprehensive income (and thereby equity) by USD 4m). This analysis is based on financial instruments at 31 December and assumes that all other variables remain constant. A five percentage point appreciation would have a corresponding inverse effect.

Note 3.4 Financial risks – continued | Credit risk

The Group has exposure to commercial and financial counterparties.

For drilling contracts, credit risk is minimised by undertaking a credit assessment of the counterparty prior to entering into the contracts. Depending on the creditworthiness, the Group may seek protection, in form of parent company guarantees, pre-payments or other type of security.

In 2020, revenue from four major international oil companies, which individually account for more than 10% of revenue, represented 69% (2019: 71%) of the Group's revenue. The credit risks associated with these significant customers are considered limited.

For financial counterparties, the credit risk is minimized by applying credit limits and transacting with financial institutions with a strong credit rating defined as a minimum credit rating of 'A3', 'A-' and/or 'A-' for Moody's, S&P or Fitch, respectively. For derivatives, counterparties with an investment grade rating may be used. A limited number of geographies are not serviced by our relationship banks and have no operations by financial counterparties with a satisfactory credit rating.

Financial assets at amortised cost comprise loans receivable and other receivables. These are all considered to have low credit risk and thus the impairment provision calculated on the basis of 12 month expected losses is considered immaterial. The financial assets are considered to be low risk when they have low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Receivables are initially recognised at fair value, plus any direct transaction costs and subsequently measured at amortised cost using the effective interest method. The Group applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Customer contracts do not include unusual payment terms or material financing components. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In accordance with IFRS 9, non-due trade receivables have also been considered for expected credit losses.

For loans receivable and other receivables than trade receivables, the initial impairment provision is calculated on the basis of 12 month expected credit losses. If a significant increase in credit risk occurs, lifetime expected credit losses are recognised.

USD Million	**2020**	2019
Maturity analysis of trade receivables		
Receivables not due	169	215
Less than 90 days overdue	27	31
More than 90 days overdue	14	18
Receivables, gross	**210**	**264**
Expected credit loss	-	-
Carrying amount	**210**	**264**

Note 3.5 Derivatives

The Group enters into derivative transactions in order to mitigate foreign exchange rate exposure related to costs incurred in local currencies and interest rate exposure on term loans. The derivative transactions comprise foreign exchange forward and swap contracts and interest rate swaps. Foreign exchange derivative contracts are used to hedge the currency risk related to recognised and unrecognised transactions, of which the majority are designated as cash flow hedges. Interest rate swaps are used to swap variable interest payments on term loans to fixed interest payments. All interest rate swaps are designated as cash flow hedges.

Derivative financial instruments are recognised on the trading date and measured at fair value using generally acknowledged valuation techniques based on relevant observable swap curves and exchange rates.

The effective portion of changes in the value of derivative financial instruments designated to hedge highly probable future transactions is recognised in other comprehensive income until the hedged transactions are realised. At that time, the cumulated gains/losses are transferred to the items under which the hedged transactions are recognised. The ineffective portion of hedge transactions and changes in the fair values of derivative financial instruments, which do not qualify for hedge accounting, are recognised in the income statement as financial income or expenses.

Currency derivatives designated as cash flow hedges are mainly realised within one year, whereas interest rate swaps designated as cash flow hedges generally mature over three years.

The notional value of currency derivative contracts at 31 December amounts to:

USD Million	**2020**		2019	
	Foreign currency	USD	Foreign currency	USD
DKK/USD	408	63	551	84
NOK/USD	-	-	50	6

The majority of currency derivative contracts hedge future cash outflows, hence the respective foreign currencies are purchased and USD is sold.

The notional amount of interest rate swaps at 31 December 2020 amounts to USD 652m (2019: USD 737m) and all swaps are denominated in USD.

The average fixed rate of the interest rate swaps is 2.7%, which jointly with margins and fees paid results in an average 2020 interest cost of around 5.0% (2019: 5.7%).

Negative fair value of derivative contracts are recognised as non-current derivatives at USD 33m (2019: USD 22m) and for the current part in other receivables at USD 4m (2019: USD 1m in Other payables).

Note 3.5 Derivatives – continued

The gains/losses, including realised transactions, are recognised as follows:

USD Million	**2020**	2019
Hedging foreign exchange risk on operating costs	1	-5
Hedging interest rate risk	-14	-3
Total reclassified from equity reserve for hedges	**-13**	**-8**
Derivatives accounted for as held for trading		
Currency derivatives recognised directly in financial income/expenses	-	-
Net gains/losses recognised directly in the income statement	**-**	**-**
Total	**-13**	**-8**

Movement in reserve for hedges can be specified as follows:

USD Million			**2020**
	Foreign exchange risk	Interest rate risk	**Total**
Reserve for hedges 1 January	-1	-22	-23
Value adjustment of hedges for the year	5	-25	-20
Reclassified to income statement	-1	14	13
Reserve for hedges 31 December	**3**	**-33**	**-30**

USD Million			2019
	Foreign exchange risk	Interest rate risk	Total
Reserve for hedges 1 January	-1	-1	-2
Value adjustment of hedges for the year	-5	-24	-29
Reclassified to income statement	5	3	8
Reserve for hedges 31 December	**-1**	**-22**	**-23**

Note 3.6 Financial instruments by category

USD Million	**2020**		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Carried at amortised cost				
Loans receivable	-	-	-	-
Other interest-bearing receivables	-	-	-	-
Total interest-bearing receivables	**-**	**-**	**-**	**-**
Trade receivables	210		264	
Other receivables (non-interest-bearing)	75		49	
Cash and bank balances	226		310	
Financial assets at amortised cost	**511**		**623**	
Carried at fair value				
Derivatives	4	4	-	-
Financial assets at fair value	**4**	**4**	**-**	**-**
Total financial assets	**515**		**623**	
Carried at amortised cost				
Term loans	1,254	1,276	1,378	1,404
Lease liabilities	31	31	31	31
Total borrowings	**1,285**	**1,307**	**1,409**	**1,435**
Trade payables	167		180	
Other payables	58		62	
Financial liabilities at amortised cost	**1,510**		**1,651**	
Carried at fair value				
Derivatives	33	33	23	23
Financial liabilities at fair value	**33**	**33**	**23**	**23**
Total financial liabilities	**1,543**		**1,674**	

Note 3.6 Financial instruments by category – continued

Financial instruments measured at fair value
Financial instruments carried at fair value can be divided into three levels:
Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Fair value of derivatives fall within level 2 of the fair value hierarchy and is calculated on the basis of observable market data as of the end of the reporting period. The Group has no financial instruments within level 3.

Financial instruments carried at amortised cost
Fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is determined primarily based on the present value of expected future cash flows. Where a market price was available, however, this was deemed to be the fair value.

Fair value of the borrowing items falls within level 2 of the fair value hierarchy and is estimated on the basis of discounted future cash flows.

The fair value of loans receivable and borrowings against related parties have a floating interest rate and the fair value is assessed to be similar to the carrying amount.

Note 4.1 Earnings per share

Earnings per share amounted to USD -39.9 (USD -2.7) and diluted earnings per share USD -39.9 (USD -2.7). Earnings per share is equal to profit/loss for the year divided by the average number of shares in circulation or the average diluted number of shares in circulation.

	2020	2019
Total number of shares	41,532,112	41,532,112
Average number of treasury shares	121,582	-
Average number of shares in circulation	**41,410,530**	**41,532,112**
Average dilution effect from shares outstanding under the LTI programme	-	-
Diluted average number of shares in circulation	**41,410,530**	**41,532,112**

At 31 December 2020, a potential dilution effect from 176,793 shares (31 December 2019: 130,313 shares) outstanding under the long-term incentive programme (see note 4.3 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 4.2 Contingent liabilities and commitments

The term loans and credit facilities set out in note 3.2 may become repayable in whole or in part on the occurrence of certain events including a change of control over the Company. Except for these and for customary agreements within the Group's activities, no material agreements have been entered into that will take effect, change or expire upon changes of the control over the Company.

The Group is involved in legal and tax disputes in certain countries. Some of these are subject to considerable uncertainty as described in notes 2.5 and 2.8.

Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Danish companies are jointly and severally liable for taxes payable in Denmark.

Following the demerger from the A.P. Moller - Maersk group, Maersk Drilling is subject to a statutory demerger liability. In the event that A.P. Møller - Mærsk A/S defaults on its obligations, The Drilling Company of 1972 A/S will be liable for any obligations of A.P. Møller - Mærsk A/S existing at the date of publication of the demerger plan on 4 March 2019. Similarly, A.P. Møller - Mærsk A/S will be liable for any obligations assigned to The Drilling Company of 1972 A/S existing at that date. The potential liability for Maersk Drilling is capped at a maximum amount equal to the net value of the assets and liabilities contributed as part of the demerger. The risk of the statutory liability materialising will generally persist for three years from the demerger date and potentially up to thirty years for unknown claims.

Capital commitments and newbuilding programme

The Group has capital commitments relating to acquisition of non-current assets totalling USD 30m (2019: USD 95m). No capital commitments are related to newbuildings.

Note 4.3 Share-based payments

Following the listing on 4 April 2019, Maersk Drilling implemented a long-term incentive programme (the "LTI") and a one-time transition grant was awarded to certain employees. Maersk Drilling believes that providing remuneration in the form of shares to appropriate levels of management promotes sustainable long-term value creation and ensures alignment of interests with its shareholders.

Under the LTI and transition grant the Executive Management, Key Employees and certain other employees received a number of restricted share units ("RSUs"). The vesting period for the RSUs is three years from the date of grant. Except for RSUs granted as part of the exchange grant, the Executive Management will not be able to sell any shares vesting until the total period from grant (inclusive of the vesting period) is five years, i.e. a 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.

The transfer of restricted shares is contingent on the participants still being employed and not being under notice of termination and generally takes place when three years have passed from the time of grant. The participants are not entitled to any dividend during the vesting period. Special conditions apply regarding illness, death and resignation as well as changes in capital structure, etc.

In 2020, 90,120 RSUs have been granted under the LTI. In 2019, 48,188 RSUs was granted under the LTI and 94,515 RSUs was granted under a one-time transition grant, inclusive of 20,803 RSUs that represent an exchange grant for forfeited unvested restricted shares and options in A.P. Møller - Mærsk A/S (see below **"The A.P. Møller - Maersk Group's Restricted Shares Plan"**).

Note 4.3 Share-based payments – continued

	Shares in The Drilling Company of 1972 A/S		
	Restricted Shares Plan Key Management Personnel	Restricted Shares Plan Other employees	Total fair value[1]
Outstanding awards under equity-settled incentive plans	No.	No.	USD Million
1 January 2019	-	-	
Granted	116,599	26,104	11
Vested	-	-	
Forfeited/cancelled	10,772	1,618	
Transfer between categories	-22,844	22,844	
Outstanding 31 December 2019	**82,983**	**47,330**	
Granted	38,973	51,147	2
Vested	1,836		
Forfeited/cancelled	27,709	14,095	
Outstanding 31 December 2020	**92,411**	**84,382**	

The fair value of restricted shares granted to four Key Management Personnel (2019: eight) and to 38 Other employees (2019: 33) was USD 2m (2019: USD 11m) at the time of the grant. Total expense recognised in the income statement in 2020 for granted restricted shares was a cost of USD 2m (2019: USD 2m).

The average fair value per restricted share at the time of grant was DKK 134 / USD 20 (DKK 510 / USD 77), which is equal to the closing price of the day of the grant.

The average remaining contractual life for the restricted shares as per 31 December 2020 was 1.7 years (2019: 2.3 years).

Equity settled restricted shares allocated to employees as part of Maersk Drilling's long-term incentive programme are recognised as staff costs over the vesting period at estimated fair value at the grant date and a corresponding adjustment in equity.

At the end of each reporting period, Maersk Drilling revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions and service conditions. Any impact of the revision is recognised in the income statement with a corresponding adjustment to equity.

The A.P. Moller - Maersk Group's Restricted Shares Plan
In prior years, certain executives and employees participated in the A.P. Moller - Maersk Group's incentive programs. The A.P. Moller - Maersk Group's Restricted Shares Plan was introduced in 2013 and grants have been awarded to employees on a yearly basis since then. The transfer of restricted shares was contingent on the employee still being employed and not being under notice of termination and took place when three years have passed from the time of granting.

To ensure that the Executive Management, other key executives and certain other employees in Maersk Drilling had an equity interest in the Company from the date of the demerger, they were required to forfeit all unvested A.P. Møller - Mærsk A/S shares and share options as of 1 January 2019. The individuals instead received restricted share units in Maersk Drilling (the "exchange grant"). A total of 1,138 restricted share units (B-shares in A.P. Møller - Mærsk A/S) were converted to restricted share units in The Drilling Company of 1972 A/S of a corresponding value. 981 of these related to Key Management Personnel and 157 related to other employees.

Note 4.4 Related parties

USD Million	Other related parties	
	2020	2019
Income statement		
Revenue	2	3
Costs	22	21
Financial income	1	2
Financial expenses	10	12
Assets		
Loans receivables	-	-
Trade receivables	1	1
Derivatives	4	-
Other receivables	-	-
Cash and bank balances	79	93
Liabilities		
Borrowings	93	101
Trade payables	3	7
Derivatives	16	12
Other payables	1	1
Dividends declared	-	-

The following related parties have a controlling interest in The Drilling Company of 1972 A/S
The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal (Copenhagen, Denmark) and its subsidiary A.P. Møller Holding A/S (Copenhagen, Denmark) have control over APMH Invest A/S (Copenhagen, Denmark). APMH Invest A/S is considered to hold a controlling interest in The Drilling Company of 1972 A/S.

There have been no transactions with controlling parties.

Key management personnel
Related parties include the Group's key management personnel. There have been no transactions with key management personnel other than remuneration, which is disclosed in note 1.3 and 4.3.

Other related parties
The Board of Directors and the Executive Management of A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal, A.P. Møller Holding A/S, APMH Invest A/S, and their close relatives including undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including A.P. Møller - Mærsk A/S and its subsidiaries and affiliates and Danske Bank A/S.

Note 4.5 Subsequent events

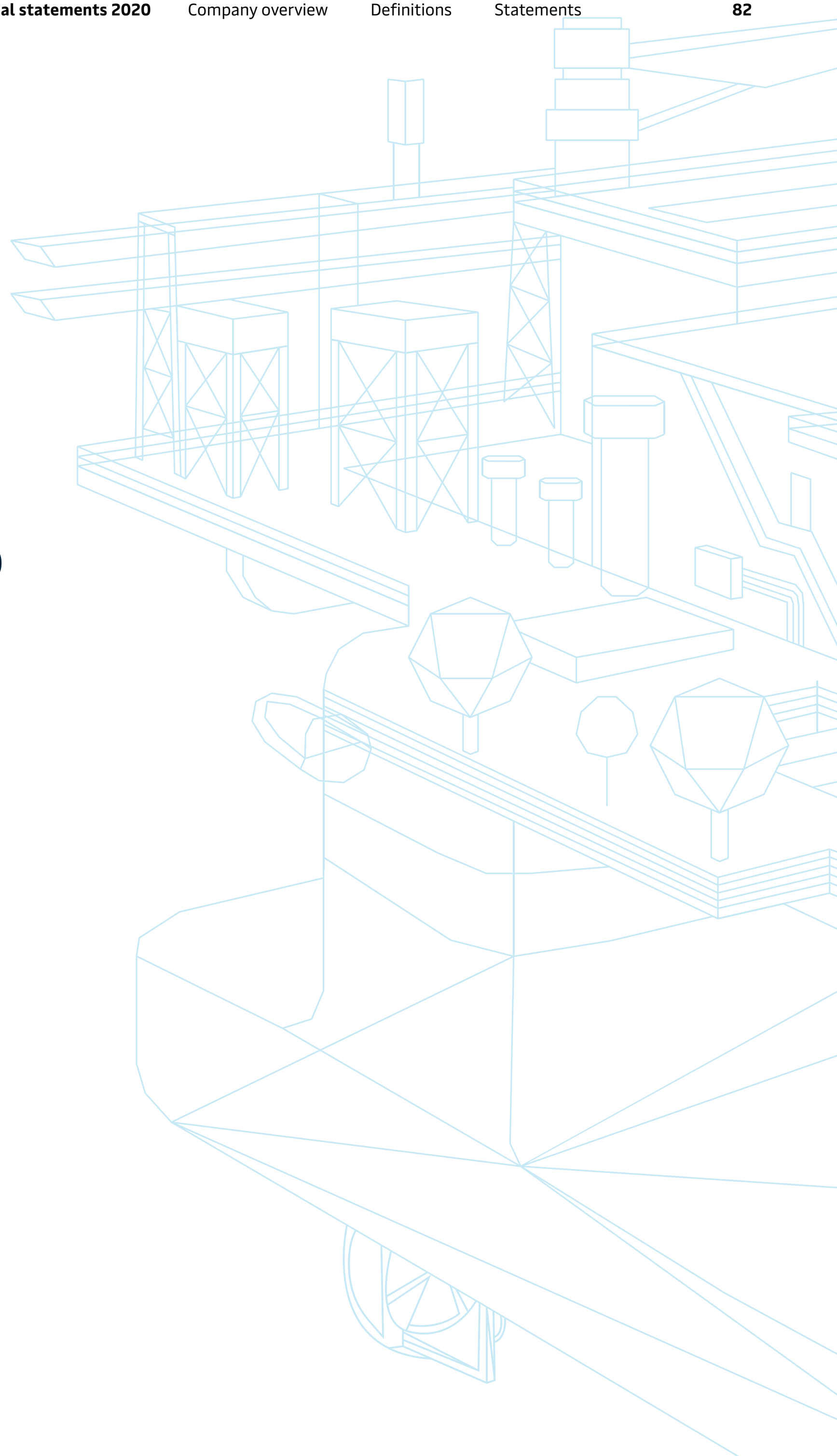
On 4 February 2021, Maersk Drilling announced the receipt of a conditional letter of award from Tullow Ghana Ltd. for the provision of the ultra-deepwater drillship Maersk Venturer and additional services for a development drilling campaign at the TEN and Jubilee fields offshore Ghana.

The duration of the final contract is around four years with expected commencement in the second quarter of 2021. The estimated value of the final contract is approximately USD 370m, excluding the value of the additional services provided and performance bonuses. The operation will be supported by local partner Rigworld.

The final contract has a progressive day rate structure for the full duration of the contract. However, after the initial period of 18 months, the contract has a provision to shift to a market-linked day rate structure.

The final contract is conditional upon certain regulatory conditions being met.

Parent company financial statements 2020



The Drilling Company of 1972 A/S

Income statement

USD Million	Note	**2020**	2019
Revenue		-	-
Costs	1	-7	-2
Gross result		**-7**	**-2**
Depreciation of property, plant and equipment	3	0	0
Impairment of investments in subsidiaries	4	-1,719	-
Profit/loss before financial items		**-1,726**	**-2**
Financial income	2	28	28
Financial expenses	2	-81	-42
Profit/loss before tax		**-1,779**	**-16**
Tax		3	0
Profit/loss for the year		**-1,776**	**-16**
Appropration:			
Retained earnings		-1,776	-16
		-1,776	**-16**

The Drilling Company of 1972 A/S

Balance sheet at 31 December

USD Million	Note	**2020**	2019
Non-current assets			
Property, plant and equipment	3	4	4
Financial non-current assets	4	2,727	4,446
Total non-current assets		**2,731**	**4,450**
Current assets			
Receivables			
Current tax receivables		11	14
Derivatives, current	5	4	-
Receivables from subsidiaries and group enterprises		614	790
Prepayments, etc.		1	1
Receivables, etc.		**630**	**805**
Cash and bank balances		**80**	**81**
Total current assets		**710**	**886**
Total assets		**3,441**	**5,336**

USD Million	Note	**2020**	2019
Share capital		63	63
Retained earnings		2,075	3,856
Total equity		**2,138**	**3,919**
Non-current liabilities			
Borrowings, non-current	5	**1,124**	**1,248**
Derivatives, non-current	5	33	22
Other non-current liabilities		**33**	**22**
Total non-current liabilities		**1,157**	**1,270**
Current liabilities			
Borrowings, current	5	**130**	**130**
Provisions, current		**3**	**-**
Payables to subsidiaries and group enterprises		4	-
Current tax payables, joint taxations		7	14
Derivatives, current	5	-	1
Other payables, etc., current		2	2
Other current liabilities		**13**	**17**
Total current liabilities		**146**	**147**
Total liabilities		**1,303**	**1,417**
Total equity and liabilities		**3,441**	**5,336**

The Drilling Company of 1972 A/S

Statement of changes in equity

USD Million	Share capital	Retained earnings	**Total equity**
2019			
Equity at incorporation	63	3,872	3,935
Profit/loss for the year		-16	-16
Equity 31 December 2019	**63**	**3,856**	**3,919**
2020			
Profit/loss for the year	-	-1,776	-1,776
Purchase of own shares	-	-5	-5
Equity 31 December 2020	**63**	**2,075**	**2,138**

The share capital comprises 41,532,112 shares of DKK 10. The Drilling Company of 1972 A/S was incorporated on 2 April 2019 in connection with the separation of the Maersk Drilling activities from the A.P. Moller - Maersk Group with financial effect from 1 January 2019.

During 2020, the Company bought back 245,000 (0.6%) of its own shares at a total consideration of USD 5m and delivered 1,836 shares (0.004%) under its long-term incentive program without consideration. On 31 December 2020, the Company held a total of 243,164 treasury shares, corresponding to 0.6% of the share capital, which will be used to cover obligations under the long-term incentive program.

The Drilling Company of 1972 A/S

Notes

The Drilling Company of 1972 A/S

Note 1 Costs

Except for the Executive Management, The Drilling Company of 1972 A/S did not have other employees in 2020, as all personnel are employed in affiliated companies. For remuneration of the Board of Directors and Executive Management reference is made to notes 1.3 and 4.3 in the consolidated financial statements.

USD Million	**2020**	2019
Fees to the statutory auditors		
Statutory audit	0.2	0.2
Other assurance services	-	-
Tax and VAT advisory services	-	-
Other services	-	-
Total fees	**0.2**	**0.2**

No other services than statutory audit of the financial statements were provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskabs to The Drilling Company of 1972 A/S in either 2020 or 2019.

Note 2 Financial income and expenses

USD Million	**2020**	2019
Interest income	1	2
Interest income from group enterprises	25	26
Exchange rate gains on bank balances, borrowings and working capital	2	-
Financial income	**28**	**28**
Interest expenses	-54	-40
Interest expenses to group enterprises	0	-1
Loss on interest rate derivatives	-26	-1
Exchange rate losses on bank balances, borrowings and working capital	-1	-
Financial expenses	**-81**	**-42**
Financial expenses, net	**-53**	**-14**

Note 3 Property, plant and equipment

USD Million	Land & Buildings	**Total**
Cost		
01 January 2020	4	4
Additions	-	-
31 December 2020	**4**	**4**
Depreciation and impairment losses		
01 January 2020	-0	-0
Depreciation	-	-
31 December 2020	**-0**	**-0**
Carrying amount		
31 December 2020	**4**	**4**

The Drilling Company of 1972 A/S

Note 4 Investments in subsidiaries

USD Million	**Investments in subsidiaries**
Cost	
01 January 2020	4,446
Addition	-
31 December 2020	4,446
Impairment losses	
01 January 2020	-
Impairment losses	1,719
31 December 2020	1,719
Carrying amount	
31 December 2020	**2,727**

Valuation of Investment in subsidiaries
At 31 December 2020, the carrying amount of the investment in subsidiaries was considered for impairment and an impairment of USD 1,719m was recognised, primarily due to impairment of assets in subsidiaries. The impairment is presented separately in the income statement and considered a special item due to its nature.
Reference is made to note 2.4 in the consolidated financial statements for a description of the key assumptions applied in the impairment test.

List of subsidiaries
Reference is made to page 92 for a list of subsidiaries. Maersk Drilling Holding A/S, which is the only direct subsidiary of the Company, is being merged into Maersk Drilling A/S, which will then become the only direct subsidiary of the Company.

Note 5 Borrowings

At 31 December 2020, notional borrowings amounting to USD 1,276m had a carrying amount of USD 1,254m, none of which mature after more than five years.

Interest rate risk
Interest rate risk comprises the risk that future cash flows from financial instruments will fluctuate because of changes in market interest rates. The interest rate exposure arises from loans and other credit facilities carrying floating interest rates. The exposure towards interest rates is mitigated by entering into fixed rate loans or interest rate swaps.

The Company enters into interest rate swaps in order to mitigate interest rate exposure on term loans. Interest rate swaps are used to swap variable interest payments on term loans to fixed interest payments. The interest rate swaps mature over up to five years. The Company does not apply hedge accounting and changes in the fair values of derivative financial instruments are recognised in the income statement as financial income or expenses.

The notional amount of interest rate swaps at 31 December 2020 amounts to USD 652m (2019: USD 737m) and all swaps are denominated in USD.

The average fixed rate of the interest rate swaps is 2.7%, which jointly with margins and fees paid results in an average 2020 interest cost of around 5% (2019: 5.7%).

The Drilling Company of 1972 A/S

Note 6 Contingent liabilities

Shares in the subsidiary Maersk Drilling Holding A/S are pledged as security for borrowings with a carrying amount at 31 December 2020 of USD 1,254m and undrawn credit facilities of USD 400m.

The Company is jointly taxed with all other Danish companies in the A.P. Møller Holding Group. As a fully owned subsidiary, the Company has unlimited and joint liability together with the other companies under joint taxation for Danish company tax, withholding taxes on dividends, interest and royalties within the jointly taxed companies.

Following the demerger from the A.P. Moller - Maersk Group, The Drilling Company of 1972 A/S is subject to a statutory demerger liability. In the event that A.P. Møller - Mærsk A/S defaults on its obligations, The Drilling Company of 1972 A/S will be liable for any obligations of A.P. Møller - Mærsk A/S existing at the date of publication of the demerger plan on 4 March 2019. Similarly, A.P. Møller - Mærsk A/S will be liable for any obligations assigned to The Drilling Company of 1972 A/S existing at that date. The potential liability for The Drilling Company of 1972 A/S is capped at a maximum amount equal to the net value of the assets and liabilities contributed as part of the demerger. The risk of the statutory liability materialising will persist for three years from the demerger date, and potentially up to thirty years for unknown claims.

The company and its subsidiaries are involved in a number of legal disputes. The company and its subsidiaries are also involved in tax disputes in certain countries. Some of these involve significant amounts and are subject to considerable uncertainty.

Note 7 Related parties

The A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal (Copenhagen, Denmark) and its subsidiary A.P. Møller Holding A/S (Copenhagen, Denmark) have control over APMH Invest A/S (Copenhagen, Denmark). APMH Invest A/S is considered to hold a controlling interest in The Drilling Company of 1972 A/S. A.P. Møller Holding A/S is the ultimate parent company preparing consolidated financial statements. These can be obtained by contacting this company or at its website www.apmoller.com.

Related parties include the Company's Board of Directors and Executive Management. Remuneration hereof is disclosed in note 1.3 in the consolidated financial statements.

Other related parties

The Board of Directors and the Executive Management of A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal, A.P. Møller Holding A/S, APMH Invest A/S and their close relatives including undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates to A.P. Møller Holding A/S, including A.P. Møller - Mærsk A/S and its subsidiaries and affiliates and Danske Bank A/S.

All transactions with related parties have been conducted at arm's length.

The Drilling Company of 1972 A/S

Note 8 Significant accounting policies

The Financial Statements of The Drilling Company of 1972 A/S for 2020 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to reporting class D entities.

Basis of preparation
The Drilling Company of 1972 A/S was incorporated on 2 April 2019 in connection with the separation of the Maersk Drilling activities from the A.P. Moller - Maersk Group with financial effect from 1 January 2019.

Cash flow statement
With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Income statement

Revenue
Revenue comprises income earned during the year from the operation of the property recognised under property, plant and equipment.

Other external cost
Other external costs comprise expenses incurred during the year.

Derivatives
Derivative financial instruments are recognised on the trading date and measured at fair value using generally acknowledged valuation techniques based on relevant observable swap curves and exchange rates. The Company does not apply hedge accounting and changes in the fair values of derivative financial instruments are recognised in the income statement as financial income or expenses.

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation from past events. The item includes, among other, provisions for legal disputes, disputes over indirect taxes or duties and provisions for decided and publicly announced restructuring. Provisions are recognised based on best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

Dividends from subsidiaries
Dividends from subsidiaries are recognised as income at the time of declaration.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on result for the year
Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the result for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The Company is part of A.P. Møller Holding A/S' joint taxation. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with refund concerning tax losses).

Balance sheet

Property, plant and equipment
Property, plant and equipment comprise land and buildings contributed as part of the demerger. Land and buildings are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives to an estimated residual value. Useful lives are estimated at 25–40 years.

Investments in subsidiaries
Investments in subsidiaries are measured at cost or at lower recoverable amount.

If indications of impairments are identified, an impairment test as described in the accounting policies for the consolidated financial statements is prepared. If the recoverable amount is lower than the carrying amount, the asset is written down to its lower recoverable amount. Indicators of impairment could be if dividends declared from the subsidiary exceed total comprehensive income for the year of the subsidiary, or if the carrying amount of the subsidiary exceeds the carrying amount of the net assets in the subsidiary.

Receivables
Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

The Drilling Company of 1972 A/S

Note 8 Significant accounting policies – continued

Dividend
Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Current tax receivables and liabilities
Current tax liabilities and current tax receivables are recognized in the balance sheet as calculated tax on the taxable income adjusted for tax on prior years' taxable income and paid on account taxes.

Financial debt
Other debts are recognised at amortised cost, which, essentially corresponds to the nominal value.

Translation policies
Transactions in foreign currencies are translated at the exchange rates at the date of the transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

USD is used as presentation currency because the majority of transactions are in U.S. dollars. At 31 December 2020, the exchange rate DKK/USD was 605.76.

Note 9 Significant accounting estimates and judgements

When preparing the financial statements of the Company, management undertakes a number of accounting estimates and judgements to recognise, measure and classify the Company's assets and liabilities. The only significant accounting estimate and judgement relates to the assessment of impairment of investments in subsidiaries.

Management assesses impairment indicators for investments in subsidiaries and determines the recoverable amount generally consistent with the assumptions described in note 2.4 of the Consolidated financial statements to which reference is made.

Note 10 Subsequent events

No events have occurred after the balance sheet date which are expected to have a material impact on the parent company financial statements.

Company overview

Maersk Drilling comprises the companies listed below.

Company	Country of incorporation	Ownership share
Maersk Drilling Holding A/S	Denmark	100%
Maersk Drilling A/S	Denmark	100%
Maersk Drilling Services A/S	Denmark	100%
Maersk Drilling UK Limited	UK	100%
Maersk Drilling do Brasil Serviços de Petróleo Ltda.	Brazil	100%
Maersk Drilling International A/S	Denmark	100%
Maersk Offshore Crew Management (Guernsey) Ltd.	Guernsey	100%
Maersk Drilling Deepwater A/S	Denmark	100%
Maersk Drilling Services LLC	Azerbaijan	100%
Maersk Drilling Labuan Ltd	Malaysia	100%
Maersk Inspirer Operations AS	Norway	100%
Maersk Reacher Operations AS	Norway	100%
Maersk Intrepid Operations AS	Norway	100%
Maersk Integrator Operations AS	Norway	100%
Maersk Drilling Norge AS	Norway	100%
Maersk Invincible Norge A/S	Denmark	100%
Maersk Intrepid Norge A/S	Denmark	100%
Maersk Interceptor Norge A/S	Denmark	100%
Maersk Integrator Norge A/S	Denmark	100%
Mærsk Innovator Norge A/S	Denmark	100%
Mærsk Inspirer Norge A/S	Denmark	100%
Maersk Reacher Norge A/S	Denmark	100%
Mærsk Gallant Norge A/S	Denmark	100%
Maersk Drilling DS A/S	Denmark	100%
Maersk Drilling Americas A/S	Denmark	100%
Maersk Drilling USA Inc	USA	100%
Maersk Viking LLC	USA	100%
Maersk Drilling Brasil Serviços de Perfuração Marítimos Ltda.	Brazil	100%
Maersk Drilling Mexico S.A. de C.V.	Mexico	100%

Company	Country of incorporation	Ownership share
Maersk Drilling Services S.A. de C.V.	Mexico	100%
Maersk Drilling Australia Pty Ltd.	Australia	100%
Maersk Drilling Holdings Singapore Pte Ltd.	Singapore	100%
Maersk Highlander UK Ltd	UK	100%
Maersk Drillship I Singapore Pte.Ltd.	Singapore	100%
Maersk Drillship II Singapore Pte.Ltd.	Singapore	100%
Maersk Drillship III Singapore Pte Ltd.	Singapore	100%
Maersk Drillship IV Singapore Pte Ltd.	Singapore	100%
Maersk Drilling Nigeria Holdings Pte. Ltd.	Singapore	100%
Maersk Drilling Nigeria Operations Limited	Nigeria	100%
Maersk Drilling Services Singapore Pte. Ltd.	Singapore	100%
Maersk Drilling Deepwater Egypt LLC	Egypt	100%
Maersk Drilling North Sea A/S	Denmark	100%
Maersk Drilling Poland sp. z o.o (8 April 2019)	Poland	100%
Maersk Drilling Netherlands BV	Netherlands	100%
Maersk Drilling India Private Limited	India	100%
MD Viking Company Limited	Myanmar	100%
Maersk Drilling Abu Dhabi Ltd. (W.L.L.)[1]	Abu Dhabi	33%
Maersk Drilling JS-Services Lda Angola JV[1]	Angola	49%
Maersk Drilling Qatar W.L.L[1]	Qatar	49%
Maersk Drilling Malaysia SDN[1]	Malaysia	49%
Maersk Rigworld Ghana Limited[1]	Ghana	65%
Maersk Drilling Nigeria JVCO Limited[1]	Nigeria	49%
Maersk Decom A/S[2]	Denmark	50%
PMD Viking Ghana Ltd[2]	Ghana	50%

1 Certain entities in which Maersk Drilling has an ownership share of less than 100% but holds the full right to govern and receive dividends through shareholder agreements etc. are considered subsidiaries and consolidated without any non-controlling interest
2 Joint venture

Definitions

Financial ratios and non-IFRS financial measures.

Maersk Drilling uses certain financial ratios and measures to provide management, investors and analysts with additional measures to evaluate and analyse the Group's performance. These non-IFRS financial measures are defined and calculated by the Group and may vary significantly from financial measures applied by other companies even if similar naming is applied.

Asset turnover
Revenue as a percentage of average non-current assets.

Available days
Available days are the aggregate number of calendar days in the period less yard stays, if not paid by customer. For new rigs entering the fleet, available days is from when the rig is ready to operate.

Average day rate
Average day rates equal average daily revenue and are calculated by dividing revenue by the number of contracted days. Revenue includes the contractual rates for when the rig is in operation 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. Income and expenses attributable to reimbursable expenses are generally recognised net and therefore excluded in the calculation of average day rates.

Average backlog day rate
Revenue backlog divided by the number of contracted days in the contract period.

CAPEX
Investments in intangible assets and property, plant and equipment, including additions from business combinations.

CAPEX can be derived as additions to intangible assets and property, plant and equipment as specified in notes 2.1 and 2.2 to the consolidated financial statements respectively.

Cash conversion
Cash flow from operating activities as a percentage of EBITDA.

Contracted days
Contracted days are days covered by the contract with a customer, including mobilisation or yard stays if paid by customer.

Deepwater
Water depths greater than 5,000 ft.

Drillship
A vessel that has been fitted with drilling equipment, mainly used for deepwater drilling.

EBIT
Profit/loss before financial items and income taxes.

EBIT can be derived directly from the consolidated income statement.

EBITDA
Profit/loss before depreciation, amortisation and impairment losses, financial items and income taxes.

EBITDA can be derived directly from the consolidated income statement.

EBITDA before special items
Profit/loss before depreciation and amortisation, impairment losses and special items, financial items and income taxes.

EBITDA before special items can be derived directly from the consolidated income statement.

EBITDA margin before special items
EBITDA before special items as a percentage of revenue.

Equity ratio
Equity as a percentage of total assets.

Financial uptime
Hours that can be invoiced for as a percentage of total hours in the period under contract with the customer.

Forward contract coverage
Percentage indicating the part of rig days that are contracted for a specific period.

Free cash flow
Cash flow from operating activities less cash flow used for investing activities, adjusted for newbuild cash flow and proceeds from the divestment of assets or activities, and less net interest payments.

Free cash flow is specified below the consolidated cash flow statement.

Jack-up rig
A mobile drilling platform that stands on the seabed by means of three steel legs and a self-elevating system that adjusts the platform height to the water depth during the drilling operation, typically used for shallow water drilling.

Leverage
Net debt divided by EBITDA before special items.

Midwater
Water depths 401–5,000 ft.

Net debt
Equals interest-bearing debt less cash and bank balances and other interest-bearing assets.

Net debt is specified in note 3.3 to the consolidated financial statements.

Return on equity
Profit/loss for the year divided by the average equity.

Revenue backlog
Future contract commitments for a rig, for a particular point in time at which revenues are expected to be realised. Calculated by multiplying contract rates by the contract period, excluding any optional extension periods.

Semi-submersible
A mobile vessel that is partially submerged in water during the drilling operation and positioned by means of a conventional mooring system and/or a computerised dynamic positioning system, typically used for midwater and deepwater drilling.

Shallow water
Water depths up to 400 ft.

Special items
Special items comprise non-recurring income and expenses that are not considered to be part of Maersk Drilling's ordinary operations such as compensation from shipyards, transformation and restructuring projects and separation, demerger and listing costs.
Special items are specified in note 1.4 to the consolidated financial statements.

Ultra deepwater
Water depths greater than 7,500 ft.

Utilisation
Utilisation is the number of contracted days, divided by the number of available days.

Working capital
Equals trade receivables and other current assets less trade payables and other current payables.

Statement of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today discussed and approved the Annual Report of The Drilling Company of 1972 A/S for 2020.

The consolidated financial statements of The Drilling Company of 1972 A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act, and the parent company financial statements has been prepared in accordance with the Danish Financial Statements Act. The Management's review has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Annual Report gives a true and fair view of the Group's and the Company's assets and liabilities, financial position at 31 December 2020 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 2020.

In our opinion, the Management's review includes a fair review of the development in the Group's and the Company's operations and financial conditions, the results for the year, financial position and the Group's cash flows as well as a description of the most significant risks and uncertainty factors that the Group and the Company face.

We recommend that the Annual Report will be approved at the Annual General Meeting.

Copenhagen, 12 February 2021

Executive Management

Jørn Madsen
CEO

Christine Brennet (Morris)
CFO

Board of Directors

Claus V. Hemmingsen
Chairman

Robert M. Uggla
Vice Chairman

Kathleen McAllister

Martin Larsen

Alastair Maxwell

Ann-Christin G. Andersen

Kristin H. Holth

Caroline Alting

Glenn Gormsen

Independent Auditor's Report

To the shareholders of The Drilling Company of 1972 A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit & Risk Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements of The Drilling Company of 1972 A/S for the financial year 1 January to 31 December 2020 (pages 50–81, pages 92–94), comprise the consolidated income statement and consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes, including summary of significant accounting policies.

The Parent Company Financial Statements of The Drilling Company of 1972 A/S for the financial year 1 January to 31 December 2020 (pages 82–94), comprise the income statement, the balance sheet, the statement of changes in equity and the notes, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

Following the admission of shares of The Drilling Company of 1972 A/S for the listing on Nasdaq Copenhagen, we were first appointed auditors of The Drilling Company of 1972 A/S on 2 April 2020. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 1 year, including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of non-current assets The carrying amount of the drilling rigs (non-current assets) is significant to the Consolidated Financial Statements. The most significant risks in relation to Management's assessment of the recoverability of the carrying amount of drilling rigs relate to the value-in-use calculations, including determination of key assumptions. Bearing in mind the generally long-lived nature of the assets, the most critical assumptions in estimating the future cash flows are Management's long-term outlook for day-rates, margins and utilization as well as determining the discount rates and growth rates, and defining appropriate cash generating units (CGUs). We focused on this area as the amounts involved are significant and because Management is required to exercise considerable judgement in the selection of assumptions and because of the inherent complexity in estimating the values-in-use. Reference is made to note 2.4 in the Consolidated Financial Statements.	In addressing the risk, we considered the appropriateness of Management defined CGUs. We examined the methodology used by Management to assess the carrying amount of drilling rigs assigned to CGUs, and the process for identifying CGUs that required impairment testing to determine compliance with IFRS as adopted by the EU. We performed detailed testing for the assets where a need for an impairment test was identified. We assessed the reasonableness of significant assumptions in relation to the ongoing operation of the assets. We corroborated Management's estimate of future cash flows and challenged whether these were appropriate in light of the significant assumptions being day-rates, margins, utilization and growth rates. We used our internal valuation experts to independently calculate the discount rate. In calculating the discount rate, the key inputs used were independently sourced from market data, and we assessed the methodology applied. We compared the discount rate used by Management to our calculated rate. We tested the mathematical accuracy of the relevant value-in-use models prepared by Management. Finally, we assessed Management's disclosure of these matters in the Consolidated Financial Statements.

Statement on Management's Review

Management is responsible for Management's Review (pages 3–48 and pages 99–102).

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

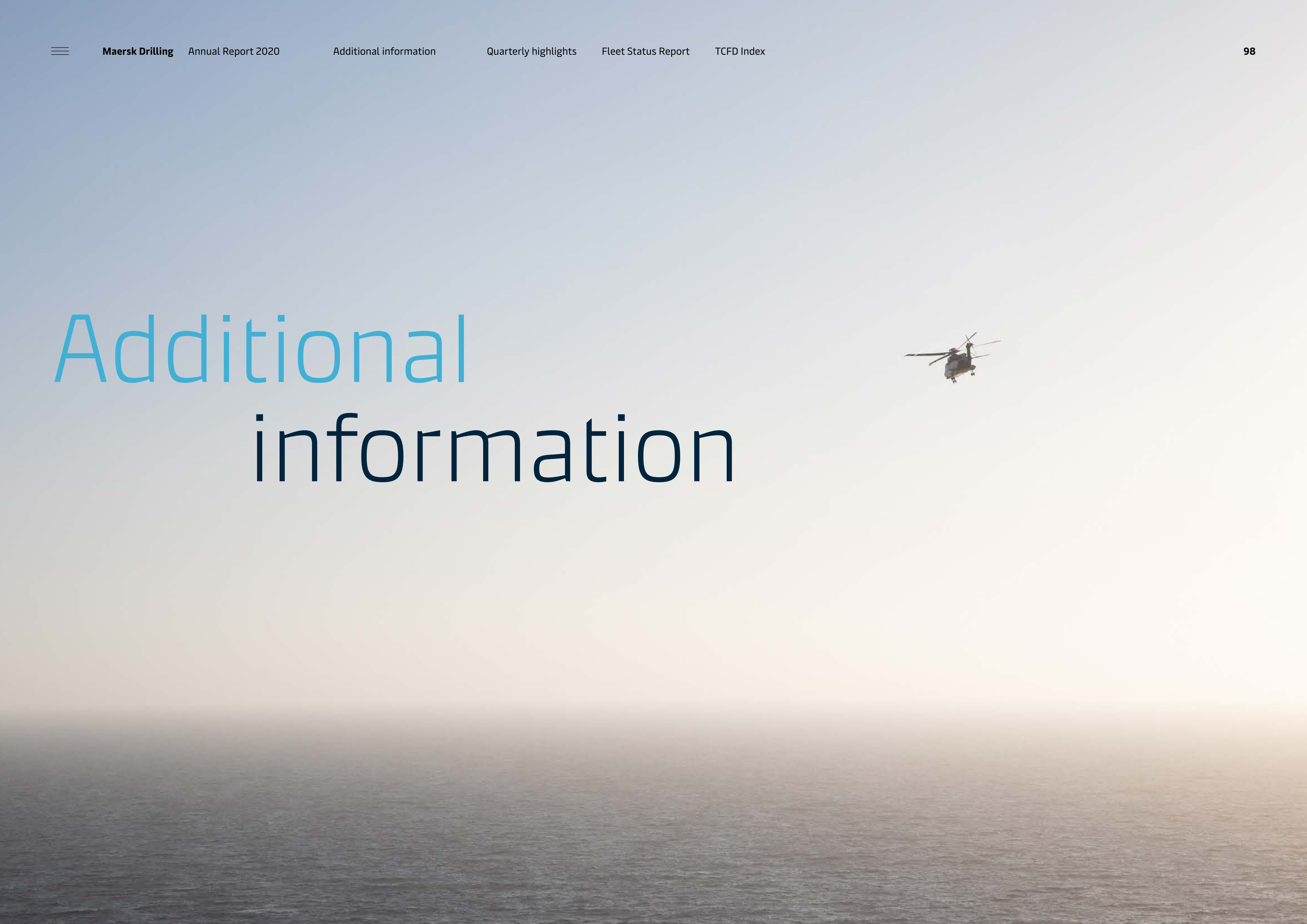
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 12 February 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Thomas Wraae Holm
State Authorised Public Accountant
mne30141

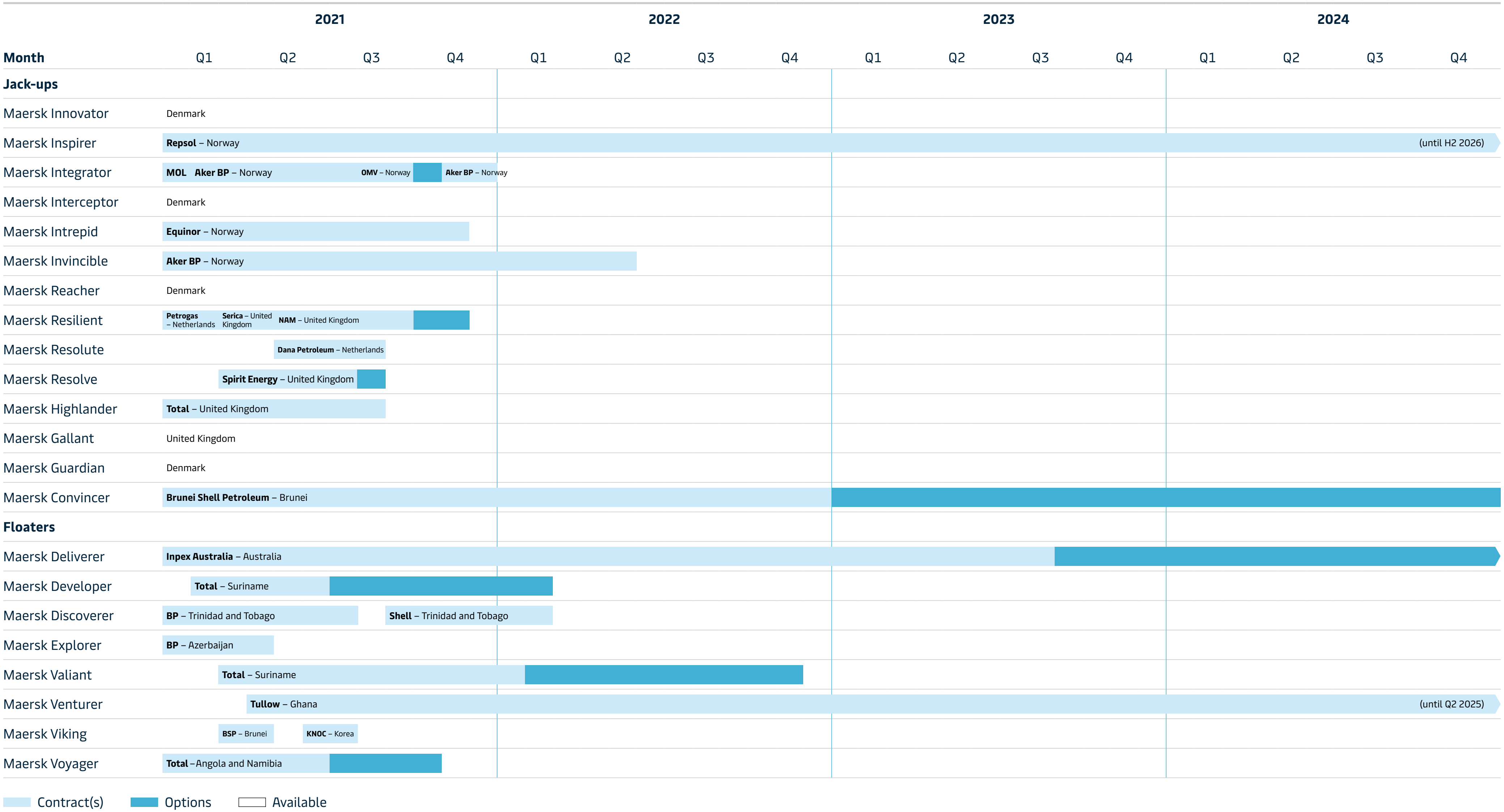
Additional information



Quarterly highlights – segments

USD Million	Q1 2020	Q2 2020	Q3 2020	Q4 2020	**FY 2020**	FY 2019
Consolidated						
No. of rigs at period end	22	22	22	22	22	22
Revenue	279	305	226	286	1,096	1,222
Average day rate (USDk)	179	234	197	238	210	194
Contracted days	1,555	1,303	1,146	1,204	5,208	6,310
Available days	2,001	1,977	1,991	2,049	8,018	8,204
Utilisation	78%	66%	58%	59%	65%	77%
Financial uptime	97.5%	99.5%	99.8%	98.9%	98.9%	98.9%
Revenue backlog at the end of the period (USDm)	1,714	1,595	1,526	1,327	1,327	2,131
Segment information – North Sea						
No. of rigs at period end	13	13	13	13	13	13
Revenue	156	161	136	155	608	800
Average day rate (USDk)	190	211	194	245	208	193
Contracted days	819	764	703	634	2,920	4,148
Available days	1,183	1,183	1,163	1,196	4,725	4,688
Utilisation	69%	65%	60%	53%	62%	88%
Financial uptime	99.9%	100.0%	99.8%	99.2%	99.8%	99.6%
Revenue backlog at the end of the period (USDm)	1,076	1,050	982	898	898	1,204
Segment information – International						
No. of rigs at period end	8	8	8	8	8	8
Revenue	116	137	82	125	460	395
Average day rate (USDk)	180	306	234	261	239	220
Contracted days	645	448	351	478	1,922	1,797
Available days	727	703	736	761	2,927	2,786
Utilisation	89%	64%	48%	63%	66%	65%
Financial uptime	94.2%	99.0%	99.9%	98.7%	97.9%	97.1%
Revenue backlog at the end of the period (USDm)	612	525	482	373	373	896

Fleet Status Report



Task Force on Climate-related Financial Disclosures

The following index provides links to Maersk Drilling's disclosures on climate-related risks and opportunities as recommended by the Task Force on Climate-related Financial Disclosure (TCFD).

TCFD Topic Area	TCFD Recommendation	Location of disclosure
Governance – disclose the organisation's governance around climate-related risks and opportunities	Describe the Board's oversight of climate-related risks and opportunities.	• Annual Report p. 33: Corporate Governance • Sustainability Report p. 39–40: Ingraining sustainability in our governance structure
	Describe management's role in assessing and managing climate-related risks and opportunities.	• Annual Report p. 33: Corporate Governance • Sustainability Report p. 39–40: Ingraining sustainability in our governance structure
Strategy – Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	• Sustainability Report p. 8–9: Launching a new sustainability strategy • Sustainability Report p. 11–16: Concrete steps towards a low-carbon world • Annual Report p. 16–23: Market and Strategy • Annual Report p. 43: Risk management
	Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.	• Sustainability Report p. 8–9: Launching a new sustainability strategy • Sustainability Report p. 11–16: Concrete steps towards a low-carbon world • Annual Report p. 16–23: Market and Strategy • Annual Report p. 43: Risk management
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• Sustainability Report p. 11–16: Concrete steps towards a low-carbon world • Annual Report p. 16–23: Market and Strategy • Annual Report p. 43: Risk management
Risk management – Disclose how the organisation identifies, assesses, and manages climate-related risks	Describe the organisation's processes for identifying and assessing climate-related risks.	• Annual Report p. 43: Risk Management • Sustainability Report p. 39–40: Ingraining sustainability in our governance structure • Sustainability Report p. 11–16: Concrete steps towards a low-carbon world
	Describe the organization's processes for managing climate-related risks.	As above
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	As above
Metrics and targets – Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.	• Annual Report p. 08: Five-year summary • Sustainability Report p. 16: 2020 climate performance • Sustainability Report p. 16: Driving impact through transparency • Sustainability Report p. 42–44: ESG performance data
	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	• Annual Report p. 16–23: Market and Strategy • Annual Report p. 43: Risk Management • Sustainability Report p. 11–16: Concrete steps towards a low-carbon world • Sustainability Report p. 42–44: ESG performance data
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	• Annual Report p. 16–23: Market and Strategy • Annual Report p. 43: Risk Management • Sustainability Report p. 11–16: Concrete steps towards a low-carbon world

Important notice

Forward-looking statements

This Annual Report 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 The Drilling Company of 1972 A/S and its subsidiaries and affiliated companies. 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 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.

Third-party data and information

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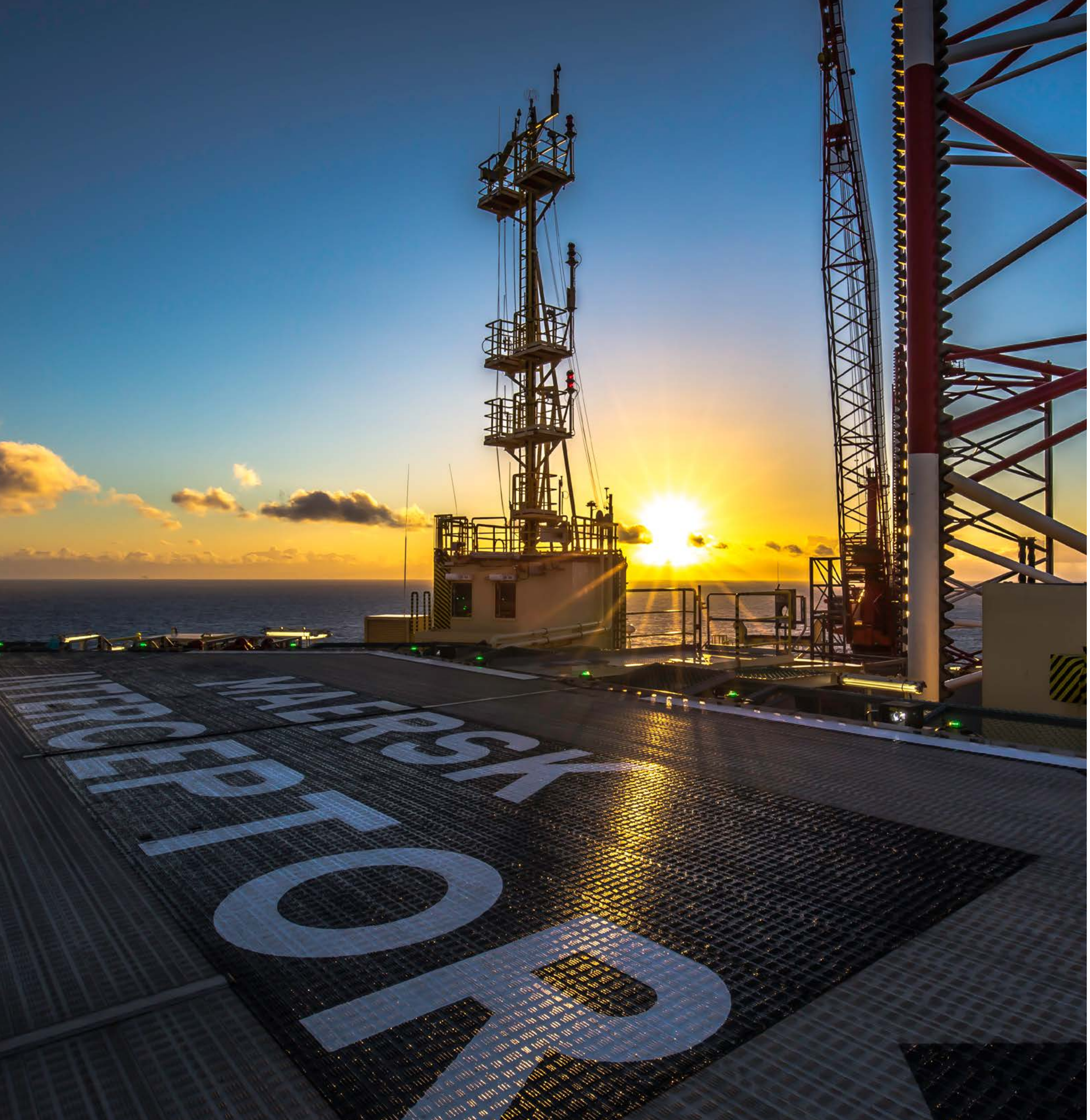

The Drilling Company of 1972
Lyngby Hovedgade 85
DK-2800 Kgs. Lyngby

Registration no. 40404716

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