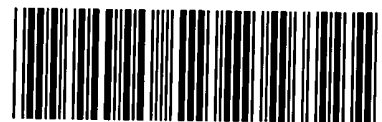


**SET Drilling Company Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2016**

**Registered Number SC167498**

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**SET Drilling Company Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2016**  
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# **SET Drilling Company Limited**

## **Corporate Information**

### **Board of Directors**

G Paver

N McKay

A Byrne

### **Registered office**

KCA Deutag

Group Headquarters

Bankhead Drive

City South Office Park

Portlethen

Aberdeenshire

Scotland

AB12 4XX

### **Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

The Capitol

431 Union Street

Aberdeen

AB11 6DA

# **SET Drilling Company Limited**

## **Strategic and Operating Review**

The Directors present their Strategic and Operating Review of the Company for the year ended 31 December 2016.

### **Review of the Business**

The Company is a wholly owned subsidiary undertaking of KCA DEUTAG GmbH. The ultimate parent company is KCAD Holdings I Limited.

References to the Group are in relation to KCAD Holdings I Limited. Please refer to note 20 for further information.

The Company's principal activities are the provision of onshore drilling services. In the future we expect the Company to secure new contracts and continue operations as described above.

As shown on the Company's Profit and Loss Account on page 12, the Company's turnover was \$12,991k (2015: \$8,987k). The operating profit of the Company was \$808k (2015: \$53k).

### **Development and Performance during the financial year and Market Dynamics**

On 17 March 2015, the Dubai branch of the Company signed a contract with Dubai Petroleum Establishment to drill three firm wells in Dubai with rig T-202, with the option to drill two further wells. Operations commenced on 2<sup>nd</sup> September 2015 with the contract earning a strong operating day rate given the downturn in the industry, however the drilling contract ended on 11<sup>th</sup> August 2016 and the provision of other support services, including catering and well test camp rental, ceased in October 2016. At today's date the rig is stacked in the United Arab Emirates but continues to be marketed in what is still a very depressed market.

Looking forward the business outlook is still uncertain but there are early signs of optimism and the belief that the bottom of the downturn is now behind us. Whilst the shape of any recovery is unclear it is unlikely that we will see a rapid rebound given the significant excess supply of equipment and personnel in the market. Risks remain in the wider geopolitical environment and it may take some time for the broader market confidence to return.

Within this difficult environment we believe that the fundamentals of our business remain strong in the long term. Over the past 2 years we have had to make many difficult decisions, but we believe that these were necessary to ensure the long term success of the business and that as a result, we will emerge stronger once the recovery comes. We continue to remain focused on what we can control as a business. We must strive for best in class service delivery with exceptional safety performance and we must work with our employees and other stakeholders to be as efficient and cost effective as we can.

### **Principal Risks and Uncertainties**

The undernoted principal risks and uncertainties are monitored at Group level and are not specific to SET Drilling Company Limited.

#### **Market risk**

The Group operates in the oil and gas sector which is a market driven, cyclical industry where activity is closely correlated with the market prices for oil and gas. Changes in these prices may lead to an increase or decrease in our activity levels. From mid-2014 and continuing through 2015 and 2016 we saw a rapid and sustained reduction in market prices for oil and gas which has reduced activity throughout the industry as new projects are cancelled or delayed. Often in these circumstances we also see an increase in litigation and customer claims as clients attempt to minimise their costs and manage budgets.

# SET Drilling Company Limited

## Strategic and Operating Review (continued)

### Market risk (continued)

We mitigate the impact of this risk through endeavouring to secure longer term contracts with our clients where possible together with contractual protection for early termination. Many of our clients own oil and gas assets where the lifting costs are at the lower end of the spectrum and hence are still able to make positive returns even at lower energy prices. Most of our activity is in the eastern hemisphere where the economic cycles have historically been less volatile than in the western hemisphere. Where possible we employ a flexible resourcing model so that we are able to change manning levels as activity changes. Each of our business units has different exposure and sensitivity to changes in energy prices with RDS and Bentec being the most susceptible to reduced activity as their work is generally linked to new capex spend by our clients.

We operate a governance structure which aims to ensure that potential risks on contracts and projects are identified through review and challenge prior to execution. Our internal commercial and legal processes ensure that deviations to standard contracting principles must have the appropriate review and approval prior to commitment. This, together with robust record retention processes, provides us with the ability to rigorously defend commercial claims as and when they arise.

### Financial risk

Our operations and growth plans require access to capital to allow the Group to grow and manage the changes in business activity levels over time. The Group is financed through a combination of equity and debt. At the year end the Group has total net debt of \$1,117 million which requires to be refinanced periodically.

Where possible the Group seeks to secure long term debt financing which provides access to funds for a number of years into the future. Current secured debt facilities for example have no significant capital repayments required until 2021. The Group has sought to diversify its access to debt markets away from wholly traditional bank debt towards institutional debt by way of the corporate bond markets. The Group will seek to refinance these debt facilities as repayment dates get closer and opportunities arise to take advantage of market conditions. The Group also seeks to secure debt facilities with a light covenant structure and monitors these closely. Periodic reviews of fixed rate and variable rate interest rate exposures are also made with the aim of maintaining a balance between the two.

The Group also works closely with its principal shareholders to discuss potential future financing requirements. All significant growth capital expenditure is approved by the Board. In the past our shareholders have supported the Group through the injection of additional equity to support growth plans.

During the year we obtained additional loan funding of \$80 million secured against certain assets and contract cash flows in Oman. This provides KCA Deutag with significant additional flexibility and liquidity headroom to help navigate through the current market downturn and period of uncertainty. At the year end available liquidity in cash and undrawn facilities was \$262.1 million.

Subsequent to the year end the Group announced the successful issuance of an offering of \$535 million of 9<sup>7</sup>/<sub>8</sub>% Senior Secured Notes due 2022. The proceeds from this offering were used to redeem in full \$500 million of Senior Secured Notes due May 2018. In addition the Group also obtained consents from lenders under the Senior Facilities Agreement to amend certain terms including the resetting of certain financial covenant levels, as well as a maturity extension of the Revolving Credit Facility tenor and an increase in size of the Revolving Credit Facility.

# **SET Drilling Company Limited**

## **Strategic and Operating Review (continued)**

### **Currency related risks**

We carry out our operations in a number of countries and are exposed to currency risk as those currencies become stronger or weaker against the US Dollar. Some of the countries in which we operate are heavily reliant on oil and gas and have historically seen significant exchange rate volatility as a result of commodity price variations. Our financial results are presented in US Dollars and these results are sensitive to either a relative strengthening or weakening against the US Dollar of the major currencies we are exposed to.

The Group employs a number of mechanisms to manage elements of exchange risk at a transaction, translation and economic level. Where possible we will seek to naturally hedge our exposures through matching currency revenue and expenditure which we are able to do by contracting our revenues in either US Dollar or local currency. In some situations, we have been able to hedge our Balance Sheet exposure by matching local currency assets with local currency liabilities. Where this is not possible we may seek to hedge our currency exposures through the purchase of forward contracts. In terms of the overall economic risk we monitor our exposure to all of the key markets in which we operate. We aim to maintain a diversified geographical exposure without being overly reliant on any single country of operation.

### **Business continuity risk**

Many of the key markets in which we operate are potentially at a higher risk of political upheaval. Over the past few years we have witnessed the impact of war and civil unrest in Libya, a terrorist incident in Algeria and the threat of terrorism in Kurdistan. In addition there is the potential threat of political and economic sanctions against certain sovereign states which by their very nature can be both unpredictable and potentially highly disruptive. Over the past 2 years, for example, we have seen certain sanctions imposed against specific types of business activities in Russia.

Certain markets in which we operate are also susceptible to governmental and political influence around contract award, local content requirements and bidding processes which may not always be transparent. We maintain robust processes to ensure that we always follow our own approved guidelines and ethical practices.

Before we enter a new country we carry out risk assessments and third party security reviews. To mitigate risks once operating in each country we have a robust emergency response system to ensure that we are able to move our personnel rapidly and safely in the event of an unplanned incident. We work with specialist third parties to maintain a good understanding of the security risks and how to react in each set of circumstances. Where possible we seek to limit our exposure to higher risk regions such that an emergency in one location does not have a material impact on the ability of the Group to continue operating. In the past we have been able to rapidly redeploy personnel when required and reduce costs in impacted countries to a minimum.

We have access as required to specific legal and compliance expertise associated with export compliance and adherence to sanctions. We work with the various governmental authorities to assist with ensuring compliance and the appropriate awareness of rules and regulations.

# **SET Drilling Company Limited**

## **Strategic and Operating Review (continued)**

### **Ethics and violation of applicable anti-corruption laws**

We are an international business with operations in developing countries and in countries which are high on the Corruption Perceptions Index published by Transparency International. Violation of anti-corruption laws may result in criminal and civil sanctions and could subject us to other liabilities in the UK, the US and elsewhere.

We have policies and procedures designed to assist our compliance with applicable laws and regulations and have trained our employees to comply with such laws and regulations. We have enshrined business integrity as one of our six core values and foster a compliance culture within our operations. We have put in place appropriate governance processes to monitor compliance and seek to continuously improve our systems of internal controls to remedy any weaknesses.

### **Asset integrity & Compliance regime**

We are subject to increasingly stringent laws and regulations relating to environmental protection as well as being exposed to potentially substantial liability claims due to the hazardous nature of our business. An accident or a service failure can cause personal injury, loss of life, damage to property, equipment or the environment, consequential losses or the suspension of operations or possibly the termination of a contract. Furthermore we may be liable for damages resulting from pollution both on land and in offshore waters.

We have put in place robust processes and procedures to support each of the principal activities which we undertake. We seek to employ personnel with the relevant experience, qualifications and competencies and have the appropriate tracking mechanisms to ensure that our staff have demonstrable competencies for each of the tasks that they perform. We have a governance structure which ensures that our compliance with processes is validated periodically and that a culture of continuous improvement is reinforced. We have robust reporting mechanisms to report safety and environmental data at each operating unit and escalation processes to investigate incidents. We have a pre-defined contracting strategy with our clients setting out what exposures are acceptable and escalation mechanisms where we are asked to agree to contractual positions which fall out with these set parameters. We have a comprehensive package of insurance coverage to further protect us from potential claims or incidents.

### **Credit related risk**

Although many of our customers have historically been blue chip international oil companies we also work for national oil companies, as well as independent operators. Because of the significant capital expenditure requirements for our clients to develop oil and gas assets, and the cyclical nature of commodity prices, some of our clients can become financially distressed, particularly in a sustained downturn which we have experienced over the past 2 years. We have also seen some sovereign states heavily dependent upon oil and gas struggling to balance their budgets and consequently being unable to access sufficient foreign currencies such as US Dollars to settle liabilities. In some cases local currencies have become illiquid and very difficult to convert to other currencies. During the course of 2015 and 2016 we have experienced difficulty in Angola in particular from the build-up of local currency cash balances which we have been unable to convert to US Dollars and delays in collection of amounts receivable in US Dollars. This has resulted in an increased level of trapped cash and aged receivables.

# **SET Drilling Company Limited**

## **Strategic and Operating Review (continued)**

### **Credit related risk (continued)**

We seek to mitigate these risks through continuous monitoring of exposures to individual clients as well as overall exposure to particular geographies. Where possible we will seek payments in advance of services and protection via bank guarantee and similar mechanisms. We have robust escalation processes to chase overdue accounts with regular reviews with our senior management team. In some cases we are able to leverage our position to push for the release of payments but where this is not possible early and robust legal processes are used to accelerate a conclusion to the process. We also structure contracts to be paid in US Dollars where possible.

### **Key performance indicators**

The Directors of KCAD Holdings I Limited manage the group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of SET Drilling Company Limited. See note 20 for details of where copies of the Group's financial statements can be obtained.

**On behalf of the Board**



**G Paver**

**Director**

**31 August 2017**



# SET Drilling Company Limited

## Directors' report for the year ended 31 December 2016

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

Further information regarding the Company, including important events and its progress during the year, events since the year end and likely future development is contained in the Strategic and Operating Review on pages 2 to 6. The information that fulfils the requirements of the Strategic and Operating Review (as required the Companies Act 2006), which is incorporated in this Directors' Report by reference, can be found on the following pages of this Annual Report:

Information	Location	Page(s)
Development and performance during the financial year	Strategic and Operating Review	2
Position at the year end including analysis and key performance indicators	Strategic and Operating Review	2, 6
Other performance including environmental and employee matters	Strategic and Operating Review	5
Financial risks facing the business	Strategic and Operating Review	3
Principal risks and uncertainties facing the business	Strategic and Operating Review	2-6
Explanation of amounts included in the financial statements	Notes to the Financial Statements	15-23

### Results

The profit for the financial year from continuing operations transferred to reserves was \$802k (2015: profit \$102k). The Directors do not propose the payment of a final dividend (2015: \$nil).

### Principal risks and uncertainties

The principal risks and uncertainties are discussed within the Strategic and Operating Review on pages 2 to 6. The Company's operational risks are aligned with those faced by the rest of the Group and are disclosed in the Strategic and Operating Review.

### Environment

The Company provides onshore drilling services. In the execution of these services they undertake environmental risk assessments and site appraisals as standard. These assessments are discussed with the client to improve the environmental performance of the operation as a whole, through the preparation and implementation of site specific environmental plans.

### Substantial Shareholdings

The Company's ultimate controlling Company, is PHM Holdco 14 S.a.r.l., which is registered in Luxembourg. PHM Holdco 14 S.a.r.l. is in turn controlled by Pamplona Capital Partners II L.P. At 31 December 2016, the Company's ordinary shares were wholly owned by KCA DEUTAG GmbH.

### Employees

The Company is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through internal newsletters, briefings and well-established formal consultation procedures.

# **SET Drilling Company Limited**

## **Directors' report for the year ended 31 December 2016 (continued)**

### **Employees (continued)**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant. If employees become disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Details of the number of employees and related costs can be found in note 9 to the financial statements on pages 19-20.

### **Directors**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

G Paver  
N McKay  
A Byrne

### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **SET Drilling Company Limited**

## **Directors' report for the year ended 31 December 2016 (continued)**

### **Statement of directors' responsibilities in respect of the financial statements (continued)**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

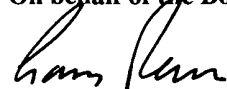
### **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

### **Going Concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the Directors consider that it is appropriate to prepare these financial statements on a going concern basis. Further details are provided in note 2 to the financial statements.

**On behalf of the Board**



**G Paver**

**Director**

**31 August 2017**

# ***Independent auditors' report to the members of SET Drilling Company Limited***

## **Report on the financial statements**

---

### **Our opinion**

In our opinion, SET Drilling Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

### **What we have audited**

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss Account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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## **Opinions on other matters prescribed by the Companies Act 2006**

---

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

---

## **Other matters on which we are required to report by exception**

---

### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept; or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

---

## **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## **Responsibilities for the financial statements and the audit**

---

### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

---

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Kevin Reynard (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Aberdeen  
August 2017

## SET Drilling Company Limited

### Profit and Loss Account for the year ended 31 December 2016

		2016	2015
	Note	\$'000	\$'000
Turnover	5	12,991	8,987
Cost of Sales		(12,183)	(8,934)
<b>Gross Profit</b>		<b>808</b>	<b>53</b>
<b>Operating Profit</b>	6	<b>808</b>	<b>53</b>
Interest receivable and similar income	7	-	56
Interest payable and similar expenses	8	(6)	(7)
<b>Profit before taxation</b>		<b>802</b>	<b>102</b>
Tax on profit	10	-	-
<b>Profit for the financial year</b>		<b>802</b>	<b>102</b>

The results have been derived wholly from continuing operations.

### Statement of comprehensive income for the year ended 31 December 2016

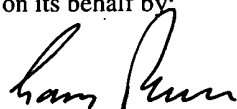
	2016	2015
	\$'000	\$'000
Other comprehensive income	-	-
Profit for the financial year	802	102
<b>Total comprehensive income for the year</b>	<b>802</b>	<b>102</b>

# SET Drilling Company Limited

## Balance Sheet as at 31 December 2016

	Note	2016 \$'000	2015 \$'000
<b>Current Assets</b>			
Stocks	11	1,699	1,841
Debtors	12	815	4,128
Cash at bank and in hand	13	-	1
		<b>2,514</b>	<b>5,970</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(1,575)</b>	<b>(5,833)</b>
<b>Net current assets</b>		<b>939</b>	<b>137</b>
<b>Total assets less current liabilities</b>		<b>939</b>	<b>137</b>
Other interest-bearing loans and borrowings	16	(26)	(26)
<b>Net assets</b>		<b>913</b>	<b>111</b>
<b>Capital and reserves</b>			
Called up share capital	17	9	9
Profit and loss account		904	102
<b>Total shareholders' funds</b>		<b>913</b>	<b>111</b>

The financial statements on pages 12 to 23 were approved by the Board of Directors on **31** August 2017 and signed on its behalf by:



**G Paver**  
Director

Registered number SC167498

# SET Drilling Company Limited

## Statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Profit and loss account	Total Shareholders' funds
	\$'000	\$'000	\$'000
At 1 January 2016	9	102	111
<b>Comprehensive income</b>			
Profit for the financial year	-	802	802
<b>Total comprehensive income</b>	-	802	802
<b>At 31 December 2016</b>	<b>9</b>	<b>904</b>	<b>913</b>
At 1 January 2015	9	-	9
<b>Total comprehensive income</b>	-	102	102
<b>At 31 December 2015</b>	<b>9</b>	<b>102</b>	<b>111</b>

The notes on pages 15 to 23 are an integral part of these financial statements.



# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016

### 1 General information

SET Drilling Company Limited ('the Company') provides onshore drilling and related well and facilities engineering.

The Company is a private limited company incorporated and domiciled in Scotland. The address of its registered office is KCA Deutag, Group Headquarters Bankhead Drive, City South Office Park, Portlethen, Aberdeen, Scotland, AB12 4XX.

### 2 Basis of preparation

These financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards - in particular FRS 101 and the Companies Act 2006 ("the Act"). FRS 101 sets out a reduced disclosure framework for a "qualifying entity", as defined in the Standard, which addressed the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historic costs convention.

The Company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the Company's ultimate parent and from where the consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of KCAD Holdings I Limited, which prepares consolidated financial statements that are publicly available.

Adoption of Financial Reporting Standard 101 has enabled the Company to take advantage of certain disclosure exemptions, most notably in respect of financial instruments (IFRS 7 requirements) and all related party transactions with fellow 100% subsidiaries of KCAD Holdings I Limited. Furthermore the Company is no longer required to prepare a cash flow statement. The below provides a summary of the disclosure exemptions adopted in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7: *Financial Instruments: Disclosures*;
- IFRS 13: *Fair value measurement in respect of the disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities*;
- IAS 1: *Presentation of financial statements' comparative information requirements in respect of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*;
- IAS 1: *Presentation of financial statements in respect of: statement of cash flows including comparatives and statement of compliance with all IFRS*;
- IAS 8: *Accounting policies, changes in accounting estimates and errors' for the disclosure of new standards not yet effective*;
- IAS 24: *Related party disclosures in respect of key management compensation*;
- IAS 24: *Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group; and*
- IAS 36: *Impairment of assets in respect of the assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts*.

# **SET Drilling Company Limited**

## **Notes to the financial statements for the year ended 31 December 2016 (continued)**

### **2 Basis of preparation (continued)**

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

The Company had net assets at the Balance Sheet date of \$913k (2015: \$111k). On this basis, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

### **3 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Trade debtors**

Trade debtors are recognised initially at fair market value and subsequently measured at amortised cost using the effective interest method, less provision of impairment, if applicable. A provision of impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due.

#### **Taxation**

The tax charge represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the Profit and Loss Account due to items that are not taxable or deductible in any year and also due to items that are taxable or deductible in a different year. The Company's liability for current tax is calculated using tax rates enacted or substantively enacted at the Balance Sheet date.

Deferred tax is provided, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on tangible fixed assets, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base. Tax rates enacted, or substantially enacted, by the Balance Sheet date are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

#### **Provisions**

Provisions are measured at the present value of the Directors' best estimate of the expenditure required to settle the present obligation at the Balance Sheet date. A discount is applied to the provision for the time value of money where this is significant. Provisions are made where there is a present obligation based on past events that it is probable that an outflow will be required and the financial outcome can be reliably measured.

# **SET Drilling Company Limited**

## **Notes to the financial statements for the year ended 31 December 2016 (continued)**

### **3 Summary of significant accounting policies (continued)**

#### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as creditors falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors due within more than one year. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **Turnover**

Turnover is recognised based on the gross amount received or receivable for services provided in the normal course of business, net of value-added tax and other sales related taxes.

Turnover from land drilling operations is recognised in the accounting period in which the services are rendered, typically based on a day rate for rigs or manpower provided to the customer. In land drilling, the Company provides the drilling rig and crew to the customer on a day rate which fluctuates dependent on activity.

The Company recognises flow through turnover based on the gross amount received or receivable in respect of its performance under the sales contract with the customer.

Incentive income is recognised when earned. Incentive income is earned in respect of contract Key Performance Indicators (KPIs).

Mobilisation income on significant contracts is recognised over the period of the contract to which it relates. Other mobilisation income is credited to income as received.

Mobilisation costs incurred to start a contract are expensed on the contract commencement date. Any subsequent transportation costs for moving the rigs to new locations are expensed as incurred.

#### **Dividends**

Dividend distributions on ordinary shares are recognised as a liability in the Company's financial statements when they have been approved by the Company's shareholders or paid in the case of interim dividends. Dividend income is recognised when the right to receive payment is established.

#### **Foreign currency translation**

##### **(i) Functional and presentation currency**

These financial statements are presented in US Dollars (USD) which is also the functional currency of the Company and the primary economic environment in which it operates. The directors have determined the Company, having registered two new branches for contracts awarded in the Middle East, is now a USD functional company and prior year comparatives have been represented accordingly. Management believe that this currency is more useful for the users of the financial statements as it is consistent with the presentation currency of the KCAD Holdings I Limited consolidated financial statements.

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 3 Summary of significant accounting policies (continued)

#### (ii) Transactions and balances

Transactions denominated in a foreign currency are converted to the functional currency at rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the Balance Sheet date. The resulting exchange gains and losses are dealt with through the Profit and Loss Account for the period, except where hedge accounting is applied.

#### Stocks

Stocks of spare parts which are held for use in the Company's operations are stated at weighted average cost less a provision in respect of those spares attached to the older equipment.

### 4 Significant accounting judgements and estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

In addition to the significant accounting policies outlined in note 3 the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Accruals and deferred income

For the significant accounting estimates and judgements on accruals and deferred income, refer to note 14.

#### Stocks

The amount of stocks recognised as an expense when the stocks were consumed and included in cost of sales amounted to \$850k (2015: \$112k).

### 5 Turnover

	2016	2015
	\$'000	\$'000
Middle East	12,991	8,987
	<b>12,991</b>	<b>8,987</b>

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 6 Operating Profit

The following items have been included in arriving at operating profit:

	2016	2015
	\$'000	\$'000
Net foreign exchange (losses) / gains	(13)	316

### 7 Interest receivable and similar income

	2016	2015
	\$'000	\$'000
Exchange gains - net	-	56
	-	56

Net exchange gains represent the exchange movements during the year on non-functional currency funding balances held with other Group undertakings.

### 8 Interest payable and similar expenses

	2016	2015
	\$'000	\$'000
Interest payable to Group undertakings	-	7
Exchange losses – net	6	-
	6	7

Net exchange losses represent the exchange movements during the year on non-functional currency funding balances held with other Group undertakings.

### 9 Directors and employees

#### Employee remuneration

The aggregate remuneration of all employees of the Company comprised:

	2016	2015
	\$'000	\$'000
Wages and salaries	1,471	4,768
	1,471	4,768

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 9 Directors and employees (continued)

The average monthly number of persons employed by the Company was:

	2016 Number	2015 Number
Production	47	69
Administration	2	6
	49	75

The Directors neither received nor waived any emoluments during the year from the Company (2015: \$nil). Their remuneration is allocated to companies in the Group as part of an overall management charge and therefore it is not possible to determine the elements of directors' remuneration relevant to this Company in a practical manner.

### 10 Tax on profit

#### (a) Analysis of charge in year

	2016 \$'000	2015 \$'000
Current tax	-	-
Total current tax charge (note 10 (b))	-	-

#### (b) Factors affecting tax charge in year

The tax assessed for both years is lower than the standard rate of corporation tax in the UK of 20% (2015:20.25%). The differences are explained below:

	2016 \$'000	2015 \$'000
Profit before taxation	802	102
Profit before taxation at standard rate of corporate tax in the UK 20% (2015: 20.25%)	161	21
Effects of:		
Group relief for nil consideration	(161)	(21)
Other permanent differences	1	-
Deferred tax not recognised	(1)	-
Total tax charge for the year (note 10 (a))	-	-

The Company has not recognised potential deferred tax assets at 17% of \$1,000 (2015: at 18% of \$nil) on the tax effect of deductible temporary differences as it may not be possible to utilise the potential benefits in future years.

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 10 Tax on profit (continued)

The Finance Act 2013, enacted on 17 July 2013, reduced the main rate of UK corporation tax from 21% to 20% from 1 April 2015.

The Finance (No. 2) Bill 2015 further reduced the rate to 19% from 1 April 2017 and 18% from 1 April 2020.

An additional change to the UK corporation tax rate was enacted on 15<sup>th</sup> September 2016 which reduced the rate further to 17% from 1 April 2020.

There is no foreign tax charge.

### 11 Stocks

	2016 \$'000	2015 \$'000
Materials and consumables	1,699	1,841

### 12 Debtors

	2016 \$'000	2015 \$'000
Trade debtors	537	4,046
Amounts owed by Group undertakings	275	30
Prepayments and accrued income	3	52
	815	4,128

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand. All Group trading balances are settled on a monthly basis, therefore no impairment provision is required.

As of 31 December 2016, trade debtors of \$20k (2015: \$2,716k) were fully performing, and no provision was necessary for 2016 (2015: \$nil). The other classes within debtors do not contain impaired assets.

As of 31 December 2016, trade debtors of \$517k (2015: \$1,330k) were past due but were not impaired. Management is confident that the trade debtor balance will be fully received in due course.

The fair value of debtors are approximate to carrying amounts given that they are short term in nature.

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Cash at bank and in hand

	2016 \$'000	2015 \$'000
Cash at hand	-	1

### 14 Creditors: amounts falling due within one year

	2016 \$'000	2015 \$'000
Trade creditors	84	68
Amounts owed to Group undertakings	1,119	5,560
Accruals and deferred income	372	205
	1,575	5,833

As at 31 December 2016 the amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

As at 31 December 2015, interest was payable on a total of \$3,265k of the amounts owed to Group undertakings. Interest was charged on LIBOR plus a margin of 4%. The remaining amounts owed to Group undertakings were interest free.

The fair value of creditors due within one year are approximate to carrying amounts given that they are short term in nature.

### 15 Auditors' remuneration

The audit fees are borne by another Group company. For the purpose of disclosure, a fair allocation of the audit fee to the Company would be \$5k (2015: \$5k).

### 16 Other interest-bearing loans and borrowings

	2016 \$'000	2015 \$'000
Shares classified as debt	26	26
Authorised		
60,000 (2015: 60,000) redeemable preference shares of 25p each	26	26
Allotted, called up and fully paid		
60,000 (2015: 60,000) redeemable preference shares of 25p each	26	26

The redeemable preference shares carry no voting rights. Dividends shall be determined at the discretion of the ordinary shareholders.



# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 16 Other interest-bearing loans and borrowings (continued)

The redeemable preference shares can be redeemed at any time at par provided six months' notice is given.

On a return of assets on liquidation or otherwise, the assets of the Company remaining after the payment of its liabilities shall be applied as follows:

- 1) To the holders of the preference shares – 25p per share;
- 2) To the holders of the ordinary shares – 25p per share;
- 3) Any remaining assets will be distributed to the ordinary shareholders according to the number of shares held by them respectively.

### 17 Called up share capital

	2016 \$'000	2015 \$'000
<b>Authorised</b>		
- 339,000 (2015: 339,000) ordinary shares of 25p each	145	145
<b>Issued and fully paid</b>		
- 21,000 (2015: 21,000) ordinary shares of 25p each	9	9

SET Drilling Company Limited is a limited company incorporated and domiciled in Scotland.

### 18 Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard 101 not to disclose transactions and balances with KCAD Holdings I Limited and its wholly owned subsidiaries, for which consolidated financial statements of are publicly available.

### 19 Capital commitments

The Company had no capital commitments at 31 December 2016 and 31 December 2015.

### 20 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of KCA DEUTAG GmbH. The Company's ultimate parent undertaking is KCAD Holdings I Limited, which is registered in England and Wales and the ultimate controlling company, is PHM Holdco 14 S.a.r.l., which is registered in Luxembourg. PHM Holdco 14 S.a.r.l. is in turn controlled by Pamplona Capital Partners II L.P.

At 31 December 2016 the smallest and largest groups in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited and KCAD Holdings I Limited respectively. Copies of financial statements of KCAD Holdings I Limited and KCA Deutag Alpha Limited are available from Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, Scotland, AB12 4XX.