Borr Drilling Limited (BDRILL) Announces Preliminary Results for the Fourth Quarter and Year Ended 2018

Hamilton, Bermuda, February 28, 2019: Borr Drilling Limited ("Borr" or the "Company") announces preliminary results for the three and twelve months ended December 31, 2018

Highlights in the fourth quarter 2018

- Operating revenues of US$53.5 million, EBITDA* of negative US$18.7 million and net loss of US$110.7 million for the fourth quarter of 2018
- Operating revenues of US$164.9 million, EBITDA of negative US$65.8 million and net loss of US$190.9 million for the year ended December 31, 2018
- Technical utilisation for the operating rigs was 99.6% in the fourth quarter of 2018
- Added total backlog of 108 months with estimated total revenue of US$257 million
- Took delivery of the premium jack-up rig "Natt" in October from PPL Shipyard
- Realised US$16.1 million in cash proceeds from sale of forward contracts in a listed offshore drilling company and recorded a mark to market loss on its positions of US$32.2 million

Subsequent events

- Secured US$160 million revolving credit and guarantee facility
- Completed the successful activation of the premium jack-ups "Gerd" and "Natt", and the reactivation of "Odin", all of which are undergoing mobilisation prior to the commencement of their respective contracts
- The Company is currently offering rigs in multiple open tender processes equivalent to over 40 rigs vs. Borr's available capacity of ten units built after 2010
- As of February 27, 2019, the market value of the securities portfolio had increased by US$15.1 million since the balance sheet date.

Management Discussion and Analysis

Consolidated Statement of Operations (Financial Performance & Operating Results)

The Company continued growing its operations during 2018, both through the Paragon acquisition and with multiple rigs acquired in 2017 commencing contracts in 2018. On average, 8.6 rigs (2017:0 rigs) were operating during the fourth quarter of 2018 generating operating revenues of US$53.5 million compared to operating revenues of US$0.1 million in the fourth quarter of 2017 where only one rig had commenced operations just before the year-end. Due to the difference in activity level between 2018 and 2017, the Management Discussion and Analysis below will focus on comparing Q4 2018 figures to Q3 2018 figures.

Three months ended December 31, 2018

Operating revenues were US$53.5 million for the three months ended December 31, 2018 (US$49.7 million for the three months ended September 30, 2018), an increase of US$3.8 million. The increase was driven by the "Mist" and the "Prospector 1" commencing their contracts during the period, partly offset by the contract ending for the standard jack-up rig "L1112" ("Ed Holt") at the end of the third quarter of 2018.

The Company sold the standard jack-up rig "L1112" ("Ed Holt") for total proceeds of US$2.4 million resulting in a gain on disposal of US$1.3 million for the three months ended December 31, 2018 (US$ nil in third quarter 2018).

Total operating expenses were US$105.8 million for the three months ended December 31, 2018 (US$91.2 million for the three months ended September 30, 2018), an increase of US$14.6 million. Total operating expenses consists

* 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 net loss less: depreciation and impairment of non-current assets, amortisation of contract backlog, net financial income (expense), gain from bargain purchase and income tax expense. EBITDA is included as a supplemental disclosure because the Company believes that the measure provides useful information regarding the Company's operational performance. For a reconciliation of EBITDA to net loss, the most comparable U.S. GAAP financial measure, please see Note 23 to the Company's unaudited condensed consolidated financial statements.

of rig operating and maintenance expenses, depreciation, amortisation, general and administrative expenses, and restructuring costs.

Rig operating and maintenance expenses, including stacking costs, were US$59.5 million for the three months ended December 31, 2018 (US$45.7 million for the three months ended September 30, 2018), an increase of US$13.8 million. The increase is primarily driven by certain non-recurring transactions as well as higher activity levels during the fourth quarter 2018. The Company released a tax accrual of US$4.6 million in the third quarter of 2018 leading to reduction of operating expenses, which was not repeated in the fourth quarter of 2018, and in the fourth quarter 2018 incurred incremental costs related to software licenses of US$2.2 million and experienced higher operating expenses related to the contract preparation, mobilisation and start-up of operations for the "Mist".

Depreciation and impairment of non-current assets were US$23.8 million for the three months ended December 31, 2018 (US$21.5 million for the three months ended September 30, 2018). The increase quarter on quarter is largely attributable to the delivery of the "Natt" in October 2018.

Amortisation of contract backlog was US$8.5 million for the three months ended December 31, 2018 (US$9.7 million for the three months ended September 30, 2018), a decrease of US$1.2 million as acquired contracts expire.

General and administrative expenses were US$10.8 million for the three months ended December 31, 2018 (US$9.7 million for the three months ended September 30, 2018), an increase of US$1.1 million. The increase is primarily driven by a larger organisation required to deliver on the higher volume of committed contracts. US$1.4 million are non-cash charges linked to the Company's long term share option program.

Restructuring costs were US$3.2 million for the three months ended December 31, 2018 (US$4.6 million for the three months ended September 30, 2018), which relates to the remaining lease obligation for office space in Houston. The Company does not expect any further charges relating to the Paragon offices.

Net financial loss was US$59.2 million for the three months ended December 31, 2018 (a gain of US$4.5 million for the three months ended September 30, 2018). The main explanation of the negative movement of US$63.7 million in the fourth quarter 2018 is a mark-to-market loss on forward contracts of US$32.2 million, a mark-to-market loss on the Call Spread derivative related to the Company's convertible bonds of US$16.9 million and gross interest expense of US$14.8 million, offset by capitalised interest of US$6.3 million.

Income tax expense for the three months ended December 31, 2018 was US$0.5 million (US$2.0 million for the three months ended September 30, 2018).

Consolidated Balance Sheet

As of December 31, 2018

The Company had total assets of US$2,913.7 million as of December 31, 2018 (September 30, 2018: US$2,790.5 million). Total assets increased by US$123.2 million compared to September 30, 2018, primarily as a result of the delivery of the newbuilding "Natt", capital expenditures from the activation of the "Gerd" and "Groa" and the reactivation of "Odin" and "Ran".

Total liabilities as of December 31, 2018, were US$1,380.2 million (September 30, 2018: US$1,138.5 million). The increase of US$241.7 million in the fourth quarter is mainly attributable to US$87.0 million in long-term debt related to the delivery financing for the newbuilding "Natt", the drawdown of US$100.0 million on the revolving credit facility with DNB, liability of US$35.1 million related to unrealised loss on forward contracts and increase in accrued expenses and other current liabilities.

As of December 31, 2018, total equity was US$1,533.5 million compared to total equity of US$1,652.0 million as of September 30, 2018. The decrease of US$118.5 million is largely attributable to the net loss in the fourth quarter.

Consolidated Statement of Cash Flows

Three months ended December 31, 2018

Net cash used in operating activities was US$41.3 million for the three months ended December 31, 2018 (US$3.5 million for the three months ended September 30, 2018) and is explained mainly by the operating cash loss in the period, interest paid and changes in working capital affecting the cash flow negatively, partly offset by proceeds from investments in other drilling companies.

Net cash used in investing activities was US$19.2 million for the three months ended December 31, 2018 (US$13.4 million for the three months ended September 30, 2018). The investing activities primarily relate to payments in respect of jack-up rigs of US$15.9 million, purchase of marketable securities of US$3.3 million and payments and costs in respect of plant and equipment of US$3.0 million, partly offset by proceeds from sale of fixed assets of US$3.0 million.

Net cash provided by financing activities was US$90.0 million during the three months ended December 31, 2018 (US$7.4 million used in financing activities for the three months ended September 30, 2018) and relates to drawdown on the revolving credit facility of US$100.0 million, partly offset by purchase of treasury shares for US$10.0 million.

As of December 31, 2018, the Company's cash and cash equivalents and restricted cash amounted to US$91.3 million (US$61.8 million at September 30, 2018). Total available free liquidity (cash and cash equivalents excluding restricted cash, plus available amounts under credit facilities) at the end of the fourth quarter was US$97.9 million, including undrawn amounts under the revolving credit facility of US$70 million. This compares to available free liquidity US$210.6 million at the end of the third quarter. US$42.2 million was transferred from cash and cash equivalents to restricted cash from the third to the fourth quarter of 2018 as a result of margin requirements for the forward contracts entered into in the fourth quarter and deposits made for guarantees.

Outstanding shares

As of December 31, 2018, the Company had a share capital of US$5,326,403.27, divided into 532,640,327 shares.

On August 28, 2018, the Company's Board of Directors approved a share repurchase program for the Company's shares, to be purchased in the open market by December 30, 2018 and limited to a total amount of US$20.0 million. During the fourth quarter, the Company purchased 3,200,000 of its own shares at an average price of NOK 26.66 per share, or US$10.0 million in total. Following these purchases, the Company held 7,298,572 of its own shares in treasury at the end of the fourth quarter 2018 at an average price of NOK 31.72 per share, or US$26.2 million in total.

Fleet development

On October 10, 2018, the Company took delivery of the "Natt", the eighth premium jack-up rig from PPL Shipyard.

Subsequent to quarter end, on January 30, 2019, the Company took delivery of the "Njord", the ninth and final premium jack-up rig from PPL Shipyard. The final instalments for both rigs from PPL Shipyard were financed by the delivery financing established with the yard, which is non-amortising over a term of five years.

In the fourth quarter of 2018, the Company sold the standard jack-up rig "L1112" ("Ed Holt"), and the rig has been retired from the international jack-up rig fleet. Net proceeds from the sale were approximately US$2.4 million, resulting in a gain of US$1.3 million. This is the 27th jack-up rig to be divested and retired from the international jack-up rig fleet by Borr and Paragon combined since the beginning of 2018.

The Company is, as of the date of this report, the owner of 21 premium (delivered in 2001 and after) jack-up rigs, 6 standard jack-up rigs (built before 2001) and one semi-submersible. Furthermore, the Company has contracts for delivery of eight rigs from yards before the fourth quarter of 2020. When all newbuild rigs have been delivered, the fleet will consist of 36 rigs, whereof 29 are premium (27 built after 2010).

Operations

The premium jack-up rig “Mist” commenced its short-term contract with Kris Energy in Thailand in the fourth quarter of 2018. This contract was successfully concluded in late February 2019 and the rig has been demobilized to Singapore where it will remain warm stacked.

The premium jack-up rig “Prospector 5” has been operating in the UK for Nexen under a one HPHT well program for approximately six months. This program was successfully completed in February 2019 and has proven the rig’s and the Company’s capabilities in delivering complex wells safely and efficiently on time. The rig has received an LOI for 180 days work in the North Sea starting in April 2019 following a short yard visit.

The premium jack-up rig “Prospector 1” commenced its contract with Tulip Oil in the Netherlands in December 2018 with an estimated duration of five months.

The standard jack-up rig “C20051” commenced operations with Total in the Netherlands in mid-September 2018 under a four workover wells program with an estimated duration of 60 days, excluding options. Total exercised its options under the contract keeping the rig active until March 2019. As indicated in the previous fleet status report, Borr remains in active discussions with customers regarding future work prospects for C20051. However, due to the potential delays for some of these prospects, Borr continues to evaluate alternatives for this rig, which may include divestment, in line with the Company’s strategy and focus on modern assets.

In November 2018, the Company signed a ten to eleven months contract with BW Energy for the “Norve” commencing in June 2019. Subsequent to year end, Borr terminated the 60 days contract for the “Norve” with RoyalGate Energy which was announced in the third quarter 2018 report. However, Borr and RoyalGate remain in dialog for future contracts should conditions allow the customer to proceed with this program in the future.

In the fourth quarter of 2018, Borr secured an approximately two-month contract extension for its semisubmersible rig “MSS1” with TAQA at increased rates. With this extension, the “MSS1” is expected to remain on contract until November 2019. Further, Borr remains in active discussions with the customer in respect to existing extension options. The Company sees a strong market for the rig.

The premium jack-up rigs “Gerd” and “Natt” were activated successfully and commenced their mobilisation to Nigeria ahead of each of their two-year contracts with Exxon and First E&P, estimated to start-up in March 2019 and April 2019, respectively.

The premium jack-up “Groa” continues to undergo activation activities and is expected to commence mobilisation to Nigeria during the first quarter of 2019 for its two-year contract with Exxon with estimated start-up in April 2019.

The Company started the reactivation of the premium jack-up “Odin” in December 2018 on the back of a firm contract in Mexico for an approximate period of nine months. In January 2019, the activation was successfully completed, and the rig commenced its mobilisation to Mexico ahead of its contract expected to start in March 2019.

The premium jack-up rig “Ran” continues to undergo reactivation activities ahead of its contract with Spirit Energy of approximately 11 months in the North Sea, expected to commence in April 2019.

The Company currently has a marketed fleet of ten unemployed modern rigs in the water, out of which eight are newbuilds coming straight from the yard. One further rig will be delivered later this year while seven more rigs are scheduled for delivery from the yards in 2020.

	Total	Operating / Committed	Available	Cold Stack	Under Construction
Premium Jack-Ups	29	9	10	2	8
Standard Jack-Ups	6	4		2	
Total Jack-Ups	**35**				
Semi - Submersible	1	1			
Total Fleet	**36**	**14**	**10**	**4**	**8**

Certain actions have been initiated in order to be able to activate four of the unemployed newbuilds on short notice. This includes ordering of long lead items.

The Company currently has eight rigs in operations; four in the North Sea, two in the Middle East and two in West Africa. The Company has five additional premium jack-ups contracted and anticipated to commence their respective contracts by Q2 2019. Based on existing contracts, the Company expects, to have 13 rigs operating by end of June 2019.

The Company sees upside potential for additional contracts for the second half of 2019 as it continues to experience increased jack-up tendering activity. Borr is currently participating in organised tender processes with offers covering over 40 rigs vs Borr's available capacity of ten rigs built after 2010. In addition, there are several direct discussions. Management expects that a major part of the open 2019 capacity will be contracted out for term business at attractive rates within the next nine months.

The technical utilisation for the fleet was 99.6% in the fourth quarter of 2018 and 99.1% for the period March 29, through December 31, 2018 since the acquisition of Paragon.

Corporate Development, Investments and Financing

In October 2018, the Company sold forward contracts for shares in Rowan Companies PLC and realised cash proceeds of US$16.1 million in the fourth quarter of 2018. Total cash proceeds on forward contracts in 2018 was approximately US$25 million.

The set-back in oil service companies in the fourth quarter of 2018 led to a material drop in the share prices of Rowan Companies PLC and Ensco PLC. The drop also reflected the uncertainty regarding the proposed merger between the two companies. Borr saw deep value and a strategic opportunity in the situation and entered into new forward contracts for shares in these companies in the fourth quarter of 2018. These positions had unrealised losses of US$35.1 million at December 31, 2018. At the date of this report, the value of the positions has increased by US$15.1 million since year end, and thereby the net losses on the positions are currently US$20 million. Included in Borr's security portfolio are also investments in Oro Negro debt securities.

Borr has since its inception realised cash proceeds of approximately US$40 million from investments in offshore related equities and debt. The Company will continue on an opportunistic basis to make such short-term investments in cases where it sees deep value combined with strategic opportunities. This will, however, not be a core activity of the Company.

In 2019, the Company has secured additional financing consisting of a US$100 million revolving credit facility and a US$60 million credit line for issuance of guarantees with two international commercial banks with maturity in May 2020, subject to customary closing documentation. In addition, the Company has entered into a supplemental agreement to its US$200 million revolving credit facility, allowing the Company to issue guarantees of up to US$30 million secured by the rigs that are mortgaged under the loan agreement, freeing up approximately US$25 million that was classified as restricted cash at year end 2018. These new facilities will give Borr headroom to complete the activation of several more rigs than has already been committed.

Borr was originally capitalised with the target to keep a good buffer of liquidity for several years in an all laid-up rig scenario. The increased activity in the contracting of the Company's rigs has led to increased need for liquidity linked to activation and contractual guarantee commitments. As a result of this, the management of the Company has initiated an effort to secure an overall, long-term financing, and has received an indicative term sheet for a bank loan facility of US$500 million. The Company targets to enter into this agreement within 2019 and the facility is intended to replace the Company's two current revolving credit facilities. This would effectively secure Borr´s funding needs for remaining newbuild instalments and activations of rigs that are yet to be activated. In addition to the term sheet, the Company has received proposals for bond structures, at somewhat higher margins, but against higher leverage and longer duration. The Board is currently considering the right composition of alternative structures. The closing of the long term facility and any bond financing will be subject to the execution of definite documentation.

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.

In connection with the acquisition of Paragon Offshore, Borr took over a US$300 million legal claim against Petrobras for wrongfully terminated drilling contracts. The Company is in discussions with Petrobras regarding this claim.

The Board of Directors of the Company has on February 27, 2019 appointed Alexandra Kate Blankenship as director of the Company and Georgina Sousa as director and company secretary. Ms. Blankenship has served on a number of boards of directors since 2005, including Frontline Ltd., Seadrill Ltd., Golden Ocean Group Limited, Archer Limited, and is a member of the Institute of Chartered Accountants in England and Wales. Ms. Sousa was employed by Frontline Ltd. as Head of Corporate Administration from February 2007 until December 2018. She has served as director and secretary on a number of boards, including Frontline Ltd., Ship Finance International Limited, North Atlantic Drilling Ltd. and Golar LNG Limited. Ms. Sousa is a Bermuda citizen and resides in Bermuda.

Market

During the fourth quarter of 2018, global jack-up fleet utilisation has continued its upward trend. Global competitive jack-up rig utilisation stood at 78% at the end of December 2018, an increase of two percentage points quarter-on-quarter. Similar to the trend noted during all recent quarters, the improvement in competitive jack-up utilisation has been driven by increasing utilisation of modern jack-up rigs (built after year 2000) that stood at 81% at the end of December 2018, an increase of three percentage points quarter-on-quarter. In the standard jack-up segment, competitive utilisation has retracted by 0.5% quarter-on-quarter despite reductions in the competitive fleet resulting from retirements and cold stacking.

Jack-up rigs built after 2010 have experienced a similar increase in competitive utilisation, which stood at 81% at the end of December 2018, an increase of over four percentage points quarter-on-quarter and over 11 percentage points up from January 2018 levels. In some regions such as the North Sea, Middle East and West Africa, competitive utilisation is above 90%, which continues to drive pricing higher, as experienced by Borr in recent fixtures.

According to IHS, the number of new jack-up rig fixtures in the fourth quarter 2018 was 85, which represents an increase of approximately 50% quarter-on-quarter and 27% compared to the same period in the previous year.

Based on budgets by IOCs reported in fourth quarter 2018, offshore focused E&P companies are projecting for an increase in capex of more than 10%. In addition, the Company expects the spending plans of national oil companies to continue to increase. These factors are likely to lead to a situation where 2019 will be the first year since 2013 with an increase in offshore spending.

During the fourth quarter of 2018, tendering activities have remained strong across all regions. As reported by IHS, there are currently over 70 outstanding jack-up tenders equating to a total of 101 rig years on offer. In addition, it is anticipated that PEMEX will award around 15 jack-up contracts in 2019 with durations of 2 years each. In several of these tenders like Qatar (9 units), Pemex (15 units), Petronas/Malaysia (9 rigs), a restrictive age ban has been introduced, which effectively blocks units built before 2010 from participating. Requirements of BOP capabilities, cantilever reach, crane capacity and water depth, further limits the availability of suitable units.

Borr Drilling

A noteworthy trend in the second half of 2018 was the incremental number of contracted rigs in China. The number of rigs operating in China has increased by eight rigs since mid-2018 as the Chinese government tries to boost domestic production. While this trend directly benefits Chinese contractors, the increased local demand should alleviate newbuild supply pressure in other regions. Actions have been implemented in China to create a new State-owned asset company (Beijing Guohai Offshore Ltd) with the purpose of owning distressed yard assets and focus on operating these units in the local market.

Several important tenders in South East Asia, Middle East and Mexico are expected to be concluded in the coming months, leading to a number of multi-year awards and an incremental jack-up demand that could exceed 40 rigs by year end 2019, according to Fearnleys.

Currently, there are approximately 32 uncontracted jack-ups built in 2010 or after, out of which the Company estimates only around 25 are being actively marketed. The Company notes that ten of these units are owned by Borr. The successful conclusion of the ongoing tenders is expected to result in a very tight market for premium jack-ups built after 2010.

During the fourth quarter of 2018, seven units retired from the worldwide jack-up rig fleet. In total, 41 jack-up rigs were retired in 2018 which is higher than the attrition in 2016 and 2017 combined. The Company maintains its view that a significant number of the approximate 90 jack-up rigs that are more than thirty years old and uncontracted will remain uncompetitive and unlikely to return to the active fleet in the near future, or at all.

Total number of jack-ups under contract are as of today 335, up from the trough of 299 in January 2017. The contracted number of jack-up rigs at the peak in 2014 was 420 units.

Outlook

The last months have shown a breakthrough for tenders for integrated drilling services. The contract structures in Mexico and Kuwait are tendered on an integrated basis. The Company's partnership with Schlumberger is developing positively, and we are bidding together on fully integrated work.

The tightening of the market has led to a lack of rig availability among incumbent drilling contractors. Some of these have approached Borr with offers on both bareboat structures and purchase options. Both bareboat and purchase options have been at attractive levels, and the Company is actively evaluating such opportunities. This creates an opportunity to sell assets at a significant premium to the current Borr share price valuation, and opportunistically use proceeds to redeem shares.

The Company has in the space of 26 months gone from having zero to 14 rigs contracted. The Company expects to be cash-flow positive in terms of cash from operations at the end of the second quarter of 2019 when all of these contracts have commenced. This is a watershed moment in the history of Borr compared to the cash-burn experienced in 2018. As of the date of this report, the Company has another 18 units available for contracts, of which eight are under construction, creating a significant cash-flow potential for the company.

The Board is optimistic that Borr will have a major part of its open marketed capacity contracted out at attractive day rate levels before year-end 2019. Further upside potential in the Company will be linked to the contracting of seven newbuilds to be delivered in 2020. The board sees clear evidence that the offshore cycle has turned and has started its path to a healthy recovery driven by oil companies' increased focus on offshore.

Disclaimer

The information in this communication is for informational purposes only and shall not constitute, or form a part of, an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities.

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 and include expectations regarding industry trends including activity levels in the jack-up rig industry, trends in oil prices, the suitability of our fleet in the existing environment, utilization levels, delivery of newbuilds, and contract backlog, expected business environment in 2019 including expected offshore spending, expected contracting and operation of our rigs in 2019 and expectation of contracting at favourable rates, expected funding needs, execution of the indicative funding term sheet and entrance into the credit facility and other non-historical statements. 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. In addition to the important factors and matters discussed elsewhere in this report, important factors that, in our view could cause actual results to differ materially from those discussed in the forward looking statements are included in our most recent annual report.

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 Limited

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 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

February 28, 2019
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