For immediate release	

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

Results for the three months ended 30 June 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 June 2018, reporting EBITDA of $45.9m.

Highlights

- Second quarter revenues of $292.8m (2017: $287.5m)
- Group Q2 2018 EBITDA of $45.9m (2017: $50.9m)
- Ongoing integration of the Omani and Saudi Arabian businesses of Dalma Energy LLC following the acquisition completed on 30 April 2018
- Expansion into the Kuwait market following multi-million dollar contract award
- Agreement signed with Socar AQS to form a joint venture in Azerbaijan to further develop and grow our operations in the Caspian
- Contract backlog of $6.3bn across a blue chip customer base
- Available liquidity of $177.6m at 30 June 2018

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

“The second quarter EBITDA was lower than in the first quarter which benefited from a number of one off upsides. Overall performance was slightly disappointing, particularly in our Land Drilling business where utilisation was lower than Q1, 2018.

The integration of the Dalma business into KCA Deutag is progressing to plan, with synergies already being recognised and secured.

We are pleased to announce that KCA Deutag will be entering the Kuwait market, having been awarded a multi-million dollar contract. Working with our Kuwaiti partner and representative, the Action Group, KCAD will supply and operate two drilling rigs for an initial term of five years, commencing in Q3 2019 with a one year extension option. The expansion into Kuwait is an important development for the group, further increasing our presence in the Middle East region.

In July, our Offshore Services business unit signed a joint venture agreement with Socar AQS that will target existing and future opportunities in the offshore and onshore Caspian drilling and engineering market

Our contract backlog has remained steady at $6.3bn at 1 August 2018, having benefitted from contract wins across most of our business units.

We had strong liquidity at the end of the quarter, with $177.6m available under undrawn facilities, after completion of the Dalma acquisition.

Whilst Brent oil prices remain above $70 per barrel, they have fallen back over the last three months, leading to some suffering of market sentiment. As a result of this, the recovery continues to lack momentum and as we reported in Q1, 2018, whilst tendering activity remains high, conversion into contracts remains challenging.

Overall performance in the second quarter was lower than the prior quarter however as a business we believe that the longer term fundamentals remain robust. Our acquisition of the Dalma business in Oman and Saudi Arabia gives us a key strategic positioning in the core Middle East markets, further strengthened by our entry into Kuwait. The signing of the joint venture agreement in Azerbaijan secures our longer term position in the Caspian Region market, and should allow us to grow and develop this further in the future."

Business Review

Revenue and EBITDA

$m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Revenue from business units	296	294	291	591	562
Consolidation adjustments	(3)	(3)	(3)	(7)	(5)
Total Revenue	**293**	**291**	**288**	**584**	**557**
EBITDA from business units	51	71	57	122	112
Consolidation adjustments	0	0	0	0	0
Exchange	0	0	(1)	0	(1)
Corporate costs	(5)	(5)	(5)	(10)	(10)
Total EBITDA	**46**	**66**	**51**	**112**	**101**

Land Drilling

The Land Drilling business unit reported EBITDA of $33.6m compared to $43.5m in Q2, 2017 and $45.7m in Q1, 2018.

Land Drilling

$m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Revenue	145	120	128	**266**	**250**
EBITDA	34	46	44	**79**	**87**

Land Drilling EBITDA in the second quarter was lower than in both Q2, 2017 and Q1, 2018. In Q2, 2018 we completed the acquisition of the Dalma businesses in Oman and Saudi Arabia with these rigs contributing $11.7m of EBITDA in the quarter. This lower figure represents only two months of Dalma EBITDA which was impacted by one rig undergoing its five-year maintenance overhaul, some operational downtime, as well as one rig coming off contract at the start of Q2, 2018.

In Oman we benefited from a $7.5m early termination fee in the first quarter, and subsequent to the end of the second quarter we have been informed by our customer that, due to the success of the wells drilled, 2 further Khazzan rigs will be terminated early which we expect to be during the third quarter. We will receive an early termination fee for these cancelled rigs and are already actively bidding these rigs for other opportunities. We have already re-contracted the rig which was terminated in the first quarter with a new client and it will start up in Q3, 2018.

In Saudi Arabia, as a result of the Dalma acquisition, we now have 8 operating rigs. We are already working on a number of tendering opportunities and are hopeful that we can grow our presence in this market.

In Russia we had a small number of rigs which were off contract during Q2, 2018 resulting in lower results in this region. We are tendering for some opportunities to put these rigs back to work, however this is likely to be later in the year once the winter roads re-open.

In Algeria our utilisation levels have reduced over the past 12 months with Q2, 2018 EBITDA lower than both Q1, 2018 and Q2, 2017. One of the rigs operating in Q2, 2017 has now been moved to Russia where it began drilling in August. We have also recently been awarded a new 2 year contract with additional option periods for one of our rigs which will commence operations in September. There are a number of other tendering opportunities which are ongoing.

In Nigeria activity levels remain low although we are currently mobilising a second rig to start operations in the third quarter. Q1, 2018 benefited from sums received from a client which had previously been provided against.

Bentec

The Bentec business unit reported an EBITDA of ($0.7m) compared to EBITDA of $0.2m in Q2, 2017 and ($1.6m) in Q1, 2018.

Bentec

$m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Revenue	11	15	16	**26**	**32**
EBITDA (net of eliminations on consolidation)	(1)	(2)	0	**(2)**	**1**

Bentec is currently in the process of manufacturing its rig orders for 5 rigs for a customer in the Ukraine and a single rig for a customer in Poland. Under the new revenue recognition standard IFRS 15 revenue and profits on these orders will be recognised on delivery rather than on a percentage of completion basis used previously. We expect to see an improvement in profitability as we start to deliver the rigs.

After sales tendering activity has improved over the last few months with component sales continuing at a consistent level. Bentec currently has a reasonable backlog of top drive orders with additional potential orders in the pipeline.

Offshore Services

The Offshore Services business unit reported EBITDA of $17.0m compared to $12.9m in Q2, 2017 and $26.6m in Q1, 2018.

Offshore Services $m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Revenue	127	144	132	**271**	**251**
EBITDA	17	27	13	**43**	**24**

Offshore Services, adjusting for a one off positive $12.0m impact in Q1, 2018 as a result of the settlement for long overdue amounts in our former MODU business, had higher EBITDA than both Q1, 2018 and Q2, 2017. This improvement was not the result of a single country operation with most locations delivering steady or improved levels of performance.

Our Norwegian operations had higher EBITDA than in Q2, 2017 and in line with that experienced in the first quarter. The year on year improvement was as a result of the start up of operations on the 2 new CAT J jack-up rigs. Both of these rigs are now fully operational and performing well for our client. In June we were re-awarded the drilling contract on 2 platforms for Total E&P UK Limited for an initial term of 3 years.

Performance in Azerbaijan has remained strong. In July we announced that we had reached an agreement to form a joint venture with Socar AQS in Azerbaijan to be known as Turan Drilling & Engineering Company LLC. We believe that this will allow us to maintain and grow our business in the Caspian as well as other parts of the Central Asia region. In Sakhalin activity levels have remained consistent quarter on quarter.

RDS

The RDS business unit reported EBITDA of $1.2m compared to ($0.1m) in Q2, 2017 and $0.4m in Q1, 2018.

RDS $m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Revenue	13	15	14	**27**	**29**
EBITDA	1	0	0	**2**	**1**

RDS activity has continued at relatively low levels with limited opportunities to secure new work, particularly new greenfield projects. EBITDA was higher than in the first quarter with improved results in Norway which benefited from the reassessment of a provision. During the quarter we continued to work on some front end evaluation and design work for a greenfield platform drilling rig.

Brownfield work in the UK and the Caspian was at similar levels to the prior quarters but we did see lower activity in Canada.

Corporate Costs/Other

Corporate costs for the three months ended 30 June 2018 were slightly lower than in Q1, 2018 largely due to incentive pay accruals.

There was an exchange loss of $0.2m in Q2, 2018 compared to a gain of $0.3m in Q1, 2018 and a loss of $0.8m in Q2, 2017.

Cashflow

$m	Q2 2018	Q1 2018	Q2 2017	2018 YTD	2017 YTD
Cash flow from operating activities	1	54	5	55	18
Cash flow from investing activities	(447)	(3)	(29)	(450)	(30)
Interest paid	(63)	(14)	(50)	(77)	(65)
Foreign exchange	(4)	(4)	(5)	(8)	(7)
Net cash flow before debt (draw down)/repayment	**(513)**	**33**	**(79)**	**(480)**	**(84)**
Draw down (repayment) of debt - incl arrangement fees paid	431	(6)	3	425	(4)
Net cash flow	**(82)**	**27**	**(76)**	**(55)**	**(88)**

Cashflow from operating activities in Q2, 2018 was $0.8m compared to $54.4m in Q1, 2018 and $4.8m in Q2, 2017. The variances during the quarter are largely driven by the working capital outflow of $34.5m. This was mainly attributable to an increase in inventory and work in progress as Bentec continued to build the current 6 rig orders, as well as a reduction in payables as a result of incentive payments being made, the unwind of deferred income and the phasing of payroll in Norway with annual holiday payments made in the second quarter. This was partially offset by a reduction in receivables and the unwind of prepayments. When comparing to Q1 2018, the working capital movement was positively impacted by the collection of the $41.9m aged receivable in Angola in February.

Cashflow from investing activities was an outflow of $447.0m in Q2, 2018 compared to $2.6m in Q1, 2018 and $28.7m in Q2, 2017. During the second quarter we completed the acquisition of the Omani and Saudi Arabian businesses of Dalma Energy LLC therefore the majority of this outflow relates to the payment of the cash consideration and the repayment of Dalma debt. Capital expenditure was $12.2m in Q2, 2018 compared to $8.5m in Q1, 2018 and $34.6m in Q2, 2017. The capital expenditure in Q2, 2017 included the acquisition of a rig for $25m which was previously owned above KCA Deutag Alpha Limited.

Interest paid in Q2, 2018 was $62.8m compared with $13.9m in Q1, 2018 and $50.0m in Q2, 2017. Cash interest costs were higher in Q2, 2018 than the first quarter due to the 6 monthly phasing of interest on our loan notes, and higher than the prior year quarter due to consent fees associated with the issuance of new debt in the quarter, and phasing of Term Loan B interest.

Draw down of debt in the quarter includes $400m of proceeds from the issuance of new senior secured notes due 2023, together with an upsizing in our Term loan B and is net of transaction fees.