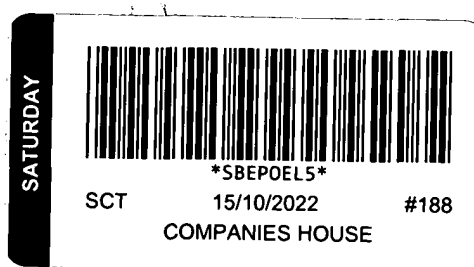


**SET Drilling Company Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2021**

**Registered Number SC167498**



SET Drilling Company Limited

Annual report and financial statements

for the year ended 31 December 2021

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# **SET Drilling Company Limited**

## **Corporate information**

### **Board of Directors**

A Byrne (resigned 31 December 2021)

J Elkhoury

S Branston

N Gilchrist (appointed 1 January 2022)

### **Registered office**

Group Headquarters

Bankhead Drive

City South Office Park

Portlethen

Aberdeenshire

AB12 4XX

# **SET Drilling Company Limited**

## **Strategic Report**

The Directors present their Strategic Report of the Company for the year ended 31 December 2021.

### **Review of the Business**

At the Balance Sheet date, the Company is a wholly owned subsidiary undertaking of KCA DEUTAG GmbH. The ultimate parent company is KCA Deutag International Limited.

References to the Group are in relation to KCA Deutag International Limited. Please refer to Note 20 for further information on group structure.

The principal activity of the Company is the provision of onshore drilling services. In the future we expect the Company to continue operations as described above.

### **Market Dynamics and Positioning**

The company did not have any active drilling contracts during 2021, incurring a small loss in respect of ongoing costs.

### **Principal risks and uncertainties**

As with any business, the Group faces a number of risks and uncertainties in the course of its day to day operations. The risks identified at Group level throughout the Strategic Report are also the same risks which apply to the Company and are managed at a Group level rather than specifically by each subsidiary. The principal risks and uncertainties, and mitigating actions that are employed by the Group to manage those risks, are noted below. During the year the Group continued to apply an enterprise risk management framework to allow for ongoing identification and monitoring of risks and to develop mitigation strategies to manage those risks. The methodology used to identify key risks was both a bottom-up approach from our country and functional organisations as well as a top-down review of the key strategic risks.

### **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 and the businesses that we provide services for. 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. With the fall in commodity prices and increased competition in the market we have also seen many of our customers seek to pass on risk to their suppliers which may have historically been borne by the operator.

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.

# **SET Drilling Company Limited**

## **Strategic Report (continued)**

### **Asset integrity & compliance regime (continued)**

As well as our personnel, the provision of assets such as drilling rigs is a key component of our product and service offering. We offer a range of drilling rigs from new state of the art rigs designed for specific climates or for speed of movement, through to older assets which have been in operation for a number of years. These assets need to be regularly maintained and key components replaced over time in order to maintain the asset integrity of our equipment. We maintain a team of personnel specialised in maintaining these assets to ensure that they provide our clients with safe, effective and trouble free operations with low levels of non-productive time. In order to remain competitive in the long term we must continue to invest in our assets and refresh our rig fleet on a periodic basis.

Compliance requirements continue to increase across the broad range of territories in which we operate. During the past few years, we have seen new data privacy and data protection rules with large potential fines and other sanctions for non-compliance. We seek to address these new requirements proactively using both our own internal resources as well as external advice.

### **Business continuity and sanctions risk**

The impact of the Coronavirus (COVID-19) has been significant with ever changing restrictions being placed upon the movements of people to minimise the spread of disease in all countries as governments attempt to limit the number of people affected, to manage the capacity of health services and minimise the impact upon local economies. The Group has developed procedures to seek to protect our personnel during the outbreak including providing additional testing and PPE. The development of vaccines has brought an improvement but the continued emergence of new variants and vaccine supply concerns in some of our markets brings continued uncertainty.

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 conflict in Azerbaijan with neighbouring Armenia, terrorist incidents in Algeria and Saudi Arabia and the threat of terrorism or unrest in Kurdistan and Iraq. 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 disruptive. Over the past few years, for example, we have seen certain sanctions imposed against specific types of business activities in Russia from the EU, UK and the US.

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 our staff have been trained to 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 advisory expertise to support regulatory compliance in all our operations across disciplines such as export control and adherence to sanctions. We work with various governmental authorities to get assistance with ensuring compliance and the appropriate awareness of rules and regulations.

# **SET Drilling Company Limited**

## **Strategic Report (continued)**

### **Changes in the market for Drilling & Engineering Services**

Our core operations continue to be focused on delivering drilling and well engineering services to the oil & gas industry. We believe we provide high-quality services to our clients supported by a skilled workforce and high-quality assets. However, the technology, commercial models and ways of delivering services continue to evolve.

In North America there has been an increasing commoditisation of drilling services with consequent reductions in pricing and increased competition from providers offering very similar services. Although the position in North America is different to the rest of the world, given the relative ease of access to oil & gas reserves through good transport infrastructure, certain of our markets may move in a similar direction in the future. In the eastern hemisphere we have seen increasing competition from lower cost providers such as Chinese companies who are able to offer low cost services and over time have provided an improving quality of assets and personnel.

In a number of markets, we are also seeing the way in which our customers are procuring services change. Integrated service companies, who can provide a full spectrum of service offerings, are securing contracts as a one stop shop for their clients. Other service companies are broadening the scope of their offerings potentially threatening work which KCA Deutag may have traditionally provided in the past.

Current trends in the oil and gas industry, and indeed with our drilling peers, show a movement towards greater use of IT, drilling optimisation software and operational technology data to gain better insight of operating performance, to drill wells more efficiently or to identify improvement opportunities. These tools and data driven insights can be used to drive cost savings, efficiency gains and revenue opportunities which could have a tangible impact on our financial bottom line. Increasingly clients are placing maximum age limits on rigs as well as looking for higher specification and technology supported rigs. This would be a risk to business if we were to lag behind our competitors in the provision of digital services or if we are not able to recover the investments made to develop these solutions through the commercialisation of our digital offering.

The global pandemic has also resulted in a number of projects being put on hold. This has given our customers more leverage in tendering exercises due to the high availability of competing service providers which has suppressed day rates in a number of locations.

In response to these threats we must ensure that we offer a compelling reason for our customers to procure our products and services through providing excellent service quality, which is cost competitive and industry leading. With the launch of our +veDRILL technology in 2020, we believe we have enhanced our proposition to customers. We have to be a Group that is easy to do business with, which has a flexible commercial model and is able to form new alliances which can be mutually beneficial.

We also have to continually challenge ourselves to look at new ways of working, to develop new service offerings and to look at new sourcing models as markets continue to mature and evolve. A high focus on sourcing and costs in general is now particularly important as, with economic activity increasing following the pandemic, many of the markets in which we operate are seeing the return of significant levels of inflation and extended delivery lead times. The supply chain organisation is therefore spending more time with the operations, commercial and finance teams to plan, source and negotiate supply agreements as favourably as possible.

## **SET Drilling Company Limited**

### **Strategic Report (continued)**

#### **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 the sustained downturn which we have experienced over the past few 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.

Negotiating power is limited once the contract has ended and there have been a few cases where payment of final invoices has taken longer than expected to resolve. There have also been a few requests for extended credit terms.

In some markets, particularly those where we may have a low level of activity or only a single rig operating, it can be difficult to consistently make acceptable levels of return. In some markets, we also experience tax and other local laws and rules being inconsistently applied which can result in additional and unexpected costs of doing business. In each of the countries in which we operate we are potentially subject to changes in tax laws, treaties or regulations which could have a material impact on our business.

We seek to mitigate these risks through continuous monitoring of exposures to individual clients as well as overall exposure to particular geographies. Financial credit checks are required to be performed on new clients prior to tendering submissions and where possible we will seek payments in advance of services or protection via bank guarantees 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. We seek appropriate professional advice before entering new markets and have internal review and approval mechanisms to challenge the returns we expect on new contracts. In some cases we have decided to exit markets where we have been unable to make a consistent level of acceptable return.

#### **Currency related risks**

We carry out 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 to which we are exposed which has been evidenced since year end by the volatility of the Russian Rouble exchange rate.

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.

# **SET Drilling Company Limited**

## **Strategic Report (continued)**

### **Cyber security risk**

Cyber security risk was elevated in 2021 due to the increasing prevalence of cyber attacks around the world. However, as a result of the cyber attack we experienced at the end of 2021, cyber security has come to the forefront of our business and additional security measures have been implemented to enhance our environment to minimise the potential of such an attack happening again. We have engaged with third parties who have started on a project to strengthen our IT environment both from a security point of view as well as business recovery planning. Additional security software has been purchased and implemented and will continue to be a key focus for 2022.

Our operations continue to be increasingly dependent upon various IT systems, especially with an increased number of employees working from home. Threats to IT systems associated with cybersecurity risks continue to grow and evolve including targeted attacks through viruses, malware, phishing as well as potentially by employees within our network. An increased area of interest and risk is the requirement to make key rig control systems remotely accessible and therefore a potentially bigger target for malicious activities with larger impacts (e.g. financial, reputational, environmental and safety). The risks associated with these include the loss of revenue, key back office systems, penalties for loss of sensitive personnel and customer data, as well as a potential loss or misappropriation of funds, damage to our reputation and potential for litigation.

### **Energy Transition risk**

Oil as an energy source is going through a period of major change where it will eventually no longer maintain its dominant position and over time will be replaced with alternative energy sources such as gas, nuclear, solar, wave and wind. The political and public awareness focus on this has increased in the last 12 months driven by concerns around climate change. It is driving public opinion and consumer decision making which is increasingly influencing business and political policy.

Investors are now increasingly focusing on a company's approach towards policies on Environment, Social and Governance (ESG). There is a strong push from many clients towards environmental sustainability, e.g. reducing carbon footprint, eliminating waste, recycling and alternative energy sources. In 2022, we issued our first Sustainability Report which focused on measuring our corporate carbon footprint and using this baseline data to inform our Sustainability Strategy.

To be sustainable as a business in the medium to long term and ensure access to markets, business opportunities and investors it is becoming essential to diversify into the wider alternative energy market. The risk of not doing this would be to impair our ability to have a profitable and sustainable long-term future as a business.

KCA Deutag is well positioned to leverage our DNA in this technology space. The Group has defined a Growth Strategy which includes 'Capture New Markets' and a dedicated technology focus which provides governance and oversight of energy transition technologies, new drilling related technologies and digital technology. In particular, a battery energy storage solution has been developed and is being actively marketed. Consideration has also been given to existing transferable skill sets of the business and an offshore substation offering has been created which could be used alongside wind and hydrogen infrastructure.

# **SET Drilling Company Limited**

## **Strategic Report (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. Legislation in the areas of ethics, bribery and tax evasion continue to evolve and place increasing responsibility on businesses to behave to a very high standard supported by the appropriate processes, controls and other safeguards.

We have developed an ethics & compliance programme which is supported by 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 assurance processes to monitor compliance and seek to continuously improve our systems of internal controls and to remedy any weaknesses.

### **Financial and Working Capital risk**

Our ability to service our debt and other financial obligations depends in large part on the levels of cash flow generated in our business. A surplus of cash would allow the Group to grow and manage the changes in business activity levels over time.

Where possible the Group seeks to secure long term debt financing which provides access to funds for a number of years into the future. 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. Periodic reviews of fixed rate and variable rate interest rate exposures are also made with the aim of maintaining a balance between the two.

From time to time, we may need to access the capital markets to obtain long term and short-term financing. Our ability to access these financial markets could be limited by, amongst other things, oil and gas prices, our capital structure, credit ratings issued on our debt by credit rating agencies, the overall health of the global oil & gas market or the global economy in general. Whilst we try to access markets when conditions are favourable there is no guarantee of our ability to access these capital markets in the future.

Careful monitoring of cashflows and forecasts equips the business with the necessary analytics to monitor the situation and deal with any underperformance using tools such as further cost savings or capex reductions. The Group have continued to utilise and expand upon a number of 'self-help' mechanisms, including, but not limited to proactive working capital management and detailed monitoring of EBITDA forecasts, inventory optimisation, cost reduction initiatives and weekly cash forecasts and cash calls. All significant growth capital expenditure is approved by the Board.

### **Human capital risk**

All of the services and operations which we perform require a diverse highly skilled and well-trained work force to provide the front line services, as well as to support the fundamental business processes and control mechanisms. Across the oil & gas industry generally there has been an aging of the workforce which has been compounded in the past four years by the industry downturn and a large reduction in the number of new recruits entering the sector. Continued access to a diverse pipeline of talent to be able to provide skilled staff and future management resources for the Group are critical.

During 2021 the Group has seen an increased focus on nationalisation as a result of the limitations imposed by the pandemic as the mobility of expatriate employees has been impacted. The business must also position itself to source and deploy the right skills and experience to support operational growth as we enter the energy transition space.

# **SET Drilling Company Limited**

## **Strategic Report (continued)**

### **Human capital risk (continued)**

Over the past few years, the Group has invested significantly in enhancing our processes and systems around human resources. We seek to provide our staff with a dynamic and supportive work environment and to remunerate them fairly in each of the markets in which we operate. Where the employees have the appropriate skills, ability and desire to progress we have put in place the necessary management tools to help them pursue their career ambitions with KCA Deutag. We have succession planning tools to assist in identifying and developing a diverse future talent pool and to help to ensure that we have the appropriate management resources to lead the Group in the future.

### **Local market risk**

All of the markets in which we operate continue to change and evolve as local political and economic influences impact the industry in which we operate. In certain markets, such as in West Africa, we have seen an increasing trend and pressure from governments to increase the local content of the services which we provide, both in terms of the provision of local skilled personnel as well as the focusing upon in country value through the use of local suppliers or supply chain for the provision of goods or services. Where this can be achieved in a planned and structured way this can have benefits both for the local economies in which we operate, as well as allowing us to provide a more efficient and effective service to our clients.

We have a good track record of training and developing local staff in many of the countries in which we operate and so far as possible sourcing equipment locally, where this is cost effective and quality can be assured. As a result we have achieved a high rate of staff nationalisation in the markets in which we operate.

In some of our markets we have seen increasing influence from National Oil Companies where governments have sought to secure greater control and increased future participation in the economic benefits of their oil & gas assets. These companies have started to change the nature of the relationships with service companies and increasingly look to work through joint ventures or alliances which are also often closely aligned to local content. We will have to be prepared to work with these new models if we are to retain and grow our future business in these locations.

Globalisation is slowing down and we are seeing increasing protectionism in countries like the US, Russia and China. The Group does not expect the impact to be significant given the wide geographical exposure we have with a strong presence in each of the local markets in which we operate.

### **Oil & gas 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 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 were cancelled or delayed. The oil price remained lower through to early 2020 leading to a prolonged period of lower levels of activity in the oil and gas sector during those years. Subsequently, the global Coronavirus pandemic had a further negative impact on oil prices, the global economy, market conditions, customers and governments. This has had a material impact on our business as almost all customers either reduced their level of operations or sought pricing discounts. 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 Report (continued)**

### **Oil & gas 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.

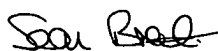
We operate a governance structure which aims to ensure that potential risks on contracts and projects are identified through review and challenge prior to execution. Our internal commercial and legal processes ensure that deviations to standard contracting principles must have the appropriate review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

In direct response to the COVID pandemic the business established a crisis management group overseen directly by the executive team who met three times a week to track and support agile decision making in response to the fast-changing landscape. Detailed contingency planning was completed at a country level to support focusing on the health and wellbeing of our employees and maximising our ability to support and maintain our ongoing operations.

### **Key performance indicators**

The Directors of KCA Deutag International 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**



**S Branstons**

**Director**

**29 September 2022**

## **SET Drilling Company Limited**

### **Directors' report for the year ended 31 December 2021**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

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 Report on pages 2 to 9. The information that fulfils the requirements of the Strategic Report (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:

<b>Information</b>	<b>Location</b>	<b>Pages</b>
Development and performance during the financial year	Strategic Report	2
Position at the year end including analysis and key performance indicators	Strategic Report	2, 9
Other performance including environmental and employee matters	Strategic Report	2
Principal risks and uncertainties facing the business	Strategic Report	2
Explanation of amounts included in the financial statements	Notes to the Financial Statements	16

#### **Results and dividends**

The loss for the year from continuing operations transferred to reserves was \$525k (2020: loss of \$509k). The Directors do not propose the payment of a final dividend (2020: \$nil).

#### **Principal risks and uncertainties**

The principal risks and uncertainties are discussed within the Strategic Report on page 2. The Company's operational risks are aligned with those faced by the rest of the Group and are disclosed in the Strategic Report.

#### **Environment**

The Company provides drilling and related well and facilities engineering services both onshore and offshore. In the execution of these services they undertake environmental risk assessments and site appraisals as standard. These assessments are discussed with the clients 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 parent undertaking and ultimate controlling company is KCA Deutag International Limited, which is registered in Jersey.

At 31 December 2021, the Company's ordinary shares were wholly owned by KCA DEUTAG GmbH.

## **SET Drilling Company Limited**

### **Directors' report for the year ended 31 December 2021 (continued)**

#### **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.

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 Company continues and that appropriate training is arranged. It is the policy of the Company 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 page 23.

#### **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:

A Byrne (resigned 31 December 2021)

J Elkhoury

S Branstion

N Gilchrist (appointed 1 January 2022)

#### **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, 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 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.

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 to enable them to ensure that the financial statements comply with the Companies Act 2006.

## **SET Drilling Company Limited**

### **Directors' report for the year ended 31 December 2021 (continued)**

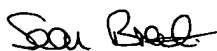
#### **Going concern**

The Company had net liabilities at the Balance Sheet date of \$1,524k (2020 - \$999k). The Directors have obtained confirmation from a fellow group undertaking that it will provide the necessary support to enable the Company to meet its obligations as they fall due. This confirmation is valid for a minimum of 12 months from the date of approval of the financial statements. On this basis, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

The funding of the Company is dependent upon the overall funding position of the KCA Deutag Alpha Group ("the Group"). The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process, along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. The Board has considered the impact of the acquisition of the Saipem Land drilling business and the related financing arrangements. The scenarios considered by the Board also include testing the impact on liquidity of the complete shut-down of the business in Russia during 2022 as a result of sanctions being implemented, and the possible impact of a range of resulting impairment charges which may arise. The Group's limited financial covenants (which only apply to a guarantee facility) do not include any tests, such as tests based on group net assets, which may be impacted by any such impairments. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the Directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Company's financial statements on a going concern basis. Further details are provided in Note 2 to the financial statements.

#### **On behalf of the Board**



**S Branstons**

**Director**

**29 September 2022**

## SET Drilling Company Limited

### Statement of Comprehensive Income for the year ended 31 December 2021

	Note	2021 \$'000	2020 \$'000
Turnover		-	2,591
Cost of Sales		(357)	(2,889)
<b>Gross loss</b>		<b>(357)</b>	<b>(298)</b>
Administrative expenses		(145)	(175)
<b>Operating loss</b>		<b>(502)</b>	<b>(473)</b>
Interest receivable and similar income	6	2	-
Interest payable and similar charges	7	(25)	(36)
<b>Loss before taxation</b>	8	<b>(525)</b>	<b>(509)</b>
Taxation	10	-	-
<b>Loss for the year</b>		<b>(525)</b>	<b>(509)</b>

The results have been derived wholly from continuing operations.

The Company has no recognised gains or losses during the year other than those included in the Profit and Loss Account.

# SET Drilling Company Limited

## Balance Sheet as at 31 December 2021

	Note	2021 \$'000	2020 \$'000
<b>Fixed assets</b>			
Right of use assets	16	30	332
		<b>30</b>	<b>332</b>
<b>Current assets</b>			
Debtors	11	98	1,534
Stocks	13	694	2,148
Cash at bank and in hand	14	15	15
		<b>807</b>	<b>3,697</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	15	(2,294)	(4,661)
Lease liabilities	16	(41)	(336)
		<b>(2,335)</b>	<b>(4,997)</b>
<b>Net current liabilities</b>		<b>(1,528)</b>	<b>(1,300)</b>
<b>Total assets less current liabilities</b>		<b>(1,498)</b>	<b>(968)</b>
<b>Non-current liabilities</b>			
Creditors: amounts falling due after more than one year	17	(26)	(26)
Lease liabilities	16	-	(5)
<b>Net liabilities</b>		<b>(1,524)</b>	<b>(999)</b>
<b>Capital and reserves</b>			
Called up share capital	18	9	9
Profit and loss account		(1,533)	(1,008)
<b>Total shareholder's deficit</b>		<b>(1,524)</b>	<b>(999)</b>

For the year ending 31 December 2021 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:

- the members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476;
- the directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The financial statements on pages 13 to 29 were approved by the Board of Directors on 29 September 2022 and signed on its behalf by:



**S Branstion**  
**Director**

Registered number SC167498

## SET Drilling Company Limited

### Statement of changes in equity for the year ended 31 December 2021

	Called up share capital \$'000	Profit and loss account \$'000	Total Shareholders' funds \$'000
At 1 January 2021	9	(1,008)	(999)
<b>Comprehensive expense</b>			
Loss for the year	-	(525)	(525)
<b>Total comprehensive expense</b>	-	(525)	(525)
<b>At 31 December 2021</b>	<b>9</b>	<b>(1,533)</b>	<b>(1,524)</b>
At 1 January 2020	9	(499)	(490)
<b>Comprehensive expense</b>			
Loss for the year	-	(509)	(509)
<b>Total comprehensive expense</b>	-	(509)	(509)
<b>At 31 December 2020</b>	<b>9</b>	<b>(1,008)</b>	<b>(999)</b>

The Notes on pages 16 to 29 are an integral part of these financial statements.

# SET Drilling Company Limited

## Notes to the financial statements for the year ended 31 December 2021

### 1 General information

The principal activity of SET Drilling Company Limited (the Company) is the provision of onshore drilling services.

The Company is a private company, limited by shares, incorporated in Scotland and domiciled in Scotland. The address of its registered office is Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, 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 addresses 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 International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historic cost 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.

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 related party transactions with fellow 100% subsidiaries of KCA Deutag International 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 2021 (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.

##### **Going concern**

The Company had net liabilities at the Balance Sheet date of \$1,524k (2020 - \$999k). The Directors have obtained confirmation from a fellow group undertaking that it will provide the necessary support to enable the Company to meet its obligations as they fall due. This confirmation is valid for a minimum of 12 months from the date of approval of the financial statements. On this basis, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

The funding of the Company is dependent upon the overall funding position of the KCA Deutag Alpha Group ("the Group"). The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process, along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. The Board has considered the impact of the acquisition of the Saipem Land drilling business and the related financing arrangements. The scenarios considered by the Board also include testing the impact on liquidity of the complete shut-down of the business in Russia during 2022 as a result of sanctions being implemented, and the possible impact of a range of resulting impairment charges which may arise. The Group's limited financial covenants (which only apply to a guarantee facility) do not include any tests, such as tests based on group net assets, which may be impacted by any such impairments. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the Directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Company's financial statements on a going concern basis.

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

#### **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 years presented, unless otherwise stated.

##### **(a) Intercompany loans**

Intercompany loans are accounts for at their amortised cost with provisions for Expected Credit Losses ("ECLs") being booked when considered necessary. The ECLs are calculated with reference to the expected timescale for repayment and the effective rate of interest applicable to each loan. A discounted value of the loan receivable is derived and consequently any applicable impairment charge is reflected in the Statement of Comprehensive Income.

##### **(b) Trade debtors**

Trade debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less provision for an expected credit loss, if applicable. When determining the level of expected credit loss provision management consider the age of the outstanding receivable along with prior experience in relation to the specific customer and the jurisdiction in which the balance is due before booking any provision. When determining the level of expected credit loss provision required in respect of trade debtor balances, management also consider the creditworthiness and probability of future default of the customer.

##### **(c) 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 value of the net assets acquired and their tax base. Tax rates enacted, or substantively 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.

##### **(d) 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 recognised where there is a present obligation based on past events, it is probable that an outflow of resources will be required to settle the obligation and the financial outcome can be reliably measured.

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

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

##### **(e) 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.

##### **(f) Leases**

###### **Company as a lessee**

Where the Company is a lessee almost all leases are recognised on the Balance Sheet. An asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The lease liability is measured at the present value of the future lease payments. The lease term includes all periods covered by extension options, if exercise of the extension is reasonably certain. The present value is calculated based on an appropriate discount rate being the Company's incremental borrowing rate.

The right of use asset is initially measured based on the calculated lease liability plus any indirect costs, payments at or prior to lease commencement, dilapidation provisions, less any lease incentives. Subsequent measurement is at cost less depreciation and any provision for impairment. The right of use asset is also adjusted based on any re-measurement of the lease liability.

The Company has chosen to take advantage of the exemptions as allowed in the standard for certain short-term leases and leases of low-value assets:

###### **(i) Short term leases**

This is defined as a lease which has a lease term of 12 months or less and does not contain a purchase option. In terms of assessing the duration of a lease, if a lease is more likely than not to be extended to a duration in excess of 12 months, then lessee accounting under IFRS 16 will apply;

###### **(ii) Low-value assets**

The standard does not specify a value that would ensure an asset was of low-value, however this is likely to apply to items such as tablets and personal computers and small items of office furniture and telephones. An asset can only be low-value if the lessee can benefit from the use of the asset on its own and the asset is not highly dependent on other assets.

Leases that meet the exemptions above continue to be charged to profit or loss on a straight-line basis over the period of the lease (net of any incentives received from the lessor).

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

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

##### **(g) 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 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 typically provides the drilling rig and crew to the customer on a day rate, which fluctuates dependent on activity.

The Company recognises flow-through turnover, which relates to reimbursable costs, 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 costs that are incurred in relation to the mobilisation of new rigs are capitalised and depreciated over the life of the rig. Mobilisation costs incurred on moving rigs to locations under a new customer contract are amortised on a straight-line basis over the primary period of the new contracts.

Costs and revenues that are expected to be incurred or earned in relation to the demobilisation of rigs are accrued over the primary term of the drilling contract.

Any rig move costs for moving rigs to new locations whilst operating under a drilling contract are expensed as incurred, with the relevant revenue being recognised when the rig move is complete.

##### **(h) Research and development**

Research and development is carried out only when under specific contract and is reimbursable by third parties.

##### **(i) Financial assets and liabilities**

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

##### **(j) 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.

###### **(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.

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

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

##### **(k) Stocks**

Stocks of spare parts that are held for use in the Company's drilling operations are stated at weighted average cost less a provision in respect of those spares attached to the older rigs and equipment. Other inventory and work in progress are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

##### **(l) Disclosure of impact of accounting standards**

###### **(i) New standards, amendments and interpretations**

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Covid-19: Related Rent Concessions - amendments to IFRS 16, and
- Interest Rate Benchmark Reform - Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

###### **ii) New standards, amendments and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021**

**(continued)**

#### **4 Significant accounting judgments 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. There have been no significant judgments and estimates in these financial statements.

#### **5 Revenue**

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Rest of the world	-	2,591
	-	2,591

#### **6 Interest receivable and similar income**

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Exchange gains - net	2	-
	2	-

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

#### **7 Interest payable and similar charges**

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest payable on leases	15	30
Other interest payable	10	5
Exchange losses - net	-	1
	25	36

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

## SET Drilling Company Limited

### Notes to the financial statements for the year ended 31 December 2021 (continued)

#### 8 Operating loss

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

	2021	2020
	\$'000	\$'000
Employee benefits expense (note 9)	8	564
Depreciation of right of use assets (note 16)	333	953
Net foreign exchange loss (gain)	120	(25)

#### 9 Directors and employees

##### Employee remuneration

The aggregate remuneration of all employees, including directors, of the Company comprised:

	2021	2020
	\$'000	\$'000
Wages and salaries	8	545
Other pension costs	-	19
	8	564

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

	2021	2020
	Number	Number
Production	-	31
Administration	-	2
	-	33

The Directors neither received nor waived any emoluments during the year from the Company (2020: 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.

## SET Drilling Company Limited

### Notes to the financial statements for the year ended 31 December 2021 (continued)

#### 10 Taxation

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

	2021	2020
	\$'000	\$'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 19.00% (2020: 19.00%). The differences are explained below:

	2021	2020
	\$'000	\$'000
Loss before taxation	(525)	(509)
Loss at standard rate of corporate tax in the UK 19.00% (2020: 19.00%)	(100)	(97)
Effects of:		
Group relief for nil consideration	121	123
Other permanent differences	(21)	(26)
Total tax charge for the year (note 10(a))	-	-

The Company has not recognised potential deferred tax assets of \$3k (2020: \$3k) as at the year end, which is the tax effect at 25% (2020: 19%) on deductible temporary differences, unused tax losses and unused tax credits of \$13k (2020: \$16k) as it may not be possible to utilise the potential benefit in future years.

A change to the main UK corporation tax rate, announced in the Budget on 3 March 2021, was substantively enacted on 24 May 2021. The rate applicable increases from 19% to 25% from 1 April 2023.

The unrecognised deferred tax asset has been calculated at 25%, which was the tax rate substantively enacted at the 31 December 2021 Balance Sheet date.

## SET Drilling Company Limited

### Notes to the financial statements for the year ended 31 December 2021

(continued)

#### 11 Debtors: amounts falling due within one year

	2021	2020
	\$'000	\$'000
Trade debtors	-	1,516
Amounts owed by group undertakings	32	1
Other debtors	45	-
Prepayments and accrued income	21	17
	98	1,534

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

As of 31 December 2021, trade debtors of \$nil (2020: \$1,516k) were fully performing, and no provision was necessary for 2021 (2020: \$nil). The other classes within debtors do not contain impaired assets.

The Company applies lifetime Expected Credit Losses ("ECLs") to trade debtors upon their initial recognition.

#### 12 Contract assets and liabilities

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	2021	2020
	\$'000	\$'000
<b>Contract assets</b>		
Balance at 1 January	-	650
Amounts charged to income statement	-	(650)
<b>Balance at 31 December</b>	-	-
	2021	2020
	\$'000	\$'000
<b>Contract liabilities</b>		
Balance at 1 January	-	551
Amounts released to income statement	-	(551)
<b>Balance at 31 December</b>	-	-

## SET Drilling Company Limited

### Notes to the financial statements for the year ended 31 December 2021

(continued)

#### 12 Contract assets and liabilities (continued)

(a) Significant changes in contract assets and contract liabilities

- Contract assets mainly represent deferred costs incurred in relation to the mobilisation of land rigs.
- Contract liabilities mainly represent deferred income arising from mobilisation income of land rigs.

(b) Revenue recognised in relation to contract liabilities

- A \$nil (2020: \$551k) reduction in contract liabilities has been recognised entirely as revenue during the year.

(c) Unsatisfied Performance Obligations

- The aggregate amount of the transaction price allocated to partially or fully unsatisfied performance obligations as at the year-end on confirmed purchase orders received prior to the year-end is nil (2020: \$nil).

#### 13 Stocks

	2021 \$'000	2020 \$'000
Materials and consumables	694	2,148

The value of provisions against stocks was \$nil (2020: \$119k)

#### 14 Cash

	2021 \$'000	2020 \$'000
Cash at bank and in hand	15	15

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

	2021 \$'000	2020 \$'000
Trade creditors	49	571
Amounts owed to group undertakings	2,167	3,888
Accruals and deferred income	78	202
	2,294	4,661

The amounts owed to group undertakings are unsecured, interest free and repayable on demand. The fair value of creditors due within one year 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 2021 (continued)

#### 16 Leases

##### Company as a lessee

##### (a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2021 \$'000	2020 \$'000
<b>Right of use assets:</b>		
Properties	30	332
Drilling rigs	-	-
	30	332
<b>Lease liabilities:</b>		
Current	(41)	(336)
Non-current	-	(5)
	(41)	(341)

Additions to the right of use assets during the year were \$86k (2020: \$635k).

##### (b) Amounts recognised in the statement on profit or loss

The statement of profit or loss includes the following amounts relating to leases:

	2021 \$'000	2020 \$'000
<b>Depreciation charge of right of use assets:</b>		
Properties	333	333
Drilling rigs	-	620
	333	953
Interest expense (included in interest payable and similar charges)	15	30
Expense relating to short-term leases	-	61

The total cash outflow for leases in 2021 was \$347k (2020: \$1,005k).

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

#### **17 Other interest-bearing loans and borrowings**

	<b>2021 \$'000</b>	<b>2020 \$'000</b>
Shares classified as debt:		
Authorised		
60,000 A (2020: 60,000) redeemable preference shares of 25p each	<b>26</b>	<b>26</b>
Allotted		
60,000 B (2020: 60,000) redeemable preference shares of 25p each	<b>26</b>	<b>26</b>

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

#### **18 Called up share capital**

	<b>2021 \$'000</b>	<b>2020 \$'000</b>
<b>Authorised</b>		
340,000 (2020: 340,000) ordinary shares of 25p each	<b>145</b>	<b>145</b>
<b>Issued and fully paid</b>		
21,000 (2020: 21,000) ordinary shares of 25p each	<b>9</b>	<b>9</b>

#### **19 Related party transactions**

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

#### **20 Ultimate parent undertaking**

The Company is a wholly owned subsidiary undertaking of KCA DEUTAG GmbH.

The Company's ultimate parent undertaking and ultimate controlling company is KCA Deutag International Limited, which is registered in Jersey.

At 31 December 2021 the smallest and largest groups in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited and KCA Deutag International Limited. Copies of financial statements of KCA Deutag Alpha Limited are available from Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, AB12 4XX.

## **SET Drilling Company Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

#### **21 Post balance sheet events**

##### **a) Ukraine Conflict**

The health, safety and security of our colleagues and their families in Ukraine and Russia is a key priority for KCA Deutag. At the start of the conflict, we established a dedicated committee to actively monitor the situation and stay in full compliance with all applicable sanctions. The Group suspended all new investments in Russia and has continued to evaluate its options relating to the Russian business. While there was no material impact on our operations in the first four months of 2022, further restrictions included within the fourth package of European Union sanctions required us to abandon nine of our land drilling rigs during May 2022 in order to stay compliant. Although KCA Deutag has abandoned these rigs, there remain ownership complexities arising from local regulations which are expected to be finalised in the near future.

At 30 June, it was apparent that the Group would likely have to abandon the remainder of the Russian Land business as a result of additional European Union sanctions which would come into force in September 2022. Therefore at 30 June, we impaired the Russian Land fixed assets and inventory balances, but we had expected to be able to ingather and repatriate funds in relation to non-sanctioned fixed assets and pre-abandonment working capital balances at least until September.

##### **Impact of additional sanctions**

On 21 July, further packages of sanctions were put in place by the UK and European Union which has resulted in the Group having to isolate the remainder of its Russian business from the rest of the KCA Deutag Group. The Group has removed UK nationals or UK residents from the Sakhalin operations and has accelerated the abandonment of its remaining land rigs and activities that are managed by the Land Russia business as previously disclosed. Our Russian businesses have ceased to have access to KCA Deutag Group systems and support from Group management. As a result, the Group's ability to seek repatriation of cash arising from receipts from customers in Russia was significantly impaired during Q3. As such, provisions will be recorded against remaining Russian Land Drilling assets during Q3 2022 and we will deconsolidate these activities from our accounts.

The Group continued to recognise revenue and costs up until 20 July in respect of its Offshore and Kenera businesses as well as in relation to those rigs and activities of the Land business which had not previously been abandoned.

##### **b) Saipem Acquisition - funding**

On 31 May 2022 KCA Deutag signed a Sale and Purchase Agreement ("SPA") to purchase Saipem SpA's Onshore Drilling business for a total consideration of \$550 million in cash and a 10% equity interest in the enlarged KCA Deutag Group, represented by shares in KCA Deutag International Limited. The acquisition is being funded through \$250 million of senior notes, \$200 million of PIK notes and \$25m of equity all of which are being backstopped by a group of shareholders, plus a \$275 million revolving credit facility. Completion of the transaction for the non-Latin American operations is expected in Q4 2022 with Latin American completion anticipated in 2023.

In relation to the funding, the offering to the shareholders of both the \$25 million rights issue and \$200 million PIK notes have been completed and allocated. Subsequently, the \$25 million rights issue funding has been received by KCA Deutag International Limited. Commitment letters have also been signed by PIK note subscribers for their portions of the \$200 million loan which is to be issued and funded at the earlier of the first closing date of the acquisition or 1 November 2022.