BDRILL - Borr Drilling Limited Announces Fourth Quarter and Full Year 2017 Results

Hamilton, Bermuda, February 21, 2018: Borr Drilling Limited ("Borr", "Borr Drilling" or the "Company") announces its fourth quarter and full year unaudited results for the period ended December 31, 2017.

Highlights

- On October 6, 2017, Borr Drilling and Schlumberger signed an enhanced collaboration agreement
- On October 6, 2017, the Company signed a master agreement with PPL Shipyard Pte Ltd. ("PPL") to buy nine premium jack-up rigs
- On October 8, 2017, the Company concluded a private placement of 162,500,000 new shares at a subscription price of US$4.00 raising gross proceeds of US$650 million
- In October 2017, the Company realised a gain of approximately US$15 million on forward contracts
- On November 15, 2017, the Company took delivery of "Galar", the first premium jack-up drilling rig from PPL
- On December 30, 2017, the "Frigg" commenced operations for Total in Nigeria

Subsequent events

- On January 4, 2018, the Company took delivery of "Gerd", the second jack-up rig from PPL
- On January 5, 2018, the company took delivery of "Saga" the first newbuilding from Keppel FELS Limited ("Keppel")
- In January 2018, the "Norve" commenced operations for BW Energy Dussafu B.V. ("BW Energy") in Gabon
- In January 2018, Patrick Schorn, Executive Vice President of New Ventures in Schlumberger, joined the Board of Directors
- On February 21, 2018, Borr agreed to acquire Paragon Offshore Limited, including 32 rigs[*], US$200 million[*] in order revenue backlog and worldwide operations, for US$232.5 million. Please see separate press release for more information

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Management Discussion and analysis

Consolidated Statement of Operations (Financial Performance & Operating Results)

Three months ended December 31, 2017

Operating revenues were US$0.1 million for the three months ended December 31, 2017. The project for Total E&P Nigeria Limited ("Total") commenced late in December 2017. The drilling campaign for BW Energy commenced in January 2018.

Total operating expenses were US$62.4 million for the three months ended December 31, 2017. Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortization and impairment of non-current assets and general and administrative expenses.

Total rig operating and maintenance expenses were US$21.4 million for the three months ended December 31, 2017. This relates to stacking of rigs and re-activation costs for the rigs "Frigg" and "Norve" on contracts with Total E&P Nigeria Limited and BW Energy, respectively.

[*] As of January 2018

Total depreciation, amortization and impairment of non-current assets were US$35.4 million for the three months ended December 31, 2017. This relates to depreciation charge for the rigs and impairment of US$26.7 million relating to the cold stacked rigs in Scotland which will likely be divested in the near future.

Total general and administrative expenses were US$5.6 million for the three months ended December 31, 2017. US$1.0 million is non-cash expense related to employee benefit programs. The remaining US$4.6 million is mainly due to salaries, consulting fees and professional fees.

Other financial income was US$0.6 million for the three months ended December 31, 2017.

Twelve months ended December 31, 2017

Operating revenues were US$0.1 million for the twelve months ended December 31, 2017.

Total operating expenses were US$105.1 million for the twelve months ended December 31, 2017.

Total rig operating and maintenance expenses were US$36.2 million for the twelve months ended December 31, 2017.

Total depreciation, amortization and impairment of non-current assets were US$47.9 million for the twelve months ended December 31, 2017.

Please see comments for the three months ended December 31, 2017 which also explains the operating revenues, rig operating and maintenance expenses and depreciation, amortization and impairment of non-current assets for the twelve months ended December 31, 2017.

Total general and administrative expenses were US$21.0 million for the twelve months ended December 31, 2017. US$3.5 million is non-cash expense related to employee benefit programs. The remaining US$17.5 million is mainly due to salaries, consulting fees, professional fees and one-off costs relating to the start-up of the Company, the two jack-up rigs acquired from Hercules, the Transocean transaction, the PPL transaction and the Oslo Stock Exchange Listing.

Other financial income was US$17.0 million for the twelve months ended December 31, 2017 and relates primarily to gain on realized forward contracts.

Consolidated Balance Sheet

The Company had total assets of US$1,672.3 million as of December 31, 2017 (December 31, 2016: US$158.1 million). The increase in total assets of the Company is primarily driven by the acquisition of ten jack-up drilling rigs and five newbuildings under construction at Keppel from Transocean Inc., the completed asset acquisition of the two Hercules jack-up drilling rigs and the acquisition of nine jack-up drilling rigs from PPL.

As of December 31, 2017, total equity was US$1,492.9 million which corresponds to an equity ratio of 89.3 percent. As of December 31, 2016, total equity was US$157.8 million which corresponds to an equity ratio of 99.8 percent.

Total liabilities as of December 31, 2017, were US$179.4 million (December 31, 2016: US$0.2 million). The increase is mainly attributable to US$71.3 million in non-current liabilities related to the onerous contracts position of the three newbuilding contracts acquired from Transocean Inc. and the delivery financing for the "Galar" of US$87.0 million.

Consolidated Statement of Cash Flows

Three months ended December 31, 2017

Net cash flow generated from operating activities was negative US$9.8 million for the three months ended December 31, 2017 and is explained by the net loss for the period.

Net cash flow used in investing activities was US$691.0 million for the three months ended December 31, 2017. The investment activities primarily relate to the first instalment on the PPL rigs for US$502.2 million and the final instalments of US$159.5 million on the delivery of the "Galar" and the "Saga" (payment was made in December 2017, rig delivered January 5, 2018).

Net cash flow provided by financing activities was US$723.6 million during the three months ended December 31, 2017 and relates to the October private placement raising net proceeds of US$636.6 million (including settlement of Warrants to Schlumberger described below) and the delivery financing of US$87.0 million for the "Galar".

Twelve months ended December 31, 2017

Net cash flow generated from operating activities was negative US$32.6 million for the twelve months ended December 31, 2017 and is explained by the net loss for the period.

Net cash flow used in investing activities was US$1,447.8 million for the twelve months ended December 31, 2017. The investments relates to the completion of the acquisition of the two jack-up rigs from Hercules of US$117.7 million in Q1 2017, the payment of US$324.5 million to Transocean for the acquisition of ten operational jack-up rigs during the year, US$275.0 million paid as the first instalment to Keppel for the five newbuilding contracts in Q2 2017, the first instalment on the PPL rigs of US$502.2 million and the final instalments of US$159.5 million for the delivery of the "Galar" and the "Saga" from PPL and Keppel, respectively, in Q4 2017 (payment for the "Saga" was made in December 2017, rig delivered January 5, 2018). The remaining cash used in investing activities relates to increase in restricted cash and purchases of marketable securities.

Net cash flow provided by financing activities was US$1,506.3 million during the twelve months ended December 31, 2017 and relate primarily to the March and October private placement raising net proceeds of approximately US$1,415.0 million and the delivery financing of US$87.0 million for the "Galar".

As of December 31, 2017, the Company's cash and cash equivalents amounted to US$164.0 million (December 31, 2016: US$138.1 million).

Outstanding shares

As of December 31, 2017, the total issued common shares in Borr Drilling was 478,292,500. In October 2017, the Company issued 162,500,000 new shares. In addition to the outstanding shares the Board has approved up to 10,000,000 options to be used as a long-term incentive program for the Company's employees.

On October 6, 2017, the Company issued a further 4,736,887 warrants ("Warrants") to Schlumberger as a consequence of a final collaboration agreement between the Company and Schlumberger being signed.

Immediately thereafter, the Company agreed to repurchase all of the 9,473,774 Warrants held by Schlumberger at a price of US$0.50 per Warrant, US$ 4.7 million in total. Consequently, all Warrants were then cancelled.

Operations

In December 2017, the "Frigg", a 2013 built KFELS Super A class high-specification jack-up rig purchased from Hercules in January 2017, commenced operation for Total in Nigeria. The contract duration is twelve months with options for extension thereafter up to a maximum of twelve months.

In January 2018, "Norve", a 2011 built BMC Pacific Class 400 jack-up rig purchased from Transocean in May 2017, commenced operation for BW Energy in Gabon. The contract duration is for the drilling of two production wells of an anticipated duration of 140-160 days.

Corporate development and Financing

On 6 October 2017 Borr and Schlumberger signed an enhanced collaboration agreement to work on a number of fronts to challenge traditional business models in the industry. In January 2018, Patrick Schorn, Executive Vice President of New Ventures in Schlumberger Limited, joined the Board of Directors. He is bringing vast experience and industry insight to the Board and his appointment represents another milestone in the development of the relationship between Borr Drilling and Schlumberger.

Additionally, on October 6, 2017 the Company signed a master agreement with PPL to purchase a total of nine premium jack-up drilling rigs with deliveries from November 2017 through Q2 2019. All rigs are of the BMC Pacific Class 400 design. To finance the purchase, Borr completed an equity issue on October 8, 2017, raising proceeds of US$650 million. Additionally, the Company has secured financing for the remaining delivery payments for each PPL rig following the payment to PPL of approximately US$502 at the end of October 2017. The loan maturities are five years from each delivery date, with no amortisation during the loan period.

In October 2017, the Company realized a gain of approximately US$15 million on forward contracts to purchase shares in Atwood Oceanics. The Board is pleased with the return on this investment and may do similar purchases going forward if the valuation is viewed as attractive and the underlying assets fits well with Borr´s fleet profile.

Fleet

As of December 31, 2017, the Company's fleet consisted of 26 jack-up rigs, whereof 13 will be delivered between 2018 and 2020.

The first rig from PPL, the "Galar", was delivered on November 15, 2017. Subsequent to the fourth quarter, the Company took delivery of the "Gerd", the second rig from PPL on January 4, 2018. On January 5, 2018, the first rig from Keppel, the "Saga", was delivered, bringing the total count of rigs in the water to 15, and 11 rigs remaining to be delivered at the date of this report.

With the current oversupply in the market, consolidation and divestment to non-drilling activities is needed and anticipated. The Board view the four older units that are stacked in Scotland to be non-core. During the first quarter of 2018, Borr is planning to divest at least one of these rigs to a counterparty on terms that it will be used for non-drilling activities.

Market
Activity level in the jack-up market continues to improve with 326 contracted units at the end of 2017, the highest level seen since the inception of the Company in December 2016. During 2017, Independent Cantilever (IC) jack-ups less than 10 years old gained market share with contracted rig count for such rigs increasing 12% year on year while older rigs saw a decline of 3%.

Tendering activity is increasing and the materiality of discussions with customers is improving. In particular, several multi-year opportunities for incremental jack-up rigs are expected to be concluded in the Middle East in the short to medium term. Opportunities in West Africa and South-East Asia are also on the rise. However, utilization levels remain close to historical lows and competition for available work is intense, resulting in day-rates hovering around operating cash breakeven level for the industry.

Attrition of jack-ups increased towards year-end with 6 jack-ups being retired in the fourth quarter, out of a total of 16 retirements for the full year. Since the start of the downturn 50 jack-ups have now been retired. The Company believes that the current global fleet count includes many rigs that will be uncompetitive in the medium term as significant investments will be required to reactivate stacked rigs and keep older working rigs in class. Hence, scrapping activity is expected to increase in the current dayrate environment. A total of 257 units, or 48 %, of the global jack up fleet are more than 30 years old today.

A significant number of these older units are unlikely ever to drill again. The high reactivation cost, combined with safety concerns, make these units unattractive to operate. Furthermore, the increase in demand for jack up rigs that can drill deeper and more complex wells is further strengthening the case for modern, premium equipment. This argument is also highlighted by the age restrictions introduced in several recent tender processes.

Outlook
The targeted, first step in the overall plan of developing Borr Drilling to be the leading premium jack-up company has to a large extent been completed in 2017 by the acquisition of 20 rigs all built after 2011. The second phase of this plan continues in 2018 with the commencement of the first two drilling contracts and delivery of three newbuildings.

The current dayrate levels and utilisation in the jack-up rig market remains challenging. Borr will be a rational market participant focusing on opportunities that generate positive cash returns after re-activation, mobilization and operating costs. The current day rates are still below such levels and does not support the reactivating of rigs from a return perspective. However, the cost savings realised in our client base's supply chains, and anticipated growth in capital expenditure budgets should lead to improvements in industry activity levels, and ultimately day rates going into 2019. In recent months we have seen a significant increase in tendering activity. Historically, a significant increase in day rates and utilisation has lagged an oil price recovery with 12 – 24 months. As a result, the Board is cautious about pursuing contract opportunities that are long dated at current day rate levels. and therefore, the shareholders should expect significant uncontracted capacity for 2018.

The Borr fleet has, even if we include stacking cost for years after the acquisition, been acquired at very attractive prices compared to what a newbuild jack-up rig would cost today. Based on factors such as the development of the USD, steel prices, yard capacity and the general shipping and offshore markets, we considerit likely that newbuilding prices have reached the bottom and will increase in the years to come.

The Company is still in the market for attractive assets that complement the current fleet profile, both through acquisitions of rigs on a standalone basis and/or from potential corporate transactions. However, the shareholders should be assured that the Board will only focus on deals where assets can be acquired at a significant discount to expected newbuilding prices. Also, a key factor in any M&A discussion will be the evaluation of the pricing of the Company's equity at the time of a potential transaction.

The Board is confident that Borr has a unique position both from a fleet perspective and the timing of our entry into the industry. The Company has in a short period of time become one of the largest owners of premium jack-up rigs during a cyclical low, has a strong balance sheet and secured financing for the current asset base, and continues to build an organisation of highly qualified employees. There are clear signs that we have passed the bottom of the offshore drilling cycle and the activity level is picking up. With the current contract commencements, we have also seen the first evidence of solid operational performance inducing favourable client feedback.

Forward looking statements

This announcement includes forward looking statements. Forward looking statements are, typically, statements that do not reflect historical facts and may be identified by words such as "anticipate", "believe", "continue", "estimate", "expect", "intends", "may", "should", "will" and similar expressions. The forward looking statements in this announcement are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although Borr Drilling Limited believes that these assumptions are reasonable, they are, by their nature, uncertain and subject to significant known and unknown risks, contingencies and other factors which are difficult or impossible to predict and which are beyond our control. Such risks, uncertainties, contingencies and other factors could cause actual events to differ materially from the expectations expressed or implied by the forward looking statements included herein.

The information, opinions and forward looking statements contained in this announcement speak only as of the date hereof and are subject to change without notice."

About Borr Drilling

Borr Drilling Limited is an international drilling contractor incorporated in Bermuda in 2016 and listed on the Oslo Stock Exchange from August 30, 2017. The Company owns and operates jack-up drilling rigs of modern and high specification designs and provides services focused on the shallow water segment to the offshore oil and gas industry worldwide. The Company's fleet, as of February 21, 2017, comprises 15 jack-up drilling rigs and 11 units under construction with deliveries scheduled from 2018 to 2020.

Please visit our website at: www.borrdrilling.com

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