For immediate release	

KCA Deutag Alpha Limited
(“KCA Deutag” or the “Group”)

Results for the three months ended 30 September 2018

KCA Deutag, one of the world’s leading drilling and engineering contractors, is pleased to announce its results for the three months ended 30 September 2018, reporting EBITDA of $70.9m.

Highlights

- Third quarter revenues of $345.9m (2017: $309.4m)
- Group Q3 2018 EBITDA of $70.9m (2017: $54.8m)
- Contract backlog of $6.0bn across a blue chip customer base
- Integration progressing on the legacy Dalma business
- Land Drilling have been awarded several new contracts
- Available liquidity of $174.3m at 30 September 2018

Commenting on the results Norrie McKay, KCA Deutag’s Chief Executive Officer said:

“The third quarter EBITDA was higher than both the second quarter of 2018 and the third quarter of 2017. This was largely due to having a full 3 months of earnings from the Dalma rigs acquired in Oman and Saudi Arabia on 30 April 2018, together with early termination fees for 2 rigs in Oman.

Land Drilling have secured several new contracts but pricing levels remain under pressure. Integration of the Dalma business continues to be progressed with significant steps made during the quarter moving the business over to KCA Deutag systems and processes.

Bentec continues to see an active tendering market although it remains very competitive. They had another strong quarter for top drive sales, with tenders for new build rigs also remaining active. Overall Bentec has a significant backlog in terms of rigs as well as top drive and component orders.

Offshore Services continues to be fairly robust and whilst it remains competitive the pricing levels remain stable.

RDS activity continued at lower levels but this business is seeing increased opportunities to secure new work with operators increasing maintenance on assets.

We had strong liquidity at the end of the quarter, with $174.3m available under undrawn facilities.

In October Brent oil prices reached their highest since 2014, reaching 85 dollars per barrel but have since fallen back to below 70 dollars per barrel showing the volatility in the market. In the International market, despite some increases in activity, there continues to be an excess of service company capacity causing continued pressure on pricing. As a result, the recovery remains slow, particularly in our Land Drilling business, and we do not anticipate that this will change until investment increases and utilisation levels strengthen. We do believe that the current investment levels will eventually drive a requirement for oil majors to increase recoverable reserves but we would anticipate that this may take some time to fully work its way through the International markets."

Business Review

Group Results

$m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Revenue from business units	348	296	312	938	874
Consolidation adjustments	(2)	(3)	(3)	(8)	(8)
Total Revenue	**346**	**293**	**309**	**930**	**866**
EBITDA from business units	76	51	58	198	170
Consolidation adjustments	0	0	0	0	0
Exchange	0	0	2	0	0
Corporate costs	(5)	(5)	(5)	(15)	(14)
Total EBITDA	**71**	**46**	**55**	**183**	**156**

Land Drilling

The Land Drilling business unit reported EBITDA of $54.1m compared to $35.5m in Q3, 2017 and $33.6m in Q2, 2018.

Land Drilling

$m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Revenue	176	145	123	442	373
EBITDA	54	34	36	133	122

Land Drilling EBITDA in the third quarter was higher than both Q3, 2017 and Q2, 2018. Following the completion of the acquisition of the Dalma businesses in Oman and Saudi Arabia on 30 April 2018 we had a full quarter of contribution from these rigs in the third quarter. However, the result is lower than historic levels due to a significant rig move incident in Saudi Arabia on one of our rigs. This consequently led to all operating rigs being shutdown for part of the quarter by the client, reducing EBITDA by nearly $7m. We responded quickly to this situation and all rigs except one are back on operating rates. The last rig is currently mobilising to restart operations and should be back to work soon. As a result, the legacy Dalma rigs generated EBITDA of $16.5m in Q3, 2018 compared to EBITDA of $11.7m in Q2, 2018 for the 2 month period under KCA Deutag ownership.

Activity in Russia was at a similar level to Q2, 2018 but lower than in Q3, 2017. We continued to have a small number of rigs off contract during the quarter compared to the near full utilisation we experienced during 2017. At the end of the quarter 14 of our 17 rigs in Russia were operating with 2 new contracts starting in the quarter, including a rig we had previously transferred from Algeria.

In Oman, as we noted in our second quarter press release, we were informed by one of our customers that, due to the success of the wells drilled, 2 further rigs in the Khazzan field would be terminated early during the third quarter. As a result we received an early termination fee of $14.1m during the quarter and are now tendering these rigs in the Middle East market and beyond.

In Algeria our utilisation levels remained low with only 2 rigs operating. The results from our Algerian business have reduced compared to both Q2, 2018 and Q3, 2017 as utilisation levels have reduced over the past couple of years. We continue to see tendering opportunities but contract award decisions have generally been delayed.

In Nigeria we had 2 rigs operating during the third quarter generating a positive contribution from this market and reflecting the improved activity compared to Q2, 2018 and Q3, 2017.

Bentec

The Bentec business unit reported an EBITDA of $2.3m compared to EBITDA of $Nil in Q3, 2017 and ($0.7m) in Q2, 2018.

Bentec $m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Revenue	35	11	22	62	54
EBITDA (net of eliminations on consolidation)	2	(1)	0	0	1

During the quarter Bentec continued to manufacture its rig orders for 5 rigs for a customer in the Ukraine and a single rig for a customer in Poland. The first rig has now been delivered to the Ukraine with revenue recognised in the third quarter. We are however in dispute with a major subcontractor for the Ukraine 5 rig project and we have therefore booked a provision under exceptional items in Q3 of 4 million dollars. Bentec has taken this provision on a prudent basis but is taking steps to pursue its rights against the relevant subcontractor and we consider that it is in a strong position in this regard.

Top drive and other component orders have been relatively strong over the past few months. Bentec has a significant backlog in terms of rigs as well as top drive and component orders. It is also continuing to pursue a number of other commercial opportunities as customers seek to restart or refresh their assets.

Offshore Services

The Offshore Services business unit reported EBITDA of $19.4m compared to $22.6m in Q3, 2017 and $16.8m in Q2, 2018.

Offshore Services $m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Revenue	124	127	153	395	404
EBITDA	19	17	23	63	47

Offshore Services Revenue and EBITDA now include the results of the former MODU and Platform Services business segments. Prior periods have also been restated to combine the results of Platform Services and MODUs.

Offshore Services had higher EBITDA than Q2, 2018 but was slightly lower than Q3, 2017. Year to date results are stronger than those generated in 2017.

Our North Sea operations had stronger results than in Q2, 2018 reflecting lower personnel and maintenance costs incurred as well as lower non-productive time and improved incentive bonus achievements. The results were lower than in Q3, 2017 which benefited from higher revenues associated with the mobilisation of the Cat J jack-up rigs from South Korea to Norway.

Our International operations in Angola, Sakhalin, Azerbaijan and Canada performed broadly in line with the second quarter with consistent levels of activity; there was a slight improvement due to higher rates and lower operating costs in some areas. As we mentioned in our second quarter press release we have now formed our new joint venture with Socar AQS known as Turan Drilling & Engineering Company LLC, and continue to believe that this will allow us to maintain and grow our business in the Caspian and Central Asia region.

RDS

The RDS business unit reported EBITDA of $0.1m compared to $Nil in Q3, 2017 and $1.2m in Q2, 2018.

RDS $m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Revenue	13	13	14	40	42
EBITDA	0	1	0	2	1

RDS activity continues at lower levels but this business is seeing increased opportunities to secure new work. EBITDA was lower than in Q2, 2018 due to a reassessment of a provision in the second quarter which lifted earnings in Norway, together with reduced activity on a FEED project for a greenfield platform drilling rig.

Brownfield work in the UK and Caspian was at similar levels to prior quarters.

RDS is continuing to target diversification opportunities in FPSO, Subsea and Wind power sectors where our core skills offer potential to win work.

Corporate Costs/Other

Corporate costs for the three months ended 30 September 2018 were $4.5m compared to $4.7m in Q2, 2018 and $4.8m in Q3, 2017.

There was an exchange loss of $0.4m in Q3, 2018 compared to a loss of $0.2m in Q2, 2018 and a gain of $1.5m in Q3, 2017.

Cashflow

$m	Q3 2018	Q2 2018	Q3 2017	2018 YTD	2017 YTD
Cash flow from operating activities	(4)	1	40	51	58
Cash flow from investing activities	(8)	(447)	(5)	(458)	(34)
Interest paid	(17)	(63)	(14)	(93)	(79)
Foreign exchange	(2)	(4)	(8)	(10)	(16)
Net cash flow before debt (draw down)/repayment	**(31)**	**(513)**	**13**	**(510)**	**(71)**
Draw down (repayment) of debt - incl arrangement fees paid	(6)	431	(6)	418	(10)
Net cash flow	**(37)**	**(82)**	**7**	**(92)**	**(81)**

Cashflow from operating activities in Q3, 2018 was an outflow of $3.9m compared to an inflow of $0.8m in Q2, 2018 and an inflow of $40.4m in Q3, 2017. During the third quarter there was an increase in receivables associated with the invoicing by Bentec of the first Ukrainian rig, and the early termination fee for 2 of our rigs in Oman with the cash for both of these being collected in the fourth quarter. Inventories at Bentec were higher due to work in progress increasing further during the quarter with the ongoing construction of 4 further rigs for the Ukraine and a single rig for Poland, together with higher component order activity across a range of customers. Payables decreased due to the bi-monthly phasing of payment of payroll taxes and social charges in Norway and the unwind of deferred income.

Cashflow from investing activities was an outflow of $8.1m in Q3, 2018 compared to $447.0m in Q2, 2018 and $4.5m in Q3, 2017. During the second quarter we completed the acquisition of the Omani and Saudi Arabian businesses of Dalma Energy LLC resulting in the large cash outflow associated with the cash consideration and repayment of debt. Capital expenditure in Q3, 2018 was $13.4m compared to $12.2m in Q2, 2018 and $9.5m in Q3, 2017.

Interest paid in Q3, 2018 was $16.7m compared with $62.8m in Q2, 2018 and $14.3m in Q3, 2017. This reflects the 6 monthly phasing of cash interest on our loan notes.

Overall net cashflow before draw down or repayment of debt was an outflow of $31m in Q3, 2018 compared to an outflow of $513m in Q2, 2018 and an inflow of $13m in Q3, 2017.