

**KCA DEUTAG Drilling Group Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2012**

**Registered Number 01059871**

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KCA DEUTAG Drilling Group Limited  
Annual report and financial statements  
for the year ended 31 December 2012  
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# **KCA DEUTAG Drilling Group Limited**

## **Corporate Information**

### **Board of Directors**

L Andrew

N McKay

N Gilchrist

### **Company Secretary**

L Andrew

### **Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

32 Albyn Place

Aberdeen

AB10 1YL

### **Registered Office**

3 Colmore Circus

Birmingham

B4 6BH

# **KCA DEUTAG Drilling Group Limited**

## **Directors' report for the year ended 31 December 2012**

The Directors present their Directors' report and the audited financial statements of the Company for the year ended 31 December 2012

### **Business review and principal activities**

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

KCA DEUTAG Drilling Group Limited is a holding company whose principal subsidiary undertakings provide drilling and related well and facilities engineering services, both offshore and onshore, on a worldwide basis, principally to the energy industry. The Company will continue as a holding company for the foreseeable future.

The principal subsidiary undertakings and investments are set out in note 20 to the financial statements.

On page 8 of the financial statements, the balance sheet shows that the net asset position of the Company at the year end had increased compared to the previous year.

### **Results and dividends**

The loss for the year transferred to reserves was £1,292,000 (2011 profit £1,454,000). A dividend of £nil was paid in the year (2011 £nil). The redeemable preference owner waived the right to its preference dividend as at the 31 December 2012 and 31 December 2011.

### **Directors**

The Directors who served during the year and up to the date of this report were as follows:

N Stevenson	(resigned 21 January 2013)
B Taylor	(resigned 9 July 2012)
H Temmen	(resigned 31 July 2012)
M Walker	(resigned 31 January 2013)
L Andrew	(appointed 5 July 2012)
A Bigman	(appointed 9 July 2012, resigned 21 January 2013)
N McKay	(appointed 9 July 2012)
N Gilchrist	(appointed 15 January 2013)

### **Substantial Shareholdings**

On 30 March 2011, the KCAD Holdings I Limited Group completed a debt restructuring which resulted in a change of ownership of the Group. 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 2012, the Company's ordinary shares were wholly owned by Abbot Holdings Limited.

### **Employees**

The Company had no employees at any time during the current or preceding year.

### **Financial risk management**

The financial risks are discussed within note 15 on pages 18 to 20.

# KCA DEUTAG Drilling Group Limited

## Directors' report for the year ended 31 December 2012 (continued)

### Key performance indicators (KPIs)

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 KCA DEUTAG Drilling Group Limited.

### Environment

The Company has various subsidiaries that provide 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.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent,
- State whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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. They 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.

### Directors' statement as to Disclosure of Information to Auditors

- a) So far as each Director is aware, there is no relevant audit information of which the auditors are unaware and
- b) Each of the Directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# **KCA DEUTAG Drilling Group Limited**

## **Directors' report for the year ended 31 December 2012 (continued)**

### **Independent Auditors**

The Directors will place a resolution before the Annual General meeting to appoint PricewaterhouseCoopers LLP to hold office until the conclusion of the next General Meeting at which financial statements are laid before the company

### **Going Concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the directors continue to adopt the going concern basis in preparing the financial statements Refer to Note 1 of the financial statements

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



**N Gilchrist**

**Director**

**23 September 2013**

# **KCA DEUTAG Drilling Group Limited**

## **Independent auditors' report to the Members of KCA DEUTAG Drilling Group Limited**

We have audited the financial statements of KCA DEUTAG Drilling Group Limited for the year ended 31 December 2012 which comprise of the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities set out on page 3, 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). 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.

### **Scope of the audit of the financial statements**

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. In addition, we read all the financial and non-financial information in the annual report and financial statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.


## **KCA DEUTAG Drilling Group Limited**

### **Independent auditors' report to the members of KCA DEUTAG Drilling Group Limited (continued)**

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Mark Higginson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Aberdeen

25 September 2013

# KCA DEUTAG Drilling Group Limited

## Statement of comprehensive income for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Continuing operations</b>			
Other operating income / (cost)		129	(50)
<b>Operating profit / (loss)</b>		129	(50)
Income from shares in group undertakings	4	-	2,863
Finance income	5	56	367
Finance costs	5	(1,477)	(1,726)
<b>(Loss) / profit before taxation</b>	6	(1,292)	1,454
Taxation	8	-	-
<b>(Loss) / profit for the year</b>		(1,292)	1,454
<b>Other comprehensive income</b>			
Exchange loss		(156)	-
<b>Total comprehensive (loss)/income for the year</b>		(1,448)	1,454

The Company has no recognised gains and losses in either year other than those included within the income statement

There is no material difference between the loss before taxation and the profit for the year from continuing operations stated above, and their historical cost equivalents

The notes on pages 11 to 22 are an integral part of these financial statements

# KCA DEUTAG Drilling Group Limited

## Balance Sheet as at 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	9	270,870	106,447
		<b>270,870</b>	<b>106,447</b>
<b>Current assets</b>			
Trade and other receivables	10	14,405	3,303
Cash and cash equivalents	11	1	4,786
		<b>14,406</b>	<b>8,089</b>
<b>Total assets</b>		<b>285,276</b>	<b>114,536</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	(39,376)	(31,584)
		<b>(39,376)</b>	<b>(31,584)</b>
<b>Non current liabilities</b>			
Financial liabilities – borrowings	13	(545)	(573)
Other interest-bearing loans and borrowings (including preference shares)	14	(50)	(50)
		<b>(595)</b>	<b>(623)</b>
<b>Total liabilities</b>		<b>(39,971)</b>	<b>(32,207)</b>
<b>Net assets</b>		<b>245,305</b>	<b>82,329</b>
<b>Capital and reserves attributable to Company's owners</b>			
Share capital	16	144,424	144,424
Share premium reserve		120,414	120,414
Other reserves		165,068	800
Accumulated losses		(184,601)	(183,309)
<b>Total equity</b>		<b>245,305</b>	<b>82,329</b>

The notes on pages 11 to 22 are an integral part of these financial statements. The financial statements on pages 7 to 22 were approved by the board of directors on 23 September 2013 and signed on its behalf by

*Neil Gilchrist*

N Gilchrist  
Director

Registered Number 01059871

# KCA DEUTAG Drilling Group Limited

## Statement of changes in equity as at 31 December 2012

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Capital contribution reserve £'000	Currency translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2012	144,424	120,414	800	-	-	(183,309)	82,329
<b>Comprehensive income</b>							
Loss for the year	-	-	-	-	-	(1,292)	(1,292)
<b>Other comprehensive income</b>							
Exchange adjustment	-	-	-	-	(156)	-	(156)
<b>Total comprehensive expense</b>	-	-	-	-	(156)	(1,292)	(1,448)
<b>Transactions with owners</b>							
Capital contribution	-	-	-	164,424	-	-	164,424
<b>At 31 December 2012</b>	<b>144,424</b>	<b>120,414</b>	<b>800</b>	<b>164,424</b>	<b>(156)</b>	<b>(184,601)</b>	<b>245,305</b>

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Capital contribution reserve £'000	Currency translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2011	144,424	120,414	800	-	-	(184,763)	80,875
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	1,454	1,454
<b>Total comprehensive income</b>	-	-	-	-	-	1,454	1,454
<b>At 31 December 2011</b>	<b>144,424</b>	<b>120,414</b>	<b>800</b>	<b>-</b>	<b>-</b>	<b>(183,309)</b>	<b>82,329</b>

The notes on pages 11 to 22 are an integral part of these financial statements

The capital redemption reserve arose on the cancellation of the Company's deferred share capital in 1987 and was created in accordance with undertakings given to the High Court

# KCA DEUTAG Drilling Group Limited

## Cash flow statement for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Cash flows from operating activities</b>			
Cash (used in) / generated from operations	17	(3,149)	28,153
<b>Cash flows from investing activities</b>			
Interest paid		(1,453)	(1,673)
Dividends received		-	2,863
<b>Net cash (used in) / generated from investing activities</b>		<b>(1,453)</b>	<b>1,190</b>
<b>Cash flows from financing activities</b>			
Net repayment of borrowings		(28)	(31,856)
<b>Net cash used in financing activities</b>		<b>(28)</b>	<b>(31,856)</b>
Effect of exchange rate changes		(155)	314
<b>Net decrease in cash and cash equivalents</b>		<b>(4,785)</b>	<b>(2,199)</b>
Cash and cash equivalents at 1 January		4,786	6,985
<b>Cash and cash equivalents at 31 December</b>	11	<b>1</b>	<b>4,786</b>

Cash and cash equivalents set out above on the cash flow statement include overdraft facilities which form part of the Company's cash management

The notes on pages 11 to 22 are an integral part of these financial statements

# **KCA DEUTAG Drilling Group Limited**

## **Notes to the financial statements for the year ended 31 December 2012**

### **1 Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.

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 Limited, its UK parent company which prepares consolidated financial statements that are publicly available.

The Company had net current liabilities of \$24,970,000 due to net amounts owed to fellow group undertakings at the balance sheet date of \$24,966,000. However, the directors have obtained confirmation that fellow group undertakings will not require or demand repayment of amounts due to them which would result in the Company being unable to meet its obligations. This confirmation is valid for a minimum of 12 months from the date of approval of the financial statements.

### **2 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.

#### **Investments**

Investments held as non-current assets are shown at cost less appropriate provision where the directors consider that impairment in value has occurred. Investments are considered for impairment at least annually.

#### **Impairment**

The Company performs impairment reviews in respect of investments when circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than its carrying amount.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits with maturities of less than three months held with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### **Trade receivables**

Trade receivables are recognised initially at fair market value and subsequently less provision for impairment, if applicable. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due.

# **KCA DEUTAG Drilling Group Limited**

## **Notes to the financial statements for the year ended 31 December 2012 (continued)**

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

#### **Taxation**

The tax charge represents the sum of tax currently payable and deferred tax and management estimated provision for portfolio of tax claims. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the income statement 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 period. The Company's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income 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 consolidated financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, 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 income 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.

A tax charge is created to reflect management best estimate of the amount payable in relation to a portfolio of tax claims and the risk of occurrence of each claim.

#### **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities 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 non-current liabilities.

#### **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.

Interest-bearing bank loans and overdrafts are initially recorded at fair value including directly attributable transaction costs. Borrowings are stated net of the residual transaction costs.

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

Other interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

#### **Foreign currencies**

Transactions denominated in foreign currencies are translated and recorded at the rate of exchange ruling at the date of the transaction or contracted rates where appropriate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Translation gains or losses are included in the income statement for that period.

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

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

#### Disclosure of impact of accounting standards

##### *Amended standards and interpretations not relevant to the company*

The following amendment to the standard is mandatory as of 1 January 2012 but is currently not relevant to the Company and has no impact to the Company's financial statements

- Amendment to IAS12 'Income Taxes' on deferred tax

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company*

The following relevant standards and amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting year beginning on or after 1 January 2013 or later years, but the Company has not early adopted them

- IFRS 9 'Financial instruments'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- IFRS 13 'Fair value measurement'
- IAS 19 (revised 2011) 'Employee benefits'
- IAS 27 (revised 2011) 'Separate financial statements'
- IAS 28 (revised 2011) 'Associates and joint ventures'
- Amendment to IFRS 1 'Presentation of financial statements' on Other Comprehensive Income (OCI)
- Amendment to IFRS 1 on hyperinflation and fixed dates
- Amendment to IFRS 7 on financial instruments asset and liability offsetting

The Company is yet to assess the full impact of these standards and amendments but does not expect them to have a material impact on the financial statements

### 3 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. Where significant estimates or assumptions have been applied in estimating balances in the financial statements, these have been disclosed in the relevant notes to those balances.

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 4 Income from shares in group undertakings

	2012 £'000	2011 £'000
Dividends received from subsidiary undertaking	-	2,863

### 5 Finance costs - net

	2012 £'000	2011 £'000
Interest payable on bank borrowings	(32)	(327)
Interest payable to group undertakings	(1,445)	(1,399)
<b>Finance costs</b>	<b>(1,477)</b>	<b>(1,726)</b>
Interest receivable from group undertakings	29	53
Other finance income	27	314
<b>Finance income</b>	<b>56</b>	<b>367</b>
<b>Finance costs - net</b>	<b>(1,421)</b>	<b>(1,359)</b>

Other finance income represent exchange gains on non-functional currency debt which is denominated in US dollars

Interest receivable from group undertakings includes amounts totalling £29,000 (2011 £53,000) which relates to bank interest receivable on the Company's share of interest applied on the aggregated balances of the Company current accounts as distributed by a parent undertaking

Similarly interest payable to group undertakings includes amounts totalling £14,000 (2011 £27,000) which relate to bank interest payable on the Company's share of interest applied on the aggregated balances of the Group's current accounts as distributed by a parent undertaking

### 6 (Loss)/profit before taxation

(Loss)/profit before taxation is stated after crediting/(charging) the following amounts

	2012 £'000	2011 £'000
Foreign exchange gain / (loss)	139	(40)

The audit fees are borne by another company in the group For the purposes of disclosure, a fair allocation of the audit fee would be £5,000 (2011 £5,000)

### 7 Directors and employees

None of the directors who served during the year received any emoluments in respect of their services to the Company (2011 £nil)

The Company had no employees at any time during the year (2011 none)

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 8 Taxation

#### a) Analysis of charge for year

	2012 £'000	2011 £'000
Total tax charge (note 8 (b))	-	-

#### b) Factors affecting tax charge to year

The tax assessed for both years is higher (2011 lower) than the standard rate of corporation tax in the UK of 24.50% (2011 26.49%). The differences are explained below

	2012 £'000	2011 £'000
(Loss)/profit before taxation	(1,292)	1,454
(Loss)/profit before taxation at standard rate of corporation tax in the UK 24.50% (2011 26.49%)	(317)	385
Effects of		
Additional tax in respect of controlled foreign companies	49	437
Dividends received from subsidiary undertakings not taxable	-	(758)
Other permanent differences	(55)	-
Group relief surrendered / (received) for nil consideration	323	(48)
Deferred tax not recognised	-	(16)
<b>Current tax charge for the year (note 8(a))</b>	<b>-</b>	<b>-</b>

A resolution passed by parliament on 26 March 2012 reduced the main rate of UK corporation tax from 25% to 24% from 1 April 2012. Legislation to reduce the main rate of UK corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012.

In addition to the changes described above, a further reduction to the main rate was announced in the autumn statement 2012 to reduce the rate to 21% from 1 April 2014 and 20% from 1 April 2015. This further change has not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements. The proposed reduction to the tax rate does not have a material impact on these financial statements.

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 9 Investments

Shares in subsidiary undertakings	2012 £'000	2011 £'000
At 1 January	106,447	106,447
Additions	164,423	-
At 31 December	270,870	106,447

During the year management performed a review of the carrying value of investments. The review identified no impairment.

During the year, the company capitalised an intercompany loan which increased the company's investment in KCA Deutag Drilling Limited by £164,424,000 and resulted in the creation of a Capital Contribution Reserve for the same amount.

### 10 Trade and other receivables

	2012 £'000	2011 £'000
Amounts owed by group undertakings	14,405	3,303

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.

The fair value of the trade and other receivables are approximate to carrying amounts given that they are short term in nature.

### 11 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	1	4,786

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 12 Trade and other payables

	2012 £'000	2011 £'000
Accruals and deferred income	5	-
Amounts owed to group undertakings	39,371	31,584
	<b>39,376</b>	<b>31,584</b>

The amounts owed to group undertakings are unsecured and repayable on demand. Interest is payable on a total of £31,542,000 (2011: £31,542,000) of amounts owed to group undertakings at 31 December 2012. Interest is charged based on base rates plus appropriate margins. The remaining amounts owed to group undertakings are interest free.

The fair value of the trade and other payables are approximate to carrying amounts given that they are short term in nature.

### 13 Financial liabilities - borrowings

	2012 £'000	2011 £'000
<b>Non current liabilities</b>		
Non current bank loans - secured	545	573
	<b>545</b>	<b>573</b>

The bank loans are denominated in US dollars and bear interest based on LIBOR or foreign equivalents appropriate to the currency denomination of each borrowing. All bank loans and overdrafts bear interest at floating rates. These borrowings are generally rolled over for periods of six months or less, and as a result, their fair value is not deemed to be materially different from their book value.

The non-current bank loan facility is part of an overall KCA Deutag Alpha Limited facility which matures in March 2017.

The average interest rates of the Company's borrowings at the balance sheet dates were

	2012	2011
Bank borrowings	5.5%	5.3%

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 14 Other interest – bearing loans and borrowings (including preference shares)

Shares classified as debt:	2012 £'000	2011 £'000
<b>Authorised</b>		
35,000,000 redeemable preference shares of £1 each	35,000	35,000
<b>Allotted, called up and fully paid</b>		
50,000 redeemable preference shares of £1 each	50	50

The redeemable preference shares have the following rights

- (i) to receive first out of profits a dividend equal to the redemption yield on the 2016 2 50% Index Linked Gilt plus 4 25% increase each year in line with the Retail Prices Index from the date of issue of the initial preference shares of 22 December 2000,
- (ii) to attend and vote on any resolution at a general meeting of the company only on the question of abrogating, varying or modifying any of the rights or privileges of their owners,
- (iii) in a winding up, to receive payment of capital in preference to all other classes of share,
- (iv) the shares are redeemable on 3 January 2016 for £1 65 per share uplifted in line with the Retail Prices Index starting on the date of issue of the initial preference shares and ending 15 years thereafter

### 15 Financial instruments

#### a) Market risk

##### (i) Foreign exchange risk

The Company is exposed to foreign exchange risks only with respect to the US dollar mainly arising on its bank loans and also with regard to its transactions with subsidiary companies

A movement of 10% is considered to represent a material fluctuation of exchange rates Movement only in the exchange rate pairing between £ sterling and the US dollar has been considered as this has the potential to impact on the reported £ sterling profits and net assets

If £ sterling became 10% stronger against the US dollar, then revaluation of the balance sheet position as at 31 December 2012, would give rise to exchange gains of £6,000 (2011 losses of £91,000)

If £ sterling became 10% weaker against the US dollar, then revaluation of the balance sheet position as at 31 December 2012, would give rise to exchange losses of £6,000 (2011 gains £100,000)

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 15 Financial instruments (continued)

#### (ii) Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing borrowings

A movement of 1% is considered to represent a material fluctuation of interest rates

If the average interest rate had been 1% higher during 2012, then the profit before taxation would have been £216,000 lower (2011 £274,000 lower)

If the average interest rate had been 1% lower during 2012, assuming a floor rate of 0%, then the profit before taxation would have been £98,000 higher (2011 £35,000 higher)

#### (iii) Price risk

The Company is not exposed to any significant price risk in relation to its financial instruments

#### b) Credit risk

The Company is not exposed to any external credit risk as it does not trade externally and there is very low risk in relation to the inter-company balances as they are reviewed regularly for their recoverability. The company is also not exposed to any significant credit risk in relation to its bank accounts as all deposits are held with reputable institutions with high credit ratings

#### c) Liquidity risk

Liquidity risk is monitored at a group level headed by the Company's ultimate parent company, KCAD Holdings I Limited. The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the group and individual companies including the Company have sufficient funds for operations and planned expansions. At 31 December 2012, 100% (2011 100%) of the Company's borrowing facilities were due to mature in more than one year

#### d) Capital risk

The capital structure is monitored at a group level headed by the Company's ultimate parent company, KCAD Holdings I Limited

There were no forward foreign exchange contracts in place at either 31 December 2012 or 31 December 2011

#### Fair value of non-derivative financial assets and financial liabilities

The fair value of short-term borrowings, trade and other payables, cash and cash equivalents, and trade and other receivables approximates to the carrying amount because of the short maturity of interest rates in respect of these instruments. Long-term borrowings are generally rolled over for periods of six months or less, and as a result, book value and fair value are considered to be the same

	2012		2011	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
<b>Fair value of long-term borrowings</b>				
Long-term borrowings (note 13)	545	545	573	573

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 15 Financial instruments (continued)

#### Fair value of other financial assets and financial liabilities

Primary financial instruments held or issued to finance the Company's operations

	2012		2011	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Trade and other receivables (note 11)	14,405	14,405	3,303	3,303
Cash at bank and in hand (note 12)	1	1	4,786	4,786
Trade and other payables (note 13)	39,376	39,376	31,584	31,584
Other non-current liabilities (note 15)	50	50	50	50

#### Derivative financial instruments

There were no derivative financial instruments in place at either 31 December 2012 or 31 December 2011

### 16 Share capital

		2012 £'000	2011 £'000	
<b>Authorised</b>				
14,703,817,700 ordinary shares of 1p per share		147,038	147,038	
		147,038	147,038	
<b>Called up and fully paid</b>				
	Shares '000s	2012 £000	Shares '000s	2011 £000
<b>Ordinary shares of 1p per share</b>				
At 1 January and at 31 December	14,442,374	144,424	14,442,374	144,424

### 17 Cash (used in)/generated from operations

	2012 £'000	2011 £'000
(Loss)/profit before taxation	(1,292)	1,454
Adjustments for		
Net finance cost	1,421	1,359
Income from shares in group undertakings	-	(2,863)
Changes in working capital		
Increase in trade and other receivables	(11,102)	(3,021)
Increase in trade and other payables	7,824	31,224
<b>Cash (used in)/generated from operations</b>	<b>(3,149)</b>	<b>28,153</b>

# KCA DEUTAG Drilling Group Limited

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 18 Related party transactions

The following balances relate to transactions carried out with group undertakings

	2012 £'000	2011 £'000
Amounts owed by group undertakings (note 11)	14,405	3,303
Amounts owed to group undertakings (note 13)	39,371	31,584
Redeemable preference shares (note 15)	50	50

Significant transactions with group undertakings

	2012 £'000	2011 £'000
Interest paid	(1,421)	(1,673)
Dividends received from group undertakings	-	2,863

Bank loans, overdraft and guarantee facilities available to KCA Deutag Alpha Limited and certain subsidiaries, including the Company, of £857,315,000 (2011 £899,835,000) are secured inter alia by a cross guarantee and by a security agreement covering the assets of the Company

### 19 Capital commitments

The Company had no capital commitments at 31 December 2012 and 31 December 2011.

## KCA DEUTAG Drilling Group Limited

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 20 Principal subsidiary undertakings

The Company's principal subsidiary undertakings are as follows

Principal subsidiary undertakings	Country of incorporation	Principal activity
KCA DEUTAG Drilling Limited	Great Britain	Drilling services
KCA DEUTAG Caspian Limited	Great Britain	Drilling services
KCA DEUTAG Tiefbohrgesellschaft mbH *	Germany	Drilling services
KCA DEUTAG Drilling GmbH *	Germany	Drilling services
Bentec GmbH Drilling & Oilfield Systems *	Germany	Design engineering, fabrication of drilling and workover rigs
Oman KCA DEUTAG Drilling Company LLC*	Oman	Drilling services
KCA DEUTAG Drilling Inc*	USA	Design engineering, fabrication of drilling and workover rigs
KCA DEUTAG Drilling Norge AS*	Norway	Drilling Services

The above companies are wholly owned with the exception of Oman KCA DEUTAG Drilling Company LLC which is 60% owned. An asterisk denotes an investment held indirectly.

#### 21 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of Abbot Holdings Limited. 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 2012 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 Minto Drive, Altens, Aberdeen, AB12 3LW, United Kingdom.