



Interim Financial Statements

KCA Deutag Alpha Limited

For the twelve months ended 31 December 2018

UNAUDITED

Table of contents

Consolidated income statement	3
Consolidated statement of changes in shareholder's equity	3
Consolidated balance sheet	4
Consolidated cash flow statement	5
Notes to the quarterly financial statements	6
1. Significant accounting policies	6
1.1 Compliance with IAS 34	6
1.2 Basis of preparation	6
2. Segment reporting	7
3. Net finance costs	7
4. Exceptional items	8
5. Reconciliation of net debt	9
6. Tangible fixed assets	9
7. Intangible assets	10
8. Trade and other receivables	10
9. Trade and other payables	10
10. Cash generated from operating activities	11

UNAUDITED

Consolidated income statement

		Q4 2018 YTD	Restated Q4	Q4 2018	Restated
	Note	\$m	2017 YTD	\$m	Q4 2017
			\$m		\$m
Sales	2	1,262.6	1,166.2	332.8	300.2
Operating costs		(1,008.7)	(944.7)	(261.5)	(234.4)
EBITDA	2	253.9	221.5	71.3	65.8
Depreciation/Amortisation		(194.3)	(147.7)	(59.2)	(36.9)
Operating profit (pre-exceptional)		59.6	73.8	12.1	28.9
Exceptional items, net operating costs	4	(18.7)	(6.4)	(7.9)	(5.9)
Exceptional items, impairment of other non-current assets	4	(35.4)	-	(35.4)	-
Operating profit (post-exceptional)		5.5	67.4	(31.2)	23.0
Net finance costs	3	(220.7)	(195.0)	(56.6)	(39.1)
Loss before tax		(215.2)	(127.6)	(87.8)	(16.1)
Taxation		(26.6)	(9.0)	(6.9)	12.6
Loss after tax		(241.8)	(136.6)	(94.7)	(3.5)

Consolidated statement of changes in shareholder's equity

	Share capital	Share premium	Retained earnings	Other reserves	Total
	\$m	\$m	\$m	\$m	\$m
At 1 January 2018	-	14.2	(2,241.4)	2,180.0	(47.2)
Comprehensive (expense) income					
Loss for the period	-	-	(241.8)	-	(241.8)
Other comprehensive (expense) income					
Exchange differences on foreign operations	-	-	-	(7.2)	(7.2)
Actuarial gains on defined benefit plans	-	-	4.0	-	4.0
Total other comprehensive (expense) income	-	-	4.0	(7.2)	(3.2)
Total comprehensive (expense) income	-	-	(237.8)	(7.2)	(245.0)
Transactions with owners					
Dividend to minority shareholder	-	-	(0.3)	-	(0.3)
Non controlling interest	-	-	-	5.7	5.7
Equity contribution in relation to Dalma acquisition	-	213.6	-	-	213.6
At 31 December 2018	-	227.8	(2,479.5)	2,178.5	(73.2)
At 31 December 2017 as restated	-	14.2	(2,241.4)	2,180.0	(47.2)

UNAUDITED

Consolidated balance sheet

	Note	Q4 2018 \$m	Restated Q4 2017 \$m
ASSETS			
Non-current assets			
Property, plant and equipment	6	981.2	753.0
Goodwill		773.5	550.9
Intangible assets	7	135.8	90.5
Investments		0.3	2.7
Deferred tax assets		58.3	55.4
		1,949.1	1,452.5
Current assets			
Inventories and work-in-progress		166.1	107.8
Trade and other receivables	8	272.6	267.7
Amounts owed by parent company		7.2	3.9
Financial assets - derivative financial instruments		0.1	1.1
Cash at bank		182.5	108.3
		628.5	488.8
Total assets		2,577.6	1,941.3
Liabilities			
Current liabilities			
Bank overdraft		(63.7)	-
Trade and other payables	9	(283.7)	(245.2)
Tax liabilities		(40.1)	(34.2)
Financial liabilities - derivative financial instruments		-	(0.3)
Financial liabilities - borrowings		(142.0)	(27.5)
Provisions and other payables		(1.4)	(1.6)
		(530.9)	(308.8)
Non-current liabilities			
Deferred income		(12.3)	(17.1)
Financial liabilities - borrowings		(1,684.6)	(1,258.2)
Amounts owed to parent company		(234.0)	(216.7)
Deferred tax liabilities		(63.1)	(49.3)
Retirement benefit obligations		(122.5)	(133.3)
Provisions and other non-current liabilities		(3.4)	(5.1)
		(2,119.9)	(1,679.7)
Total liabilities		(2,650.8)	(1,988.5)
Net (liabilities) assets		(73.2)	(47.2)
Capital and reserves			
Share capital		-	-
Share premium reserve		227.8	14.2
Other reserves		2,178.5	2,180.0
Retained earnings (deficit)		(2,479.5)	(2,241.4)
Total shareholders' (deficit) surplus		(73.2)	(47.2)

UNAUDITED

Consolidated cash flow statement

		Q4 2018 YTD	Restated Q4	Q4 2018	Restated
		\$m	2017 YTD	\$m	Q4 2017
			\$m		\$m
Cash flows from operating activities					
Cash generated from operations	10	159.7	176.3	84.3	93.5
Tax paid		(27.3)	(30.0)	(3.2)	(5.3)
Net cash inflow from operating activities		132.4	146.3	81.1	88.2
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired		(440.2)	-	-	-
Capital expenditure		(43.6)	(60.0)	(9.5)	(9.5)
Proceeds from sale of property, plant and equipment		2.0	1.6	1.2	0.9
Purchase of intangible assets		(2.4)	(2.9)	(1.0)	(1.4)
Investment in joint venture		(0.5)	-	-	-
Interest received		23.5	22.6	5.8	5.7
Net cash outflow from investing activities		(461.2)	(38.7)	(3.5)	(4.3)
Cash flows from financing activities					
Increase in loan from parent		-	25.0	-	-
Bank loan drawdowns/repayments		148.1	(20.6)	105.9	(4.5)
Repayment of senior secured notes		-	(500.0)	-	-
New senior secured notes (net of original issue discount)		400.0	527.3	-	-
Arrangement fees paid		(22.0)	(16.0)	(0.7)	(0.4)
Interest paid, including capitalised interest		(171.6)	(132.5)	(78.2)	(53.3)
Costs incurred on early redemption of 2018 Senior Secured Notes		-	(27.8)	-	-
Finance lease payments		(2.3)	(3.7)	0.1	(0.9)
Dividend paid to minority shareholders		(0.3)	(0.3)	-	-
Net cash in (out) flow from financing activities		351.9	(148.6)	27.1	(59.1)
Effect of foreign exchange rate changes on cash and bank overdrafts		(12.6)	(12.6)	(2.2)	2.9
Net cash in (out) flow		10.5	(53.6)	102.5	27.7
Cash and cash equivalents at start of period		108.3	161.9	16.3	80.6
Cash and cash equivalents at end of period		118.8	108.3	118.8	108.3

UNAUDITED

Notes to the Quarterly Financial Statements

1. Significant Accounting Policies

1.1 COMPLIANCE WITH IAS 34

These condensed quarterly consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not contain all the disclosures required for annual financial statements and should therefore be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

1.2 BASIS OF PREPARATION

1.2.1 General principle

The preparation of these condensed quarterly financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement, complexity or areas where assumptions and estimates are significant to the condensed quarterly consolidated financial statements are disclosed in Note 1.2.2.

1.2.2 Accounting estimates and judgements

Accounting estimates and underlying assumptions are based on past experience and other factors considered reasonable under the circumstances.

They serve as the basis for any judgement required for determining the carrying amounts of assets and liabilities when such amounts cannot be obtained directly from other sources.

Actual amounts may differ from these estimates.

The main sources of uncertainty relating to estimates used to prepare the interim consolidated financial statements were the same as those described in the full year 2018 consolidated financial statements.

1.2.3 Prior period adjustments

An adjustment of \$11.6 million has been made to prior quarter reorganisation costs related to the treatment of fees incurred in relation to the acquisition of Dalma. \$8.6 million of costs, which had been capitalised to debt and equity issuance in Q2 2018, have now been pushed back into 2017 as a result of a prior year adjustment to the year ended 2017 results to capitalise these qualifying transaction costs in accordance with IFRS 9. An adjustment has also been made to expense \$3.0 million of non qualifying costs incurred in 2018 which had previously been capitalised.

UNAUDITED

2. Segment reporting

In 2018 KCA Deutag had 4 Business Units. Following the gradual reduction in significance of our mobile offshore drilling units to our overall business, and the transition of day to day management of the residual activities to Platform Services, the results of the mobile offshore drilling units are now combined with the Platform Services business and now reported as Offshore Services.

	Q4 2018 YTD	Restated Q4 2017 YTD	Q4 2018	Restated Q4 2017
		\$m	\$m	\$m
Revenues				
Land Drilling	601.8	496.4	160.1	123.4
Bentec	107.3	73.3	45.8	19.1
Offshore Services	511.9	549.2	116.9	145.1
RDS	52.2	57.5	12.4	15.2
Corporate costs/other	0.6	0.6	0.2	0.3
Elimination on consolidation	(11.2)	(10.8)	(2.6)	(2.9)
GROUP TOTAL	1,262.6	1,166.2	332.8	300.2
EBITDA (pre-exceptional)				
Land Drilling	183.3	164.4	49.9	42.4
Bentec	3.8	-	3.8	(0.5)
Offshore Services	84.5	73.2	21.7	26.5
RDS	2.4	2.1	0.7	1.6
Corporate costs/other	(20.1)	(18.2)	(5.0)	(4.2)
Elimination on consolidation ¹	-	-	0.2	-
GROUP TOTAL	253.9	221.5	71.3	65.8

¹ Eliminations on consolidation principally relate to profits generated by Bentec on sales to Land Drilling and to support the Group's capital expenditure programme.

3. Net finance costs

	Q4 2018 YTD	Q4 2017 YTD	Q4 2018	Q4 2017
	\$m	\$m	\$m	\$m
Interest payable to immediate parent company	(29.4)	(25.0)	(7.6)	(6.7)
Interest payable on bank borrowings	(34.5)	(25.2)	(9.7)	(6.6)
Interest payable on Senior Secured Notes	(108.0)	(79.1)	(29.6)	(20.1)
Finance costs on finance leases	-	(0.7)	0.2	(0.1)
Amortisation of arrangement fees	(8.0)	(11.6)	(2.3)	(1.7)
Amortisation of discount assets	(1.8)	(7.9)	(0.4)	(0.4)
Write off of prior refinancing fees	(3.5)	-	-	-
Write off of prior arrangement fees	(1.4)	-	-	-
Costs incurred on early redemption of 2018 Senior Secured Notes	-	(27.8)	-	-
Interest on revolving credit facility	(0.5)	-	(0.5)	-
Other finance costs	(18.4)	(12.4)	(5.3)	(2.0)
Finance costs	(205.5)	(189.7)	(55.2)	(37.6)
Finance income	2.5	2.9	0.3	0.1
Exchange (losses) gains	(17.7)	(8.2)	(1.7)	(1.6)
Finance costs – net	(220.7)	(195.0)	(56.6)	(39.1)

UNAUDITED

4. Exceptional items

	Q4 2018 YTD	Restated Q4	Q4 2018	Restated
	\$M	2017 YTD	\$m	Q4 2017
		\$m		\$m
Reorganisation costs ¹	(10.6)	(0.6)	(0.9)	(0.1)
Acquisition of share of International Drilling Technology LLC ("IDTEC") ²	2.6	-	(0.2)	-
Supplier dispute ³	(10.7)	-	(6.8)	-
Libya operations ⁴	0.3	0.1	0.3	0.1
Provision in respect of Mexican standby letter of credit ⁵	-	(4.7)	-	(4.7)
Others ⁶	(0.3)	(1.2)	(0.3)	(1.2)
GROUP TOTAL	(18.7)	(6.4)	(7.9)	(5.9)

1) Reorganisation costs primarily relate to the Group's cost reduction, restructuring and redundancy expenditure along with professional fees associated with the Group's strategic activities looking at potential mergers and acquisitions. The charge of \$10.6 million in 2018 mainly arose from the costs incurred in respect of the integration of the newly acquired Dalma business as well as certain transaction costs. See note 1.2.3 which describes details of prior period adjustments.

2) During 2018 the Group acquired additional shares in International Drilling Technology LLC (IDTEC) to give the Group a controlling interest in the IDTEC business. A gain of \$2.6m has arisen from IDTEC being accounted for as a subsidiary rather than as an associate.

3) The Group has booked a charge of \$10.7 million in Bentec relating to a dispute with a sub-supplier in the Ukraine, together with certain other related costs.

4) A credit to the Income Statement of \$0.3 million in 2018 recorded for the gain on sale of the T-107 in Libya. In 2017, \$0.1million was recovered for monies received in respect of assets previously written down due to political unrest in prior years and the decision to cease operations in Libya.

5) \$4.7 million provision arising in 2017 from an adverse court decision in Mexico not to award repayment of funds paid under a standby letter of credit in 2014. This was associated with a contract entered into by the Global Tender Barges business which was acquired by KCA Deutag in 2011 and subsequently sold.

6) Other exceptional items are principally in respect of legal fees relating to receivables collections and various other non-recurring project items.

Impairment charge

As a result of its annual review of the carrying values of its assets, the Group has recognised a \$35.4 million exceptional impairment charge during 2018 in respect of the carrying value of goodwill in its RDS Business Unit, based on the recoverable amount of the RDS Business Unit being less than the carrying value of its net assets at the year end.

UNAUDITED

5. Reconciliation of net debt

	Q4 2018 YTD \$m	Q4 2017 YTD \$m	Q4 2018 \$m	Q4 2017 \$m
Opening net debt	(1,177.4)	(1,117.2)	(1,703.4)	(1,208.7)
Net cash in (out) flow	10.5	(53.6)	102.5	27.7
Repayment / (Drawdown) of debt	(545.8)	(3.0)	(106.0)	5.4
Other non-cash movements	4.9	(3.6)	(0.9)	(1.8)
Closing net debt per balance sheet	(1,707.8)	(1,177.4)	(1,707.8)	(1,177.4)
Capitalised arrangement fees	(41.2)	(33.8)	(41.2)	(33.8)
Closing net debt	(1,749.0)	(1,211.2)	(1,749.0)	(1,211.2)

KCA Deutag Alpha Limited, their affiliates or other related parties may or may not opportunistically purchase debt in one or more series of open-market transactions from time to time.

6. Tangible fixed assets

	Land and buildings – long leasehold and freehold \$m	Drilling rigs and equipment \$m	Plant, machinery and vehicles \$m	Total \$m
Cost				
At 1 January 2018	31.4	1,489.2	92.3	1,612.9
Additions at cost	0.2	42.5	0.9	43.6
Additions arising from acquisition of Dalma and IDTEC business	7.6	356.3	3.4	367.3
Disposals	-	(15.2)	(0.7)	(15.9)
Exchange adjustments	(0.7)	(5.0)	(2.8)	(8.5)
At 31 December 2018	38.5	1,867.8	93.1	1,999.4
Accumulated depreciation				
At 1 January 2018	6.6	847.6	5.7	859.9
Charge for the period	1.5	173.7	4.0	179.2
Disposals	-	(14.8)	(0.5)	(15.3)
Exchange adjustments	(0.2)	(3.0)	(2.4)	(5.6)
At 31 December 2018	7.9	1,003.5	6.8	1,018.2
Net carrying amount				
At 31 December 2018	30.6	864.3	86.3	981.2
Net carrying amount At 31 December 2017	24.8	641.6	86.6	753.0

Additions arising from the acquisition of the Dalma businesses represents the net book value of fixed assets acquired as a result of the acquisition of the former Dalma businesses in Oman and Saudi Arabia on 30 April 2018.

On the 26th September 2018 the Group acquired additional shares in IDTEC to give the Group a controlling interest in the IDTEC business which resulted in IDTEC being accounted for as a subsidiary rather than as an associate.

UNAUDITED

7. Intangible assets

	Customer relationships and contracts \$m	Trade name \$m	Technology \$m	Total \$m
Cost				
At 1 January 2018	196.0	176.3	41.2	413.5
Additions arising on acquisition	58.4	-	-	58.4
Additions	-	-	2.4	2.4
Exchange	-	-	(1.4)	(1.4)
At 31 December 2018	254.4	176.3	42.2	472.9
Accumulated amortisation				
At 1 January 2018	196.0	95.6	31.4	323.0
Charge for the period	2.7	7.9	4.5	15.1
Exchange	-	-	(1.0)	(1.0)
At 31 December 2018	198.7	103.5	34.9	337.1
Net carrying amount				
At 31 December 2018	55.7	72.8	7.3	135.8
Net carrying amount At 31 December 2017	-	80.7	9.8	90.5

8. Trade and other receivables

	Q4 2018 \$m	Restated Q4 2017 \$m
Trade receivables	237.5	236.2
Other receivables	19.6	24.5
Prepayments and accrued income	8.1	3.7
Contract assets	7.4	3.3
Total	272.6	267.7

9. Trade and other payables

	Q4 2018 \$m	Restated Q4 2017 \$m
Trade payables	80.1	38.5
Other tax and social security	13.7	17.2
Other payables	48.2	46.6
Accruals	124.8	96.9
Payments received on account	4.1	28.5
Deferred income	12.8	17.5
Total	283.7	245.2

UNAUDITED

10. Cash generated from operating activities

	Q4 2018 YTD	Restated Q4 2017 YTD	Q4 2018	Restated Q4 2017
	\$m	\$m	\$m	\$m
(Loss) profit for the period	(241.8)	(136.6)	(94.7)	(3.5)
Adjustments for:				
Tax charge	26.6	9.0	6.9	(12.6)
Depreciation	179.2	133.2	56.1	33.3
Amortisation of intangible assets	15.1	14.5	3.1	3.6
Impairment of goodwill	35.4	-	35.4	-
Loss (gain) on sale of property, plant and equipment	(3.8)	(1.0)	(0.4)	(0.6)
Net movement in provisions, other liabilities and retirement benefit obligations	(4.3)	5.9	(0.7)	0.4
Net finance cost	220.7	195.0	56.6	39.1
Share of results of associates	0.3	(0.2)	(0.2)	(0.1)
Other investments	-	(0.1)	-	(0.1)
(Increase)/decrease in inventories and work in progress	(32.4)	(1.5)	12.2	6.0
Decrease/(increase) in trade and other receivables	48.4	(27.5)	30.2	6.2
(Decrease)/increase in trade and other payables	(70.9)	(24.6)	(16.0)	28.8
Exchange differences from operating activities	(12.8)	10.2	(4.2)	(7.0)
Cash generated from operating activities	159.7	176.3	84.3	93.5