Maersk Drilling A/S

DK-Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no. 32 67 38 21

Annual report 2020

The annual report was presented and approved at the Company's annual general meeting on

21 June 2021

Klaus Greven Kristensen
Chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Maersk Drilling A/S for the financial year 1 January – 31 December 2020.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Lyngby, 21 June 2021
Executive Board:

Jørn Madsen	Christine Brennet (Morris)

Board of Directors:

Klaus Greven Kristensen Chairman	Morten Kelstrup	Jørn Peter Madsen

Independent auditor's report

To the Shareholder of Maersk Drilling A/S

Opinion

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

We have audited the Financial Statements of Maersk Drilling A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("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 are independent of the Company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the Management's Review

Management is responsible for Management's Review. 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 during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the 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 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 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

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 conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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.

Copenhagen, 21 June 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Rasmus Friis Jørgensen State Authorised Public Accountant mne28705	Thomas Wraae Holm State Authorised Public Accountant mne30141

Management's review

Company details

Maersk Drilling A/S
Lyngby Hovedgade 85
2800 Kgs. Lyngby

CVR no.:	32 67 38 21
Established:	1 December 2009
Registered office:	Lyngby
Financial year:	1 January – 31 December

Board of Directors

Klaus Greven Kristensen, Chairman
Morten Kelstrup
Jørn Peter Madsen

Executive Board

Jørn Madsen
Christine Brennet (Morris)

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
CVR no. 33 77 12 31

Management's review

Financial highlights

USD'000	2020	2019	2018	2017	2016
Key figures					
Revenue	277,466	263,799	303,629	296,913	374,214
Gross profit	183,976	125,328	138,715	79,994	72,976
Operating profit/loss	54,136	-10,826	-23,137	29,479	37,058
Loss from financial income and expenses	-19,111	-34,611	-34,816	-47,287	-44,384
Profit/loss before tax	-1,616,210	-64,852	931,280	-1,362	-949
Result for the year	-1,598,620	-50,195	942,040	-1,440,591	-954,906
Total assets	4,359,599	6,144,014	6,238,450	6,875,636	8,192,407
Equity	2,631,185	4,223,418	4,272,892	5,170,976	6,326,833
Investment in property, plant and equipment	19,458	23,732	54,487	5,872	8,438
Ratios					
Operating margin	20%	-4%	-8%	10%	10%
Return on invested capital	1%	0%	14%	-19%	-11%
Current ratio	647%	489%	418%	732%	604%
Return on equity	-47%	-1%	20%	-25%	-15%
Solvency ratio	60%	69%	68%	75%	77%

The financial ratios have been calculated as follows:

Operating margin	$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating profit/loss * 100}}{\text{Average invested capital}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity ex. non-controlling interests at year-end x 100}}{\text{Total equity and liabilities at year-end}}$

Management's review

Operating review

Principal activities

The Company and its subsidiaries (the Group) are a leading global operator of high-technology drilling rigs and provide offshore drilling services to oil and gas companies and have one of the world's youngest and most advanced fleets.

Development in activities and financial position

The Company's income statement for 2020 shows a loss of USD -1,598,620 thousand as against a loss of USD -50,195 thousand in 2019. Equity in the Company's balance sheet at 31 December 2020 stood at USD 2,631,185 thousand as against USD 4,223,418 thousand at 31 December 2019.

In 2020, measures to contain the spread of COVID-19 led to an unprecedented decline in demand for oil and gas. As a consequence a net impairment loss of USD 1,580 million on group level was recognized and consequently net share results of investments in subsidiaries for 2020 amounts to a loss of USD 1,651 million. The result before tax and before net impairment loss for 2020 amounts to a loss of USD 35 million compared to a loss of USD 65 million in 2019. The result for the year is lower than management's expectations.

Outlook

The result for 2021 are continued subject to risks and uncertainties as various factors, many of which are beyond the company's control, may cause the actual development and results to differ materially from expectations. The result for 2021 are primarily sensitive to the level of contracting of additional days to the current backlog and the day rates hereon. Under the current circumstances, and excluding the potential impact on the Company and its subsidiaries from impairments, reversal of prior year impairments and gains/losses from the disposal of non-current assets, management expects to reach a result for 2021 in the range of USD 0 - 50 million. With respect to disposals of non-current assets, reference is made to note 22 on events after the balance sheet date.

Uncertainty regarding recognition and measurement

When preparing the annual report, management undertakes a number of accounting estimates and judgements to recognise, measure and classify the assets and liabilities. The only significant accounting estimate and judgement relates to the assessment of impairment of property, plant and equipment.

Following the revised market outlook with lower expectations as to utilisation and day rates for the coming years, Management has recognised a net impairment loss of USD 1,580 million on group level and consequently net share results of investments in subsidiaries for 2020 amounts to a loss of USD 1,651 million.

Management assesses impairment indicators for property, plant and equipment and determines the recoverable amount generally consistent with the assumptions described in note 2 of the annual report to which reference is made.

Foreign branches

The Company is directly engaged in drilling activities in Azerbaijan through the branch named Maersk Drilling A/S Branch Azerbaijan.

Management's review

Operating review

Particular risks

Operating risks

A fundamental factor in driving demand for offshore drilling rigs is the level of spending by oil and gas companies on exploration, development, production and maintenance as well as decommissioning activities. This level is to a large extent a function of project sanctioning, which is based on oil and gas companies' long-term assessment of oil and gas prices impacting their cash flow generation as well as the economics of the offshore exploration and development projects in their portfolios.

Over the past years, oil and gas companies have optimised their business models to structurally reduce offshore project costs through project optimisation, standardisation, digitisation, simplification and service cost deflation. As a result of the lower cost levels, more than 90% of offshore oil and gas projects are today economically feasible at an oil price around USD 60 per barrel. Combined with the oil and gas companies' increasing positive cash flows, this has provided them with the opportunity to invest in new offshore projects.

The price of Brent crude oil averaged USD 42 per barrel in 2020, representing a decrease of 34% compared to the average of USD 64 per barrel in 2019. Subsequent to year-end, the oil price has increased to a level of around USD 55-65 per barrel. This may lead the oil and gas companies to increase exploration and drilling activities.

Financial risks

Currency risks

Currency risk is the risk that future cash flows will fluctuate because of changes in foreign exchange rates. Currency exposure arises from the Company operating in countries with different local currencies. Revenue is primarily denominated in USD, which is also the presentation currency of the Company, while related operating costs are incurred in both USD and local currencies.

The exposure to changes in foreign exchange rates is generally mitigiated by entering into customer contracts where an element of the contract value is in local currency to create a natural hedge between contracted revenue and local operating costs. The Maersk Drilling Group uses foreign exchange forward contracts to hedge any excess exposure, but such hedges are generally not entered into by individual subsidiaries.

Currency exposure is not considered to be significant.

Interest rate risks

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.

Management's review

Operating review

The Maersk Drilling Group mitigates the exposure towards interest rates by entering into fixed rate loans or interest rate swaps at the parent company level whereas individual subsidiaries generally are funded through loans carrying floating-interest rates.

Credit risks

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 Company may seek protection in the form of parent company guarantees, prepayments or other types of collateral.

The Company has a concentration of customers, but is not considered to be exposed to material credit risks, as the customers are major international oil companies.

Safety

For the Company, safety is a top priority. It is an unwavering commitment, rooted in our Core Values. Safety permeates everything we do and stand for, onshore and offshore, and it is the foundation for delivering reliable and efficient operations to our customers. Our ambition is to have zero serious incidents.

Environmental matters

The Company’s ambition is to provide responsible drilling services, and reducing the environmental impact of our operations is an important part of this. We mainly target impacts relating to spills, waste and the use of chemicals onboard our rigs. Our Health, Safety, Security and Environment (HSSE) function works in close cooperation with our rigs to optimise activities governed by our HSSE Policy as well as our Corporate Major Accident Prevention Policy.

Corporate social responsibility

At the Company, we firmly believe that by conducting our operations through sustainable practices, we ensure a sound and viable business for the future. We have a responsibility to the people who work for the Company, but also to the people and the environment which are affected by our Company.

Please refer to our full report on sustainability pursuant to section 99a of the Danish Financial Statements Act, which can be found online at https://www.maerskdrilling.com/who-we-are/sustainability

Goals and policies for the underrepresented gender

The Board believes that its members should be elected on the basis of their combined qualifications and at the same time recognises the advantages of a Board comprising a wide range of backgrounds such as global experience, style, culture and gender.

Management's review

Operating review

The Company's overall ambition is to work towards an equal gender distribution in the Board of Directors. On this basis, the Company's target was to have at least one female Board member by 2021. At 31 December 2020, there were no women on the Board and the target has therefore not been met. Members of the Board of Directors of subsidiaries in the Maersk Drilling Group typically comprise senior executives of the parent company, The Drilling Company of 1972 A/S. The Company revises its target to have at least one female Board member out of the presently three shareholder-elected Board members by 2025.

The Company adheres to the Diversity and Inclusion Policy, which was adopted by the Board of Directors of The Drilling Company of 1972 A/S, the parent company of the Maersk Drilling Group, on 11 February 2021. The Company does not discriminate based on age, gender, nationality, socioeconomic background, disability, religion or sexual orientation. The Company believes that diversity and inclusion can contribute to improved performance and high quality decision-making and is essential to innovation and organisational learning; critical elements to maintaining our position as a leading player in the offshore drilling industry.

In 2020, Maersk Drilling Group saw a slight improvement in diversity performance and with the new strategic focus, these developments will be accelerated. Maersk Drilling Group's 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 Maersk Drilling Group. Additionally, in 2020 Maersk Drilling Group has focused on pairing female talents with senior leadership sponsors to provide greater exposure to the organisation, facilitate network building and enable cross-functional development opportunities. Regarding the Executive Leadership team of the Drilling Company of 1972 A/S, it was announced in December that a new female CFO would start in January 2021, bringing the female representation to 25%.

In 2020, Maersk Drilling Group developed a dedicated D&I plan with targets and initiatives to make significant progress within a time-frame of three years. Maersk Drilling Group believes in the value of diverse role models at the top, and are therefore tackling the industry-specific challenge of gender diversity in leadership. Maersk Drilling is pursuing a significant leap forward on gender diversity to increase female representation on all onshore leadership levels through a female leadership target of 30% across leadership levels, 25% for senior leaders, and 20% for the Executive Leadership Team by end-year 2023.

Maersk Drilling Group's initial targets focus on female representation in leadership, as Maersk Drilling Group expects this to produce cascade effects across all diversity parameters. At the same time, Maersk Drilling Group is focusing on inclusion in the company to truly make diversity thrive.

In addition to the new leadership target, Maersk Drilling Group will be targeting four focus areas:

- **Attracting** and hiring female talent by removing bias from our recruitment process.
- **Promoting** impactful leadership careers through a more inclusive approach to talent identification and development.
- **Transitioning** to greater flexibility in ways of working and making inclusive leadership part of our leadership development programs.
- **Showing** senior leadership commitment and increasing awareness across the company

Financial statements 1 January – 31 December

Income statement

USD'000	Note	2020	2019
Revenue	3	277,466	263,799
Other operating income		15,636	9,535
Other external costs		-109,126	-148,006
Gross profit		183,976	125,328
Staff costs	4	-103,993	-109,310
Depreciation, amortisation and impairment losses		-25,847	-26,844
Operating profit/loss		54,136	-10,826
Income from equity investments in subsidiaries	5	-1,651,235	-19,415
Financial income	6	14,234	17,874
Financial expenses	7	-33,345	-52,485
Loss before tax		-1,616,210	-64,852
Tax on loss for the year	8	17,590	14,657
Result for the year	9	-1,598,620	-50,195

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2020	31/12 2019
ASSETS			
Fixed assets			
Intangible assets	10		
Software		684	7,020
Development projects in progress		4,292	0
		4,976	7,020
Property, plant and equipment	11		
Rig		125,854	143,275
Fixtures and fittings, tools and equipment		126,767	105,029
Property, plant and equipment in progress		8,573	7,935
		261,194	256,239
Investments	5		
Equity investments in subsidiaries		3,480,676	5,436,245
Total fixed assets		3,746,846	5,699,504
Current assets			
Receivables			
Trade receivables		20,526	17,822
Receivables from group entities		469,080	265,335
Other receivables		16,499	12,461
Deferred tax asset	12	4,162	0
Prepayments	13	6,464	3,639
		516,731	299,257
Cash at bank and in hand		96,022	145,253
Total current assets		612,753	444,510
TOTAL ASSETS		4,359,599	6,144,014

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2020	31/12 2019
EQUITY AND LIABILITIES			
Equity			
Contributed capital	14	88,354	88,354
Retained earnings		2,542,831	4,135,064
Total equity		2,631,185	4,223,418
Provisions			
Provisions for deferred tax	12	0	1,693
Other provisions	15	6,864	13,413
Total provisions		6,864	15,106
Liabilities other than provisions			
Non-current liabilities other than provisions	16		
Payables to group entities		1,616,385	1,800,638
Other payables		10,516	0
		1,626,901	1,800,638
Current liabilities other than provisions	16		
Current portion of non-current liabilities		9,614	16,260
Trade payables		23,263	25,483
Payables to group entities		29,050	21,235
Corporation tax		7,807	11,134
Other payables		23,976	29,986
Deferred income	17	939	754
		94,649	104,852
Total liabilities other than provisions		1,721,550	1,905,490
TOTAL EQUITY AND LIABILITIES		4,359,599	6,144,014

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2019	88,354	4,184,538	4,272,892
Share-based payments	0	3,228	3,228
Other equity movements	0	-2,276	-2,276
Fair value adjustment of hedging instruments	0	-231	-231
Transferred over the distribution of loss	0	-50,195	-50,195
Equity at 1 January 2020	88,354	4,135,064	4,223,418
Share-based payments	0	2,359	2,359
Other equity movements	0	4,028	4,028
Transferred over the distribution of loss	0	-1,598,620	-1,598,620
Equity at 31 December 2020	88,354	2,542,831	2,631,185

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Maersk Drilling A/S for 2020 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of Maersk Drilling A/S and group entities are included in the consolidated financial statements of The Drilling Company of 1972 A/S, CVR no. 40 40 47 16.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the consolidated cash flow statements of The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, DK-2800 Kgs Lyngby, CVR no. 40 40 47 16.

Omission of audit fee disclosure

Pursuant to section 96(3) of the Danish Financial Statements Act, audit fee disclosures have been omitted as this information is included in the consolidated financial statements of The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, DK-2800 Kgs Lyngby, CVR no. 40 40 47 16.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

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

USD is used as functional currency and as presentation currency because the majority of transactions are in USD. At 31 December 2020, the exchange rate DKK/USD was 605.76 (2019: 667.33).

Share-based payment

Equity-settled restricted shares allocated to employees as part of Maersk Drilling A/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 A/S 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 in equity.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Income statement

Revenue

Income from drilling activities, which are typically carried out under long-term agreements with fixed day rates, is recognised under revenue for the operating time related to the financial year.

Other operating income

Other operating income comprises income from activities that are not undertaken in the ordinary course of the main drilling business, mainly income from recharge of staff costs to subsidiaries.

Other external costs

Other external costs comprise costs incurred during the year for bareboat hire of the rigs (operating lease), repair and maintenance, catering, hired crew and administrative expenses.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Income from equity investments in subsidiaries

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the Parent Company's income statement after full elimination of intra-group gains/losses and amortisation of goodwill.

Financial income and expenses

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

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Tax on profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity. The Company is part of A.P. Møller Holding A/S' joint taxation. Current Danish income tax is allocated among the jointly taxed companies in proportion to their taxable income (full allocation with refund for tax losses).

Balance sheet

Intangible assets

Capitalised development costs are amortised from the date of completion on a straight-line basis over the period when the development work is expected to generate economic benefits.

IT software is amortised over a useful life of 3-5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Rigs	25 years
Fixtures and fittings, tools and equipment	5-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Cost of yard stays for rigs are recognised when incurred in the value of the rigs, etc. and depreciated over the period until the next yard stay.

Investments

Equity investments in subsidiaries are measured at the proportionate share of the entities' net asset value calculated in accordance with the Group's accounting policies plus or minus unrealised intra-group gains or losses and plus or minus the residual value of positive and negative goodwill calculated in accordance with the acquisition method.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Equity investments in subsidiaries with negative net asset values are measured at DKK 0, and any receivables from these entities are written down by an amount equivalent to the negative net asset value. To the extent that the negative net asset value exceeds the receivable, the residual amount is recognised as provisions.

Net revaluation of equity investments in subsidiaries is tied as a net revaluation reserve under equity according to the equity method to the extent that the carrying amount exceeds cost. Dividends from group entities expected to be adopted in the group entities prior to the approval of the Company's annual report are not tied up in the revaluation reserve.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Receivables

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

Cash at bank and in hand

Cash at bank and in hand comprise cash.

Equity

Dividend

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

Provisions

Provisions are recognised when Maersk Drilling A/S 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 restructuring provisions. 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are measured at amortised cost, which essentially corresponds to nominal value.

Deferred income

Deferred income comprises progress billing regarding income in subsequent years.

Segment information

Segment information is provided on geographical markets. The segment information is in line with the Group's accounting policies, risks and internal financial management.

Financial statements 1 January – 31 December

Notes

2 Disclosure of material uncertainties regarding recognition and measurement

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.

Based on bilateral dialogues with oil and gas companies, management 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.

Following the revised market outlook with lower expectations as to utilisation and day rates for the coming years, Management has recognised a net impairment loss of USD 1,580 million on group level and consequently a loss in net share results of investments in subsidiaries of USD 1,651 million.

The recoverable amount 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 management 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.

The assessment of indications of impairment of property, plant and equipment is based on the expectations for future profitability, contract coverage, etc applicable as of 31 December 2020, which may be different from the expectations for future profitability, contract coverage, etc applicable as of the approval of this annual report as set out in the Outlook section of the Management's review. As a result, the Company may face adjustments to the recognized impairment of property, plant and equipment in future reporting periods.

3 Revenue

USD'000	2020	2019
Revenue, Azerbaijan	110,322	184,551
Revenue, Denmark	167,144	79,248
	277,466	263,799

Financial statements 1 January – 31 December

Notes

USD'000	2020	2019
4 Staff costs		
Wages and salaries	103,760	98,004
Pensions	12,915	12,997
Other social security costs	349	363
Capitalised staff costs	-13,031	-2,054
	103,993	109,310
Average number of full-time employees	675	704

The Board of Directors has not been remunerated. The Executive Board serves as Executive Management of a number of Maersk Drilling entities. For their services to the Maersk Drilling Group overall, the Executive Board received total remuneration of USD 3 million (2019: USD 5,6 million).

The compensation of the Executive Management consists of a combination of fixed pay 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 Maersk Drilling (The Drilling Company of 1972 A/S).

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. Moller - Mærsk A/S' shares and options of twice the annual grant level was awarded.

For additional information about remuneration in Maersk Drilling, reference is made to the 2020 Annual Report of The Drilling Company of 1972 A/S and the Annual Remuneration Report for the Financial Year 2020 – both available on maerskdrilling.com

Financial statements 1 January – 31 December

Notes

5 Investments

USD'000	Equity investments in subsidiaries
Cost at 1 January 2020	6,902,565
Additions for the year	1,015
Capital reductions	-300,572
Cost at 31 December 2020	6,603,008
Revaluations at 1 January 2020	-1,466,320
Net share of results for the year	-1,651,235
Dividends	-6,000
Subsidiaries with negative equity transferred to be set off against receivables*	1,223
	-3,122,332
Carrying amount at 31 December 2020	3,480,676

*Subsidiaries with negative equity transferred to be set off against receivables at 31 Decmber 2020 USD 1,830 thousand (2019: USD 607 thousand).

Name/legal form	Registered office	Voting rights and ownership interest
Subsidiaries:		
Maersk Drilling International A/S	Denmark	100%
Maersk Drilling Norge AS	Norway	100%
Maersk Drilling Deepwater A/S	Denmark	100%
Maersk Drilling Australia Pty. Ltd.	Australia	100%
Maersk Invincible Norge A/S	Denmark	100%
Maersk Drilling DS A/S	Denmark	100%
Maersk Drilling (Malaysia) SDN. BHD.	Malaysia	100%
Maersk Drilling North Sea A/S	Denmark	100%
Maersk Drilling Americas A/S	Denmark	100%
Maersk Drilling Holdings Singapore Pte. Ltd.	Singapore	100%
Maersk Drilling Services A/S	Denmark	100%

Only significant subsidiaries (total assets above mUSD 10) have been listed. A comprehensive list of companies is included in the Annual Report for 2020 of The Drilling Company of 1972 A/S, which is available on https://investor.maerskdrilling.com/financial-reports-presentations

Financial statements 1 January – 31 December

Notes

USD'000	2020	2019

6 Financial income

	2020	2019
Interest income from group entities	9,687	11,596
Exchange adjustments from group entities	4,547	6,278
	14,234	17,874

7 Financial expenses

	2020	2019
Other financial costs to group entities	33,345	52,479
Exchange losses to group entities	0	6
	33,345	52,485

8 Tax on loss for the year

	2020	2019
Current tax for the year	-11,228	-8,861
Current tax for the year, wht paid in Brunei (no tax credit relief)	0	665
Deferred tax for the year	-5,608	-4,440
Adjustment of tax provisions, current year	0	1,300
Adjustment of tax provisions, previous year	0	10,000
Adjustment of tax concerning previous years	7,219	-10,901
Adjustment of tax concerning previous years (2014 and 2015)	0	232
Adjustment of tax concerning previous years (other adjustment)	-7,726	-96
Adjustment of deferred tax concerning previous years	-247	-2,556
	-17,590	-14,657

9 Proposed distribution of loss

	2020	2019
Retained earnings	-1,598,620	-50,195

10 Intangible assets

USD'000	Software	Development projects in progress	Total
Cost at 1 January 2020	67,372	0	67,372
Additions for the year	0	4,292	4,292
Cost at 31 December 2020	67,372	4,292	71,664
Amortisation and impairment losses at 1 January 2020	-60,352	0	-60,352
Amortisation for the year	-6,336	0	-6,336
Amortisation and impairment losses at 31 December 2020	-66,688	0	-66,688
Carrying amount at 31 December 2020	684	4,292	4,976

Financial statements 1 January – 31 December

Notes

11 Property, plant and equipment

USD'000	Rig	Fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2020	350,917	192,916	7,935	551,768
Additions for the year	0	17,797	1,661	19,458
Disposals for the year	0	-2,822	0	-2,822
Transfers for the year	1,023	-30,793	-1,023	-30,793
Cost at 31 December 2020	351,940	177,098	8,573	537,611
Depreciation and impairment losses at 1 January 2020	-207,642	-87,887	0	-295,529
Transfers	0	35,801	0	35,801
Impairment losses for the year	-2,477	0	0	-2,477
Depreciation for the year	-15,967	-1,067	0	-17,034
Depreciation and impairment losses for the year on assets sold	0	2,822	0	2,822
Depreciation and impairment losses at 31 December 2020	-226,086	-50,331	0	-276,417
Carrying amount at 31 December 2020	125,854	126,767	8,573	261,194

12 Deferred tax

Deferred tax relates to deferred tax on the carrying amount of the rigs, provisions and fair value adjustments of derivatives. The deferred tax asset is expected to be utilised by the Company or jointly taxed entities within 3 years.

USD'000	31/12 2020	31/12 2019
Deferred tax at 1 January	1,693	8,689
Deferred tax adjustment for the year in the income statement	-5,608	-6,996
Adjustment of deferred tax concerning previous years	-247	0
	-4,162	1,693

13 Prepayments

Prepayments of USD 6,464 thousand (2019: USD 3,639 thousand) include advance payments for next year for insurance, training, rent, etc.

14 Contributed capital

Contributed capital consists of 500,000 shares of a nominal value of DKK 1,000 each.

All shares rank equally. There have been no changes to the contributed capital during the last five years.

15 Other provisions

Provisions relate to operating costs and claims, pensions, etc. for occurred events, but where the costs are subject to uncertainty. Provisions are recognised at Management's best estimate.

Financial statements 1 January – 31 December

Notes

16 Non-current liabilities other than provisions

USD'000	31/12 2020	Repayment, first year	Outstanding debt after five years
Loan from group entities	1,625,999	9,614	0
Other payables	34,492	23,976	0
Total	1,660,491	33,590	0

17 Deferred income

Deferred income of USD 939 thousand (2019: USD 754 thousand) comprises payments received from customers for revenue relating to future financial years.

18 Contractual obligations, contingencies, etc.

Contingent liabilities

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.

Operating lease obligations

The Company has entered into operating lease contracts with an annual lease payment within 1 year of USD 10 million (2019: USD 21 million). The lease contract's duration is up to 11 months and includes total nominal remaining payments of USD 10 million (2019: USD 31 million).

USD'000	31/12 2020	31/12 2019
Rental commitments (office building and warehouse)		
Within 1 year	10,020	3,870
Between 1 and 5 years	0	13,971
After 5 years	0	656
	10,020	18,497

19 Pledges and guarantees

Jointly with other Maersk Drilling entities, the Company has guaranteed a total of USD 1,365 million related to Term and Revolving Facilities Agreements held by The Drilling Company of 1972 A/S. As of 31 December 2020, USD 400 million of the facilities were undrawn.

Property, plant and equipment with a carrying amount of USD 261 million (the collateral rigs) has been provided as collateral for these borrowings. In addition to the collateral rigs, insurance coverage and certain bank accounts related to the collateral rigs and certain intra-group charterers in respect of the collateral rigs are provided as collateral. 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.

Shares in subsidiaries being owners or operators of collateral rigs are provided as collateral.

Financial statements 1 January – 31 December

Notes

20 Derivatives

The Company takes out derivative financial instruments as part of hedging the currency risk related to other recognised and unrecognised transactions (primarily overheads and administrative expenses). The notional amount of currency derivative financial instruments at December 31 2020 amounts to:

Million	Foreign currency	2020 USD	Foreign currency	2019 USD
2020				
DKK/USD	408	63	551	84
NOK/USD	0	0	50	6

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

21 Related party disclosures

The A.P. Moller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal, Copenhagen, Denmark is the ultimate owner.

Other related parties with control:

— A.P. Møller Holding A/S, Esplanaden 50, DK-1263 Copenhagen K (ultimate Parent Company preparing consolidated financial statements)

— APMH Invest A/S, Esplanaden 50, DK-1263 Copenhagen K

— The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, DK-2800 Kgs. Lyngby (initial parent company preparing consolidated financial statements)

Other related parties

The Board of Directors and the Executive Management of the entities listed above having a controlling interest in Maersk Drilling Holding A/S including their close relatives and undertakings under their significant influence are also considered related parties. This includes subsidiaries and affiliates of A.P. Møller Holding A/S, including A.P. Møller - Mærsk A/S and its subsidiaries and affiliates and Danske Bank A/S.

Related party transactions

Transactions with related parties are carried out on an arm’s length basis and are therefore not separately disclosed pursuant to section 98 C (7) of the Danish Financial Statements Act.

Financial statements 1 January – 31 December

Notes

Consolidated financial statements

The consolidated financial statements of The Drilling Company of 1972 A/S, Lyngby Hovedgade 85, DK-2800 Kgs. Lyngby can be obtained by contacting this company or at investor.maerskdrilling.com/financial-reports-presentations.

The consolidated financial statements of A.P. Møller Holding A/S can be obtained by contacting this company or at its website www.apmoller.com.

22 Disclosure of events after the balance sheet date

No events have occured after the balance sheet date to this date which would influence the evaluation of this annual report.

23 Events after balance sheet date

On 17 May 2021, Maersk Drilling announced that it had entered into an agreement about the sale of the jack-up rig Mærsk Gallant, which is owned by one of the Company's subsidiaries. The transaction is expected to result in either a pre-tax gain on disposal or reversal of prior year impairments in a combined amount of approximately USD 5 million.

On 27 May 2021, Maersk Drilling announced that it had entered into an agreement to divest the combined drilling and production unit Mærsk Inspirer for a price of USD 373 million. Mærsk Inspirer is owned by one of the Company's subsidiaries. The transaction is expected to result in a pre-tax gain on disposal of approximately USD 230 million.