Borr Drilling

Borr Drilling Limited (BDRILL) Announces Second Quarter 2018 Results

Hamilton, Bermuda, August 23, 2018: Borr Drilling Limited ("Borr", "Borr Drilling" or the "Company") announces results for the three and six months ended June 30, 2018

Highlights in the second quarter

- Operating revenues of US$51.1 million, EBITDA* of US$3.2 million and net loss of US$7.4 million for the second quarter 2018
- Technical utilisation in the quarter for the nine operating rigs was 99.0%
- Signed agreements to acquire five jack-up drilling rigs from Keppel FELS Limited ("Keppel") for a total consideration of US$742.5 million in May 2018
- Secured contracts for the premium jack-up rigs "Norve", "Prospector 1" and "Prospector 5", adding total backlog of approximately 17 months
- Took delivery of the premium jack-up rigs "Grid" and "Gunnlod" from PPL Shipyard Pte Ltd. ("PPL"), and "Skald" from Keppel
- Divested 17 older, non-core jack-up rigs in the quarter, bringing the total number of divestments to 26 rigs from the beginning of the year in Borr and Paragon Offshore Limited ("Paragon") combined
- Secured a US$200 million non-amortising revolving bank loan facility with two-year duration
- Placement of US$350 million in principle amount of convertible bonds with a five-year tenor, coupon of 3.875% and conversion premium of 37.5%. In addition, the Company entered into call spread agreement enhancing economic conversion premium to 75%

Subsequent events

- The premium jack-up "Prospector 5" commenced its new contract in August, increasing Borr's operating fleet to ten units
- Secured letter of intent for the premium jack-up "Norve" for an estimated ten months program starting in Q3 2019 and secured contract for the standard jack-up C20051, starting in Q3 2018 for approximately two months plus options
- Started activation of two newbuild jack-up rigs and reactivation of the "Ran"
- Took delivery of the premium jack-up "Groa" from PPL Shipyard in July

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Management Discussion and analysis

Consolidated Statement of Operations (Financial Performance & Operating Results)

Three months ended June 30, 2018

Operating revenues were US$51.1 million for the three months ended June 30, 2018 (US$ nil in Q2 2017). The project for Total E&P Nigeria Limited ("Total") by the "Frigg" and the drilling campaign for BW Energy Dussafu B.V. ("BW Energy") by the "Norve" continued throughout the quarter. In addition, seven jack-up drilling rigs acquired in the Paragon transaction were operational in the quarter, contributing US$39.2 million in operating revenue.

Gain on disposals were US$17.5 million for the three months ended June 30, 2018 (US$ nil in Q2 2017). The company sold 17 rigs jack-up drilling rigs during the second quarter for total proceeds of US$35.2 million.

* The Company uses certain financial information calculated on a basis other than in accordance with accounting principles generally accepted in the United States (US GAAP) including EBITDA. EBITDA as used herein represent operating loss less: depreciation and impairment of non-current assets and amortisation of contract backlog. EBITDA is included as a supplemental disclosure because the Company believes that the measure provides useful information regarding the Company's operational performance

Total operating expenses were US$93.4 million for the three months ended June 30, 2018 (US$12.9 million in Q2 2017). Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortisation, general and administrative expenses, and restructuring costs.

Total rig operating, maintenance expenses, including lay-up costs, were US$52.4 million for the three months ended June 30, 2018 (US$3.1 million in Q2 2017), an increase by US$49.3 million compared to Q2 2017. The increase is primarily driven by USD$35.0 million in operating expenses for the rigs “Frigg”, “Norve” and the operating jack-up drilling rigs acquired in the Paragon transaction, including US$4.4 million relating to amortisation of mobilisation costs.

Total depreciation and impairment of non-current assets, including amortisation of contract backlog, was US$28.0 million for the three months ended June 30, 2018 (US$3.5 million in Q2 2017). Depreciation in Q2 2018 increased by US$18.5 million compared to Q2 2017 as a result of a larger fleet of jack-up drilling rigs. In addition, US$6.0 million was recognised as amortisation of revenue backlog from the Paragon acquisition.

Total general and administrative expenses were US$8.0 million for the three months ended June 30, 2018 (US$6.3 million in Q2 2017). The increase was primarily a result of a larger organisation and additional offices due to more rigs in operations.

Total restructuring costs were US$5.0 million for the three months ended June 30, 2018 (US$ nil in Q2 2017). This relates to termination payments and close-down costs linked to the Paragon acquisition. Restructuring costs going forward are not expected to be material as the integration of the Paragon organisation is near to being completed.

Financial income was US$17.4 million for the three months ended June 30, 2018 (US$1.1 million in Q2 2017). The financial items relate mainly to unrealised gain on forward contracts of US$25.3 million and fair value adjustment of the call spread resulting in loss of US$7.1 million, primarily related to one-off cost for entering into the position. The position will be recorded at fair value in the financial statements until maturity.

The quarter ended June 30, 2018 is the first quarter after the Paragon acquisition where Paragon is included in the consolidated statement of operations for the entire quarter (three days in Q1 2018). Paragon contributed with operating revenues of US$39.2 million and rig operating and maintenance expenses of US$34.1 million.

Six months ended June 30, 2018

Operating revenues were US$61.7 million for the six months ended June 30, 2018 (US$ nil for the six months ending June 30, 2017). This comprise revenues from the “Frigg” and the “Norve”, which commenced operations late in December 2017 and January 2018, respectively, in addition to seven jack-up drilling rigs acquired in the Paragon transaction, operating since March 29, 2018 and contributing with US$ 40.3 million in operating revenue.

Gain on disposals were US$17.5 million for the six months ended June 30, 2018 (US$ nil for the six months ending June 30, 2017). The company sold 17 rigs jack-up drilling rigs during the second quarter for total proceeds of US$35.2 million.

Total operating expenses were US$156.2 million for the six months ended June 30, 2018 (US$17.7 million for the six months ending June 30, 2017). Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortisation, general and administrative expenses, and restructuring costs.

Total rig operating, maintenance expenses, including lay-up costs were US$74.9 million for the six months ended June 30, 2018 (US$5.5 million for the six months ending June 30, 2017), an increase by US$69.4 million primarily driven by operational expenses for the rigs “Frigg” and “Norve” and the operating jack-up drilling rigs acquired in the Paragon transaction. Additionally, US$8.6 million relates to amortisation of mobilisation costs.

Total depreciation, amortisation and impairment of non-current assets, including amortisation of contract backlog, was US$40.2 million for the six months ended June 30, 2018 (US$4.4 million for the six months ending June 30, 2017). The increase of US$35.8 million is a result of a larger fleet of jack-up drilling rigs. In addition, US$6.0 million were recognised as amortisation of revenue backlog from the Paragon acquisition.

Total general and administrative expenses were US$18.2 million for the six months ended June 30, 2018 (US$7.9 million for the six months ending June 30, 2017). The increase compared to the six months ending June 30, 2017 was primarily a result of a larger organization, additional offices due to more rigs in operations and the Paragon acquisition.

Total restructuring costs were US$22.9 million for the six months ended June 30, 2018 (US$ nil for the six months ending June 30, 2017). This relates to termination payments and close-down costs linked to the Paragon acquisition.

Financial expense was US$2.3 million for the six months ended June 30, 2018 (Financial income of US$1.1 million for the six months ending June 30, 2017). The financial items relate mainly to change in unrealised gain on forward contracts of US$5.3 million and unrealised loss on the call spread of US$7.1 million.

Consolidated Balance Sheet

The Company had total assets of US$2,652.2 million as of June 30, 2018 (March 31, 2018: US$2,137.3 million). Total assets increased by US$514.9 million compared to March 31, 2018, primarily as a result of pre-delivery instalment of US$ 288.0 million for the acquisition of five high spec newbuild jack-up drilling rigs from Keppel FELS and the delivery of the three newbuildings “Grid”, “Gunnlod” and “Skald”.

As of June 30, 2018, total equity was US$1,698.3 million which corresponds to an equity ratio of 64.0 percent compared to total equity of US$1,670.1 million (equity ratio of 78.1 percent) on March 31, 2018.

Total liabilities as of June 30, 2018, were US$953.9 million (March 31, 2018: US$467.2 million). The increase is mainly attributable to the issuance of US$350 million convertible bonds, US$174.0 million in long-term debt related to the delivery financing for the two newbuildings “Grid” and “Gunnlod” and drawdown of US$30 million under the revolving credit facility.

Consolidated Statement of Cash Flows

Three months ended June 30, 2018

Net cash flows used in operating activities were US$39.9 million for the three months ended June 30, 2018 (US$ 1.4 million in Q1, 2017) and is explained mainly by change in working capital and the operating loss in the period.

Net cash flows used in investing activities were US$305.8 million for the three months ended June 30, 2018 (US$359.5 million in Q2 2017). The investment activities primarily relate to US$288.0 million in pre-delivery instalment for acquiring five high spec jack-up drilling rigs from Keppel FELS and the delivery instalment of “Skald” for US$72.4 million, offset by proceeds of US$37.2 million relating to sale of 17 jack-up drilling rigs and equipment, and decrease of US$22.9 million in restricted cash.

Net cash flows provided by financing activities were US$348.2 million (US$ nil in Q2 2017) during the three months ended June 30, 2018 and relates to finalising the March 2018 Private Placement raising net proceeds of US$7.4 million (Tranche 2) and the placing of US$350 in convertible bonds resulting in net proceeds of US$344.4 million. In addition, US$30.0 million was drawn on the US$200.0 million bank facility.

As of June 30, 2018, the Company’s cash and cash equivalents amounted to US$54.0 million (US$193.8 million in Q2 2017). Total available free liquidity at the end of the second quarter was US$224.0 million, including undrawn revolving credit facility of US$170.0 million.

Outstanding shares

As of June 30, 2018, the Company has a share capital of USD 5,326,403.27, divided into 532,640,327 shares, of which the Company owns 2,470,000 treasury shares.

In total, the Board has approved up to 16,855,000 options to be used as a long-term incentive program for the Company's employees, of which 2.28 million options remain unallocated for further awards and recruitments.

Fleet development

On April 13, 2018, the Company took delivery of the "Grid", the fourth jack-up rig from PPL.

On June 1, 2018, the Company took delivery of the "Gunnlod", the fifth rig from PPL,

On June 13, 2018, the Company took delivery of the "Skald", the second rig from Keppel.

On July 23, 2018, the Company took delivery of the "Groa", the sixth rig from PPL.

All the newbuild rigs, except the two rigs currently being activated, are being warm stacked at the yard, where they are under supervision of the respective yards until they find work.

On May 16, 2018 the Company announced the acquisition of five rigs under construction from Keppel FELS for a total consideration of US$742.5 million. Of the total consideration, the Company paid US$288.0 million up-front while Keppel will provide delivery financing of US$432.0 million. The loans are non-amortising, and payable in five years from rig delivery date. Furthermore, US$22.5 million of the consideration is a back-end fee and is payable together with the delivery loan principal. The rigs will be delivered one each quarter starting Q4 2019 until the last rig is delivered in Q4 2020. As part of the transaction, the Company has also agreed to delay the delivery of the third newbuilding from Keppel, the "Tivar", to July 2020.

The Company divested 17 older, non-core rigs in the second quarter, whereof 15 were acquired in the Paragon transaction in the first quarter. The disposals contributed US$35.2 million in total proceeds and US$17.5 million in gain on disposals in the Q2 2018 results. None of the rigs will re-enter the international jack-up drilling market post this transaction.

The Company is, as of the date of this report, the owner of 18 premium (delivered in 2001 and after) jack-up drilling rigs, 7 standard jack-up drilling rigs (built before 2001) and one semi-submersible. Furthermore, the Company will take delivery of 11 rigs from yards until the fourth quarter 2020. When all existing rigs are delivered the fleet will consist of 37 rigs, whereof 29 are premium (27 built after 2011).

Operations

In May 2018, the Company secured a six-month contract in West Africa for the "Norve" at a dayrate of US$80,000. The contract is expected to commence in the Q3-2018 in direct continuation of the BW Energy contract.

In August 2018, the Company entered into a letter of intent for "Norve" with an undisclosed customer for an anticipated ten months program commencing in Q3 2019. The new contract is expected to be signed in September.

In August 2018, the "Prospector 5" was reactivated and commenced operations in the UK under a one HPHT well program of approximately six months. This program will further expand Borr's experience in delivering complex wells in the North Sea and leverage on the rig's MPD ready state.

The premium jack-up "Prospector 1" concluded its current contract with Orange-Nassau Energy during August, approximately two months later than initially projected due to customer requirements. The rig will be available for the remainder of the Q3 2018 ahead of its subsequent commitment with Tulip Oil in the Netherlands, expected to start in Q4 2018 for a duration of approximately 150 days.

The standard jack-up “C20051” is anticipated to conclude its contract in the UK in late-August. Subsequently, the C20051 will commence operations with Total in the Netherlands in mid-September under a four workover wells program (approximately 60 days) plus options.

Following the closing of the Paragon transaction, Borr had nine contracted rigs at the end of Q2 2018; four in the North Sea, three in the Middle East and India, and two in West Africa. During Q3 2018, the number of contracted rigs is anticipated to increase to ten on the back of the commencement of operations on the “Prospector 5”.

The technical uptime for the fleet was 99.0% in the second quarter.

Corporate Development and Financing

On May 16, 2018, the Company announced the completion of a US$350 million convertible bonds issuance with a coupon of 3.875% per annum and a conversion premium of 37.5% above a reference price of US$4.87 per share. In connection with this placement the Company has also entered into a call spread at a cost of approximately 8% of the gross proceeds, which increases the effective conversion premium for the Company to 75% above the reference price.

On May 16, 2018, as part of the transaction with Keppel, the Company secured US$432 million in delivery financing from the yard for the five rigs at attractive terms. The loans are non-amortising and payable five years after delivery of the rigs.

In May 2018, the Company entered into a US$200 million Senior Secured Revolving Loan Facility Agreement with DNB Bank. The facility has an availability period of two years.

In July 2018, the Company purchased the last remaining shares in Paragon, and is consequently the sole shareholder.

To further develop the company, improve efficiency of the operations and reduce costs, the Company has decided to relocate the Oslo office, which consisted mainly of accounting and finance functions, and centralise all corporate functions in the Dubai office.

In order to increase liquidity in the trading of the Company’s shares further, the process for exploring a listing of Borr’s shares on an additional, recognised international stock exchange continues into the second half of the year, with the target of completing the listing around mid-2019.

Market

During the second quarter, jack-up fleet utilization has continued an upward trend driven primarily by increasing utilisation of modern jack-ups and attrition within the standard jack-up segment. Global competitive jack-up utilisation stood at 74.1% at the end of June, an increase of 3 percentage points quarter-on-quarter.

In the modern jack-up segment, competitive utilisation has experienced an even more pronounced increase and stood at 76.0% at the end of June, an increase of 5.7 percentage points quarter-on-quarter. The customer’s clear preference for modern units has resulted in jack-ups built after 2000 receiving approximately 78% of the total backlog awarded during the second quarter.

Number of new jack-up fixtures in Q2 2018 was 55, an increase of 11 quarter-on-quarter, with the Middle East and North Sea remaining as the most active regions. Noticeably, average duration of recently awarded contracts continues to increase, having more than doubled quarter-on-quarter. Recent tenders and discussions with operators show a strong likelihood of an accelerated improvement as we move towards 2019. Borr decided in May 2018, based on improvements in the market, to start activation of two newbuild units on a speculative basis. We also started the reactivation of the North Sea based jack-up “Ran”. The Company expects, based on ongoing discussions and the strength of the market, to have all these rigs contracted at commercially attractive rates before the end of the year.

Given the market outlook, the Company is likely to start further activation/reactivation of rigs without having firm employment.

During the second quarter, 18 units have been retired from the worldwide jack-up fleet, totalling 29 jack-ups retired year-to-date. Currently, over 40 units are cold stacked or have been out of service for over 24 months, mainly composed of 30+ year old units. This count is anticipated to grow further as operators prefer modern units. Currently, a total of 231 jack-ups are 30 years old or more, out of which approximately 100 are not contracted. We maintain the view that a significant number of these 231 older units are unlikely to return to the active fleet in the near future or at all.

On the back of increasing utilization levels, jack-up day rates have started to present early signs of improvement. This has been more prominent in areas such as the North Sea and West Africa, and particularly in the harsh environment, heavy duty space.

From a macro perspective, the second quarter has seen Brent crude oil price holding levels above US$70/bbl. According to IEA data, OECD industry stocks have continued to adjust downward and reach levels below the 5-year average. Sustained and strong crude prices combined with lower field development costs has resulted in major oil companies reporting a strong financial quarter and cash flow comparable to levels experienced prior to the beginning of this downturn. At the same time, we witness that the international oil companies are both struggling with falling production and depleting reserves. Based on data from Rystad Energy it is expected that the spending on shallow-water FIDs will increase 2.8x in 2019 vs 2018. We believe this creates a combination of factors that will continue to support incremental rig demand and contracting opportunities.

Outlook

The second quarter was highly active from a corporate development perspective for the Company, with asset sales and purchase transactions of 22 rigs and the securing of financing totalling US$982 million. There are still 4-5 undelivered jack-ups left at the Singaporean yards, but the asking price for these units are getting close to newbuilding price levels which is indicated in the USD 180 –200 million range. Borr does not view this as an attractive investment opportunity, especially considering Borr’s current valuation and the size of the fleet we have already built. The focus for the remainder of the year will be to continue to deliver a high standard of operational performance, keep control over cost and be more active in the chartering market as more attractive commercial opportunities arise. We continue to work with our partner to develop integrated contract drilling concept and are, based on the response from customers, optimistic that successful deals will be made.

The customers’ focus on modern equipment continues. In several multi-year multi-rig tender processes going on now the charterer has introduced age limitations for participation. This effectively limits a large part of the jack-up fleet from participating in the tenders.

The integration of the Paragon organisation and operations is close to being finalised. The number of shore-based corporate and administrative staff in the old Paragon organisation has been reduced from 165 to 52, and is planned to be taken further down mainly in the Houston office as part of the initial integration phase. The utilisation for the fleet from the date of the Paragon acquisition is 99.2%, showing that the integration has been completed with strong operational focus. Solid operational performance, a strong safety record, and a unique fleet of modern jack-up assets are key factors in the conversations with existing and potential new clients, and in building the credibility of Borr Drilling as the leading jack-up drilling contractor.

Borr continues to emphasise that it will be a rational market participant and not urgently enter into contracts with long duration at marginal returns. We will focus on opportunities that generate positive cash returns after activation/re-activation, mobilisation and operating costs.

Borr was established in December 2016. The company has since the start-up successfully secured 7 contracts and LOIs for modern, unemployed rigs with 50 months of backlog. After commencement of the newly signed contracts, LOIs and supported by improved fundamentals including ongoing contracts discussions we expect to have minimum 12-13 rigs in operation by Q2 2019.

At the end of the quarter, the Company had US$225 million of available liquidity. In addition, the Company has unencumbered assets comprising 8 premium rigs plus 8 standard rigs, whereof six are on contract, and is in a strong financial position to be patient in the contracting strategy. The increased activity will to a large extent be focused around markets in the Middle East, West Africa, Mexico and the North Sea. However even the Far East Asian markets and US Gulf are showing clear signs of increased activity levels.

Supported by the enquiries we today see in the market and the strong focus on modern equipment, we are optimistic that we within the next two years will be able to secure financially attractive contracts for a high percentage of our fleet of 29 modern jack ups. Increasing the activity level in a structured and gradual way will ensure both quality and safety in the ramp-up phase, a good cost control and also position the Company well to benefit from the anticipated recovery of rig rates which clearly has already started.

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."

Responsibility Statement

We confirm that, to the best of our knowledge, the interim consolidated financial statements for the first half year of 2018, which has been prepared in accordance with USGAAP gives a true and fair view of the Company's consolidated assets, liabilities, financial position and result of operations, and that the first half 2018 report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

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.

Please visit our website at: www.borrdrilling.com

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