KCA DEUTAG Drilling Limited
Annual report and financial statements
for the year ended 31 December 2016

Registered Number SC031961

KCA DEUTAG Drilling Limited

Annual report and financial statements

for the year ended 31 December 2016

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KCA DEUTAG Drilling Limited

Corporate Information

Board of Directors
G Paver
N McKay
N Gilchrist
A Byrne

Registered office
Bankhead Drive
City South Office Park
Portlethen
Aberdeenshire
AB12 4XX

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Capitol
431 Union Street
Aberdeen
AB11 6DA

Strategic and Operating Review

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

Review of the Business

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

References to the Group are in relation to KCAD Holdings I Limited. Please refer to note 24 for further information on group structure.

The Company's principal activities are the provision of drilling and related well and facilities engineering services, both offshore and onshore, on a worldwide basis. In the future we expect the Company to continue operations as described above.

Market Dynamics and Positioning

Over the course of 2015, 5 platforms operated in the UK North Sea. During the year 4 moved to maintenance mode resulting in 1 active string in 2016. As well as these units, we had a further 11 rigs in various states of maintenance including both warm and cold stack modes along with various minor drilling facility upgrades.

The most significant projects within RDS, the engineering division, in 2016 were BP Clair, which employed a sizeable team in London, and TAQA in Aberdeen. BP Clair support will continue throughout 2017 but at a much reduced scope along with TAQA, CNR and Conoco Phillips in Aberdeen. Most new RDS UK contracts are now within the new entity KCA Deutag Rig Design Services Ltd.

As shown in the Company's Profit and Loss Account on page 12, the Company's turnover has decreased by 45.3% and the cost of sales has decreased by 58.5%, resulting in a 36.2% increase in gross profit. The decrease in turnover is largely attributed to UK North Sea operations as outlined above, with decreased activity in 2016, with 1 operating string during the year. The decrease in cost of sales is also largely comprised of reduced costs from the UK North Sea operations with various rigs under maintenance in the year and company wide cost saving initiatives adopted during 2015 and continued in 2016. During 2016 we have also seen the weakening of the pound against the dollar which has resulted in significant exchange losses through the Profit and Loss account on non functional currency debtors. These factors contributed to a loss of £9,800k in 2016 compared to the loss of £4,126k in 2015.

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

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

Strategic and Operating Review (continued)

Principal Risks and Uncertainties
The undernoted principal risks and uncertainties are monitored at Group level and are not specific to KCA DEUTAG Drilling Limited.

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

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

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

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

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

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

Strategic and Operating Review (continued)

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

Subsequent to the year end the Group announced the successful issuance of an offering of $535 million of 9⅞% Senior Secured Notes due 2022. The proceeds from this offering were used to redeem in full $500 million of Senior Secured Notes due May 2018. In addition the Group also obtained consents from lenders under the Senior Facilities Agreement to amend certain terms including the resetting of certain financial covenant levels, as well as a maturity extension of the Revolving Credit Facility tenor and an increase in size of the Revolving Credit Facility.

Currency related risks

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

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

Business continuity risk

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

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

Before we enter a new country we carry out risk assessments and third party security reviews. To mitigate risks once operating in each country we have a robust emergency response system to ensure that we are able to move our personnel rapidly and safely in the event of an unplanned incident. We work with specialist third parties to maintain a good understanding of the security risks and how to react in each set of circumstances.

Where possible we seek to limit our exposure to higher risk regions such that an emergency in one location does not have a material impact on the ability of the Group to continue operating. In the past we have been able to rapidly redeploy personnel when required and reduce costs in impacted countries to a minimum.

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

Ethics and violation of applicable anti-corruption laws

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

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

Asset integrity & Compliance regime

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

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

Credit related risk

Although many of our customers have historically been blue chip international oil companies we also work for national oil companies, as well as independent operators. Because of the significant capital expenditure requirements for our clients to develop oil and gas assets, and the cyclical nature of commodity prices, some of our clients can become financially distressed, particularly in a sustained downturn which we have experienced over the past 2 years. We have also seen some sovereign states heavily dependent upon oil and gas struggling to balance their budgets and consequently being unable to access sufficient foreign currencies such as US Dollars to settle liabilities.

Strategic and Operating Review (continued)

In some cases local currencies have become illiquid and very difficult to convert to other currencies. During the course of 2015 and 2016 we have experienced difficulty in Angola in particular from the build-up of local currency cash balances which we have been unable to convert to US Dollars and delays in collection of amounts receivable in US Dollars. This has resulted in an increased level of trapped cash and aged receivables.

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

Key performance indicators
The Directors of KCAD Holdings I Limited manage the group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of KCA DEUTAG Drilling Limited. See note 24 for details of where copies of the Group's financial statements can be obtained.

On behalf of the Board:

G Paver
Director
31 August 2017

Directors' report for the year ended 31 December 2016

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

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

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

Results and dividends
The loss for the year from continuing operations deducted from reserves was £9,800k (2015: loss £4,126k). The Directors do not propose the payment of a final dividend (2015: £nil).

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

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

Directors' report for the year ended 31 December 2016 (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 8 to the financial statements on page 24.

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:
N McKay
N Gilchrist
A Byrne
G Paver

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

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

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

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

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

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving this report are listed on page 1. Having made enquiries of fellow Directors, each of these Directors confirm that:

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.

Independent Auditors

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

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. 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. Further details are provided in Note 2 to the financial statements.

On behalf of the Board

Gary Paver

G Paver
Director
31 August 2017

Independent auditors' report to the members of KCA Deutag Drilling Limited

Report on the financial statements

Our opinion

In our opinion, KCA Deutag Drilling Limited's financial statements (the "financial statements"):

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

What we have audited

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

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

KCA DEUTAG Drilling Limited

Profit and Loss Account for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover		**96,990**	177,364
Cost of Sales		**(63,296)**	(152,627)
Gross Profit		**33,694**	24,737
Administrative expenses		**(20,240)**	(17,731)
Operating Profit		**13,454**	7,006
Interest receivable and similar income	5	**394**	146
Interest payable and similar charges	6	**(22,518)**	(8,658)
Loss before taxation	7	**(8,670)**	(1,506)
Tax on loss	9	**(1,130)**	(2,620)
Loss for the financial year		**(9,800)**	(4,126)

The results have been derived wholly from continuing operations.

Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Loss for the financial year		**(9,800)**	(4,126)
Other comprehensive income (expense):			
Exchange differences on translation of foreign operations		**38,315**	8,473
Remeasurements on defined benefit pension schemes	20	**(6,393)**	343
Total other comprehensive income for the year		**31,922**	8,816
Total comprehensive income for the year		**22,122**	4,690

All items, with the exception of the remeasurements on defined benefit pension schemes, may subsequently be reclassified to the Profit and Loss Account.

Balance Sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Goodwill	11	**1,924**	1,924
Tangible assets	10	**13,528**	8,504
Investments	12	**209**	219
		15,661	10,647
Current Assets			
Debtors	13	**295,794**	254,824
Cash at bank and in hand		**100,067**	87,586
		395,861	342,410
Creditors: amounts falling due within one year	14	**(191,953)**	(165,033)
Net current assets		**203,908**	177,377
Total assets less current liabilities		**219,569**	188,024
Creditors: amounts falling due after more than one year	15	**(2,668)**	(500)
Provisions for liabilities	16	**(1,700)**	-
Pension and similar obligations	20	**(10,784)**	(5,229)
Net assets		**204,417**	182,295
Capital and reserves			
Called up share capital	18	**142,048**	142,048
Share premium account		**7,252**	7,252
Currency translation reserve		**49,429**	11,114
Capital contribution reserve		**490,594**	490,594
Profit and loss account		**(484,906)**	(468,713)
Total shareholders' funds		**204,417**	182,295

The financial statements on pages 12 to 34 were approved by the Board of Directors on 31 August 2017 and signed on its behalf by:

G Paver
Director

Registered number SC031961

KCA DEUTAG Drilling Limited

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

	Called up share capital	Share premium account	Currency translation reserve	Capital contribution reserve	Profit and loss account	Total Shareholders' funds
	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2016	142,048	7,252	11,114	490,594	(468,713)	**182,295**
Comprehensive expense						
Loss for the year	-	-	-	-	**(9,800)**	**(9,800)**
Other comprehensive income (expense)						
Remeasurements on defined benefit pension schemes	-	-	-	-	**(6,393)**	**(6,393)**
Exchange differences on translation of foreign operations	-	-	**38,315**	-	-	**38,315**
Total other comprehensive income (expense)	-	-	**38,315**	-	**(6,393)**	**31,922**
Total comprehensive income (expense)	-	-	**38,315**	-	**(16,193)**	**22,122**
At 31 December 2016	**142,048**	**7,252**	**49,429**	**490,594**	**(484,906)**	**204,417**

At 1 January 2015	142,048	7,252	2,641	490,594	(464,930)	**177,605**
Comprehensive expense						
Loss for the year	-	-	-	-	(4,126)	(4,126)
Other comprehensive income						
Remeasurements on defined benefit pension schemes	-	-	-	-	343	343
Exchange differences on translation of foreign operations	-	-	8,473	-	-	8,473
Total other comprehensive income	-	-	8,473	-	343	8,816
Total comprehensive income (expense)	-	-	8,473	-	(3,783)	4,690
At 31 December 2015	142,048	7,252	11,114	490,594	(468,713)	182,295

The notes on pages 15 to 34 are an integral part of these financial statements.

1 General information

KCA DEUTAG Drilling Limited ('the Company') provides drilling and related well and facilities engineering services, both offshore and onshore, on a worldwide basis.

The Company is a limited company incorporated in Scotland and domiciled in Scotland. The address of its registered office is 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 addressed the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historic cost convention.

The Company is a qualifying entity for the purposes of FRS 101. Note 24 gives details of the Company's ultimate parent and from where the consolidated financial statements prepared in accordance with IFRS may be obtained.

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

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

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

2 Basis of preparation (continued)

- 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.

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

The Company had net assets at the Balance Sheet date of £204,417k (2015: £182,295k). On this basis, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

3 Summary of significant accounting policies

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. This treatment is required to comply with FRS 101, but is not in accordance with SI 2008/410, "the large and Medium-sized Companies and Groups (Accounts and Reports) Regulations," which requires that all goodwill be amortised.

Amortising the Goodwill over a finite period, as required by the Companies Act, would not give a true and fair view over time. Accordingly the goodwill is not amortised. Instead an annual impairment test is undertaken and any impairment that is identified will be charges to the Profit and Loss Account. It is not possible to quantify the effect of the departure from the regulations, because no finite life for the Goodwill can be identified. However, the effect of amortising over a useful life of 20 years would be a charge of £96,200 (2015: £96,200) against operating profit.

For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. Such units are not larger than an operating segment determined in accordance with IFRS 8 "Segmental Reporting".

Tangible Fixed Assets

Tangible fixed assets held for use in the Company's operations, or for administrative purposes, are stated in the Balance Sheet at cost, net of accumulated depreciation and any provisions for impairment. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over their estimated useful lives.

3 Summary of significant accounting policies (continued)

Tangible Assets (continued)
The depreciation for drilling rigs and equipment is calculated by dividing the total number of days a rig is operational in any period over the total estimated number of operational days in the life of the asset. This equates to a useful life of between 3 and 25 years. Should a rig not be operational for an extended period, a charge to depreciation will be made based on its estimated useful life remaining.

Assets in the course of construction are not depreciated until brought into use.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Profit and Loss Account.

Other assets
Other assets are depreciated by a straight line method on the following basis:

Buildings	25 years
Plant, machinery and vehicles	2 – 10 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Profit and Loss Account.

Impairment
The Company performs impairment reviews in respect of investments and tangible fixed assets 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 recoverable amount and its value per an independent third party valuation, is less than its carrying amount. In the absence of comparable market transactions, a discounted cash flow model has been used to value the assets, as such a model is equivalent to what a market participant would use as a methodology for asset valuation.

Investments in subsidiary undertakings
Investments in subsidiary undertakings comprise of shares (at cost) and loans, net of provisions for impairment. Investments are considered for impairment when there are indicators that impairment may exist.

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

Taxation
The tax charge represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the Profit and Loss Account due to items that are not taxable or deductible in any period 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.

3 Summary of significant accounting policies (continued)

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

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

Bank borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value including directly attributable transaction costs. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Employee benefits - pension obligations
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The interest income on scheme assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in finance income/expense.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the Profit and Loss Account.

3 Summary of significant accounting policies (continued)

Employee benefits - pension obligations (continued)

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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 provided where there is a present obligation based on past events that it is probable that an outflow will be required and the financial outcome can be reliably measured.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Profit and Loss Account on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to the Profit and Loss Account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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.

3 Summary of significant accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency
These financial statements are presented in GBP 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, except where hedge accounting is applied.

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 and offshore platform drilling operations is recognised in the accounting period in which the services are rendered, typically based on a day rate for rigs or manpower provided to the customer. In offshore platform drilling, the Company provides personnel to operate and maintain customer owned assets based on contractually agreed rates. 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 income on significant contracts is recognised over the period of the contract to which it relates.

Mobilisation costs which are incurred in relation to the mobilisation of new rigs are capitalised and depreciated over the life of the rig. Any subsequent transportation costs for moving the rigs to new locations are expensed as incurred.

Interest income is accrued on a time basis, by reference to the principal amount outstanding and the effective interest rate applicable.

3 Summary of significant accounting policies (continued)

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

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.

Derivative financial instruments and hedge accounting
The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

The Company designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operation (net investment hedges).

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operation (net investment hedges). The Company currently only uses cash flow hedges and did not enter into any fair value or net investment hedges during the reporting period.

Where hedging is to be undertaken, the Company documents at the inception of the transactions the relationship between the hedging instrument and the hedging item, as well as its risk management objective and strategy for undertaking the hedge transaction.

3 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company performs effectiveness testing on an annual basis.

Changes in the fair value of cash flow hedges that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the Profit and Loss Account. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the Profit and Loss Account in the same year in which the hedged item affects net profit or loss.

Exceptional items

Exceptional items are those significant non-recurring items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the financial performance of the Company. Transactions which may give rise to exceptional items include write-downs or impairments of assets including goodwill, refinancing costs, restructuring costs and litigation settlements.

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. Significant judgements and estimates in these financial statements have been made with regard to tax balances (note 9) and depreciation on tangible fixed assets (note 10). An explanation of key uncertainties or assumptions used by the management in accounting for these items is explained, where material, in the respective notes.

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

5 Interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest receivable	394	107
Interest receivable from group undertakings	-	1
Other interest receivable	-	38
	394	146

6 Interest payable and similar charges

	2016 £'000	2015 £'000
Interest payable to group undertakings	(5,429)	(4,563)
Interest payable on borrowings	(4)	(381)
Other interest payable	(7)	-
Exchange losses - net	(17,078)	(3,714)
	(22,518)	(8,658)

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

7 Loss before taxation

The following items have been included in arriving at the loss before taxation:

	2016 £'000	2015 £'000
Employee benefits expense (note 8)	52,144	88,128
Depreciation of tangible fixed assets (note 10)	2,415	5,767
Operating lease rentals - land and buildings	2,488	3,767
Net foreign exchange gains	(2,441)	(991)
Impairment of investment (note 12)	10	-

Audit Remuneration

During the year the Company obtained the following services from the Company's auditor at the following cost:

	2016 £'000	2015 £'000
Audit services		
Fees payable to Company's auditor	164	164

8 Directors and employees

Directors' emoluments (including pension contributions) in respect of their services to the Company were as follows:

Director Emoluments	2016 £'000	2015 £'000
Remuneration was as follows:		
Aggregate emoluments	**1,416**	1,493

Highest paid Director	2016 £'000	2015 £'000
Remuneration was as follows:		
Aggregate emoluments	**771**	817

Retirement benefits are accruing to 3 (2015: 3) Directors under a defined contribution scheme.

Employee remuneration

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

	2016 £'000	2015 £'000
Wages and salaries	**42,245**	70,104
Social security costs	**5,015**	10,860
Other pension costs – defined benefit scheme	**2,681**	3,783
– personal pension plans (note 20(b))	**2,203**	3,381
	52,144	88,128

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

	2016 Number	2015 Number
Production	**458**	792
Administration	**147**	173
	605	965

KCA DEUTAG Drilling Limited

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

9 Tax on loss

(a) Analysis of charge in year

	2016 £'000	2015 £'000
Current tax		
Overseas tax - current year	**944**	2,446
Overseas tax - adjustment in respect of prior periods	**-**	101
Adjustments in respect of prior years	**186**	73
Total current tax charge (note 9 (b))	**1,130**	2,620

(b) Factors affecting tax charge in year

The tax assessed for both years is higher than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
Loss before tax	**(8,670)**	(1,506)
Loss before tax at standard rate of corporate tax in the UK 20.00% (2015: 20.25%)	**(1,734)**	(305)
Effects of:		
Group relief for nil consideration	**(189)**	(2,059)
Expenses not deductible for tax purposes	**(2)**	363
Other permanent differences	**1,900**	1,966
Adjustments in respect of foreign taxes	**756**	1,797
Adjustments in respect of prior year taxes	**186**	73
Deferred tax not recognised	**213**	785
Total tax charge for the year (note 9 (a))	**1,130**	2,620

The Company has not recognised potential deferred tax assets at 17% of £6,135,000 (2015: at 18% of £5,275,000) on the tax effect of deductible temporary difference, and unused tax credits as it may not be possible to utilise the potential benefit in future years.

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

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

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

10 Tangible fixed assets

	Land and buildings £'000	Drilling, rigs and equipment £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2016	1,324	33,355	6,708	41,387
Additions	5,891	943	680	7,514
Disposals	(1,099)	(4,418)	(5,549)	(11,066)
At 31 December 2016	**6,116**	**29,880**	**1,839**	**37,835**
Accumulated depreciation				
At 1 January 2016	953	25,424	6,506	32,883
Charge for the year	231	2,012	172	2,415
On Disposals	(1,099)	(4,343)	(5,549)	(10,991)
At 31 December 2016	**85**	**23,093**	**1,129**	**24,307**
Net carrying amount				
At 31 December 2016	**6,031**	**6,787**	**710**	**13,528**
At 31 December 2015	371	7,931	202	8,504

At 31 December 2016 is an amount of £4,710,270 (2015: £1,128,735) in relation to assets in the course of construction.

11 Goodwill

	2016 £'000	2015 £'000
Cost and net carrying amount		
At beginning and end of year	**1,924**	1,924

The goodwill value of £1,924,000 relates to the acquisition of RDS engineering business.

The Company tests goodwill annually for impairment, or more frequently if there is any indication that goodwill may be impaired. Goodwill acquired through business combinations is allocated, at acquisition, to cash-generating units (CGU's). The recoverable amount, based on the fair value less costs of disposal, is compared to the carrying value to identify any impairment.

The recoverable amounts of the CGU's are determined from the higher of discounted cash flow calculations and third party valuations. The key assumptions for the discounted cash flow calculations are those regarding discount rates, growth rates, rig dayrates, rig utilisation and capital investment. Management estimates discount rates using post tax rates that reflect current market assessments of the time value of money and risks specific to the CGU's.

11 Goodwill (continued)

Growth rates and changes in dayrates are based on past experience and expectations of future changes in the market

The Company prepares cash flow forecasts derived from the most recent financial forecasts approved by management for 2016 and extrapolates cash flows for five years based on expected growth rates for each CGU. These forecasts take into account current market conditions combined with management's view of future market conditions including rig dayrates and rig utilisations, and capital investment.. The recoverable amount has been compared to the carrying value of goodwill for each CGU and no impairment write down is required.

		Engineering
Growth Rate	**2016**	**2.5%**
	2015	2.5%
Discount Rate	**2016**	**12.0%**
	2015	12.0%

12 Investments

Investments comprise the cost of shares in subsidiary undertakings and associates as follows:

	2016 £'000	2015 £'000
At start of year	**219**	219
Amounts written off investments	**(10)**	-
At 31 December	**209**	219

During the year management performed a review of the carrying value of investments which resulted in the write off of £10k, in relation to an old investment balance with Technical Limit Services Limited. In 2015, the impairment review identified no impairment and therefore no write down to investments was required.

A list of principal subsidiary undertakings is given in note 25.

13 Debtors

	2016 £'000	2015 £'000
Trade debtors	**8,042**	19,385
Amounts owed by group undertakings	**286,776**	233,213
Other debtors	**338**	1,370
Prepayments and accrued income	**638**	856
	295,794	254,824

KCA DEUTAG Drilling Limited

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

13 Debtors (continued)

The fair value of debtors approximate to carrying amounts given they are short term in nature. The amounts owed by group undertakings are unsecured, interest free and repayable on demand. All group trading balances are settled on a monthly basis, therefore no impairment provision is required.

As of 31 December 2016, trade debtors of £8,042k (2015: £19,385k) were fully performing, and no provision was necessary for 2016 (2015: £nil). The other classes within debtors do not contain impaired assets.

Trade debtors are neither past due nor impaired. Management is confident that the trade debtor balance will be fully received in due course.

14 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	**961**	837
Amounts owed to group undertakings	**180,297**	150,812
Bank overdraft	**114**	24
Other taxes and social security payable	**1,098**	1,765
Accruals and deferred income	**9,483**	11,595
	191,953	165,033

The fair value of creditors due within one year are approximate to carrying amounts given that they are short term in nature. The amounts owed to group undertakings are unsecured and repayable on demand. Interest is payable on a total of £ 96,800k (2015: £79,812k) of the amounts owed to group undertakings as at 31 December 2016. Interest is charged based on LIBOR plus appropriate margins. The remaining amounts owed to group undertakings are interest free.

The bank overdrafts bear interest based on LIBOR or foreign equivalents appropriate to the currency denomination of each borrowing.

The average interest rates of the Company's borrowings at the Balance Sheet dates were as follows:

	2016	2015
	%	%
Bank borrowings	4.3	4.3
Amounts owed to group undertakings	6.4	6.0

15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Liability component of preference shares (note 17)	**500**	500
Other creditors	**2,168**	-
	2,668	500

16 Provisions for liabilities

	2016 £'000	2015 £'000
At 1 January	-	-
Provided during the year	**1,700**	-
At 31 December	**1,700**	-

17 Other interest–bearing loans and borrowings

	2016 £'000	2015 £'000
Shares classified as debt:		
250,000 A (2015: 250,000) 6% Cumulative preference shares of £1 each (issued at a premium of £14.50 each)	**250**	250
250,000 B (2015: 250,000) 6% Cumulative preference shares of £1 each (issued at a premium of £14.50 each)	**250**	250
	500	500

Shares classified as debt above relate to "A" and "B" cumulative preference shares. Both type 'A' and type 'B' 6% cumulative preference shares carry a fixed cumulative preferential dividend at the rate of 6% per annum, payable within 21 days of the end of the accounting reference period. On a winding up the holders of both type 'A' and type 'B' preference shares have priority before all other classes of shares to receive first any arrears of dividend, and second to receive repayment of capital. The holders of both type 'A' and type 'B' preference shares have no voting rights.

The fair value is not deemed to be materially different from the book value including share premium. A dividend of £nil (2015: £nil) was paid to preference shareholders. Dividends in arrears in respect of both "A" and "B" preference shares amounts to £120,000.

18 Called up share capital

	2016 **£'000**	2015 £'000
Authorised		
10,000 (2015: 10,000) ordinary shares of £1 each	**10**	10
14,203,817,700 (2015: 14,203,817,700) ordinary shares of 1p each	**142,038**	142,038

Issued and fully paid		
10,000 (2015: 10,000) ordinary shares of £1 each	**10**	10
14,203,817,700 (2015: 14,203,817,700) ordinary shares of 1p each	**142,038**	142,038

The shares rank pari passu and have the rights normally attaching to ordinary shares as prescribed by law - i.e. one share one vote with other matters being determined by the Companies Act, 2006.

19 Operating lease commitments – minimum lease payments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2016	2015
	£'000	£'000
Lease payments:		
- within one year	**1,934**	2,409
- between one and five years	**9,429**	10,338
- more than five years	**20,860**	27,054
	32,223	39,801

20 Retirement benefit obligations

During the year, the Company operated a number of different pension schemes and arrangements, details of which are shown below.

a) Defined benefit scheme

The KCA Drilling defined benefit scheme has been closed to new members for a number of years with existing members continuing to accrue benefits based on their current salary and number of years' service with the Company.

The Company is responsible for the ongoing funding of the closed OIS Teesside Ltd defined benefit scheme.

The most recent actuarial valuation of the scheme was carried out at 31 December 2016 by the Company's pension advisers and the principal assumptions made by the actuaries were:

KCA DEUTAG Drilling Limited

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

20 Retirement benefit obligations (continued)

	2016	2015
	%	%
Rate of increases in pensionable salaries	**4.1**	3.7
Rate of increases in pensions in payment and deferred pensions	**2.3**	2.2
Discount rate	**2.7**	3.9
Inflation assumption	**3.5**	3.1

The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

The life expectancy of a male member currently aged 40, retiring at age 65 is 91 years. The life expectancy of a female member currently aged 40, retiring at 65, is 93 years.

The amounts recognised in the Balance Sheet are determined as follows:

	2016	2015
	£'000	£'000
Present value of funded obligations	**(46,026)**	(37,434)
Fair value of scheme assets	**35,242**	32,205
Net liability	**(10,784)**	(5,229)

98% (2015: 98%) of the UK scheme assets are quoted and traded on recognised stock exchanges. The remainder of the assets are cash balances held by the schemes.
The amounts recognised in the Profit and Loss Account are as follows:

	2016	2015
	£'000	£'000
Current service cost	**130**	157
Interest cost	**1,404**	1,380
Interest Income	**(1,114)**	(1,009)
Total included within the Profit and Loss Account	**420**	528

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
	£'000	£'000
Present value of obligations, 1 January	**37,434**	37,678
Service cost	**130**	157
Interest cost	**1,404**	1,380
Remeasurements:		
Loss (gain) from change in financial assumptions	**10,603**	(1,090)
Gain from change in demographic assumptions	**(649)**	-
Member contributions	**38**	47
Benefits paid	**(2,934)**	(738)
Present value of obligations, 31 December	**46,026**	37,434

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

20 Retirement benefit obligations (continued)

Changes in the fair value of plan assets are as follows:

	2016 £'000	2015 £'000
Fair value of plan assets, 1 January	**32,205**	32,353
Interest Income	**1,114**	1,009
Employers contributions	**1,258**	281
Benefits paid	**(2,934)**	(738)
Remeasurement:return on plan assets, excluding amounts included in interest expense/income	**3,561**	(747)
Member contributions	**38**	47
Fair value of plan assets, 31 December	**35,242**	32,205

Analysis of the movement in the Balance Sheet liability:

	2016 £'000	2015 £'000
At 1 January	**5,229**	5,325
Total expense as above	**420**	528
Contributions	**(1,258)**	(281)
Remeasurements	**6,393**	(343)
At 31 December	**10,784**	5,229

Contributions expected to be paid to the plan during the year beginning after the Balance Sheet date are £245,130 (2015: £1,100,000).

b) Personal pension plans

During the year the Company contributed £2,189k (2015: £3,353k) to the KCA DEUTAG Drilling Limited Group Personal Pension Plan and £14k (2015: £28k) to other pension plans.

21 Related party transactions

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

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

22 Financial instruments

The Company had no derivative financial instruments at 31 December 2016 and 31 December 2015.

Interest rate swaps
The Company had no outstanding interest rate swaps at 31 December 2016 and 31 December 2015.

The Company only uses cash flow hedges and did not enter into any fair value or net investment hedges during either the reporting period or the preceding period.

23 Capital commitments

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

24 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of KCA DEUTAG Drilling Group 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 2016 the smallest and largest groups in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited and KCAD Holdings I Limited respectively. Copies of financial statements of KCAD Holdings I Limited and KCA Deutag Alpha Limited are available from Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, AB12 4XX.

25 Subsidiaries and associates

A full list of subsidiaries is shown below.

The Company's subsidiaries registered at Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, AB12 4XX are as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Drilling Services (UK) Limited	Indirect subsidiary	Great Britain
KCA DEUTAG Offshore UK Limited	Indirect subsidiary	Great Britain

The Company's subsidiaries registered at 11757 Katy Freeway, Suite 600, Houston, TX, 77079, USA are as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG LLC	Direct subsidiary	USA

KCA DEUTAG Drilling Limited

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

25 Subsidiaries and associates (continued)

The Company's subsidiaries registered at Espehaugen 37, 5258 Blomsterdalen, 1201 Bergen, Norway are as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Holdings Norge AS	Direct subsidiary	Norway
KCA DEUTAG Drilling Norge AS	Indirect subsidiary	Norway
KCA DEUTAG MODU Operations AS	Indirect subsidiary	Norway
Abbot Holdings Norge AS	Indirect subsidiary	Norway
KCA DEUTAG Offshore AS	Indirect subsidiary	Norway
KCA DEUTAG Drilling Offshore Services AS	Indirect subsidiary	Norway/Great Britain

The Company's subsidiaries registered at One Marina Boulevard # 28-00 Singapore 018989 are as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG PTE Limited	Indirect subsidiary	Singapore/Great Britain

The Company's subsidiary registered at PO Box 4327, Al Khobar 31952, Kingdom of Saudi Arabia is as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Drilling Saudi Arabia Limited	Direct subsidiary	Saudi Arabia

The Company's subsidiary registered at 2F, 59, Jangpyeong1-ro, Geoje-si, Gyeongsangnam-do, South Korea is as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Drilling Korea Co. Limited	Indirect subsidiary	South Korea

The Company's subsidiary registered at 100 New Gower Street, Suite 1100, Cabot Place, PO Box 5038, St. John's, New Foundland and Labrador, Canada is as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Drilling Canada Inc.	Direct subsidiary	Canada

The Company's subsidiary registered at No.4 Rajeyan St., Goyabadi St., Zafar Ave., Tehran, Iran is as follows:

Name	Relationship to Company	Country of Incorporation
KCA DEUTAG Iran Kish Drilling Company (in liquidation)	Direct subsidiary	Iran