KCA DEUTAG Drilling Limited

Annual report and financial statements

for the year ended 31 December 2013

Registered Number SC031961

KCA DEUTAG Drilling Limited

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for the year ended 31 December 2013

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KCA DEUTAG Drilling Limited

Board of Directors and other officers

Board of Directors
L Thomson
N McKay
N Gilchrist
G Paver

Registered office
Minto Drive
Altens
Aberdeen
AB12 3LW

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
32 Albyn Place
Aberdeen
AB10 1YL

KCA DEUTAG Drilling Limited

Strategic and Operating Review

The directors present their strategic report of the Company for the year ended 31 December 2013.

Review of the Business

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

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 outlined below.

Market Dynamics and Positioning

Throughout 2013, 8 platforms operated in the UK North Sea. Activity has significantly increased from 2012 with 5 of our 7 contracts successfully renegotiated or extended. During the year we have successfully reactivated four drilling rigs and up-manned from 550 to 720 personnel. Activity in 2014 is expected to increase from 2013 levels.

The Benguela Belize platform rig for CABGOC continued to successfully operate during 2013 with strong performance results. The contract is up for re-tender in April 2014, however a short term extension until October 2014 has been received.

A new contract started with Daewoo in Myanmar in June 2013. The contract is expected to continue throughout 2014.

RDS, the engineering division, had several large projects in 2013 – BP Clair employed a significant team in London as did Total Dunbar & Enquest Heather in Aberdeen. BP Clair follow on engineering will continue throughout 2014 but both Enquest Heather and Total Dunbar will be complete by February and September respectively. Most new RDS UK contracts are now within the new entity KCA Deutag Rig Design Services Ltd.

As shown on the Company's Profit and Loss Account on page 9 the Company's turnover has increased by 20.4% (2012: increase of 17.3%) and profits have increased by 65.0% compared to the previous year, due to the factors outlined above.

Principal Risks and Uncertainties

Strong processes around Health, Safety and the Environment (HSE) have always been a core value of the Company. Significant investments have been made in the training of staff and the development of high quality systems and processes. We routinely work with our customers and suppliers to ensure that HSE is at the core of everything we do. Keeping our people safe and protecting the environment is a key value and one that we view as fundamental to our ability to provide services to our clients.

During 2013 KCA Deutag Drilling Limited continued to place significant focus on the enhancement of its corporate governance activities – especially around the management of risk and internal audit. Driven by the Board of Directors down to line management, we further developed the internal audit function during 2013.

Strategic and Operating Review (continued)

Working with the Board, the Audit Committee, and using our existing risk management and risk awareness and assessment processes, the internal audit function has conducted a wide ranging review of the Group's principal operations and key functions and processes. Staffing of the Internal Audit group has been strengthened during the year and is to be supplemented by the creation of an internal controls function and enhanced corporate governance procedures in 2014.

In a tightening international drilling market, with high tender activity, we managed to maintain a high level of asset utilisation and increase order backlog on strong contractual terms, in line with our standard contracting principles and with good early termination protection. This allows us to mitigate the downside risk and exposures on new and existing contracts.

The proactive management and detailed interrogation of the Group's cost base has always been part of the Group's culture and we have continued our efforts in cost and working capital management to maintain a strong underlying business and competitive position. During 2013 we started to deliver on the business efficiency process which was commenced in 2012 with the assistance of external advisers. We remain on track to deliver the expected savings through improved procurement processes, as well as a wide range of cost reduction and other process improvement initiatives.

The Group has always been exposed to political risk due to the nature of the markets in which we operate. This exposure is mitigated through the broad spread of geographies in which we carry out operations, as well as the customer base with whom we contract. Where possible we put in place contractual mechanisms to protect our revenues in the event of political or other events impacting operations. In addition we have access to specialist security advisers to support our decision making and assist in the event of significant civil or political unrest.

The buoyant international drilling market does of course present challenges, especially in the recruitment and retention of experienced and competent staff. The Group has a number of specific strategies to address this challenge, successfully demonstrated in the past with the rapid growth seen in our Caspian and Russian operations. In 2013 we have continued our efforts and investment in our training and development plan and in succession planning for our key supervisors and management.

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.

Garry Paver

G Paver
Director
27 June 2014

KCA DEUTAG Drilling Limited

Directors' report for the year ended 31 December 2013

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

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 3. 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
Other performance including environmental and employee matters	Strategic and Operating Review	2
Principal risks and uncertainties facing the business	Strategic and Operating Review	2
Explanation of amounts included in the financial statements	Notes to the Financial Statements	12

Results and dividends
The profit for the year from continuing operations transferred to reserves was £14,404,000 (2012: profit £8,729,000).
During the year the Company did not pay a preference dividend (2012: £nil). The directors do not propose the payment of a final dividend (2012: £nil).

Principal risks and uncertainties
The principal risks and uncertainties are discussed within the strategic and operating review on page 2.

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
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 2013, the Company's ordinary shares were wholly owned by KCA DEUTAG Drilling Group Limited.

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.

Directors' report for the year ended 31 December 2013 (continued)

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant. If employees become disabled every effort is made to ensure that their employment with the 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 7 to the financial statements on page 19.

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:

L Thomson	(appointed 31 March 2014)
M Walker	(resigned 31 January 2013)
N Stevenson	(resigned 21 January 2013)
A Bigman	(resigned 21 January 2013)
L Andrew	(resigned 31 March 2014)
N McKay	
N Gilchrist	(appointed 15 January 2013)
G Paver	(appointed 22 April 2014)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and 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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statement; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report for the year ended 31 December 2013 (continued)

Statement of directors' responsibilities (continued)

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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

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

Going Concern

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. Further details are provided in Note 1 to the financial statements.

On behalf of the Board

G Paver
Director
27 June 2014

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by KCA DEUTAG Drilling Limited, comprise:

- the balance sheet as at 31 December 2013;
- 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 their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (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.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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 5, 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 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.

Mark Higg

Mark Higginson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
27 June 2014

Profit and Loss Account for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Turnover		**213,154**	176,978
Cost of sales		**(173,742)**	(133,108)
Gross Profit		**39,412**	43,870
Administrative expenses		**(28,230)**	(29,675)
Exceptional items, net	3	**8,610**	-
Operating Profit		**19,792**	14,195
Interest receivable and other income	4	**1,647**	3,645
Interest payable and other charges	5	**(5,304)**	(7,835)
Profit on ordinary activities before taxation	6	**16,135**	10,005
Tax on profit on ordinary activities	8	**(1,731)**	(1,276)
Profit for the financial year		**14,404**	8,729

The results have been derived wholly from continuing operations.

Statement of comprehensive income for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Profit for the year		**14,404**	8,729
Other comprehensive income/(expense):			
Net movement on cash flow hedges		**794**	3,212
Net movement on translation reserves		**(3,692)**	(3,646)
Remeasurements on defined benefit pension schemes	18	**1,738**	(746)
Total other comprehensive expense for the year		**(1,160)**	(1,180)
Total comprehensive income for the year		**13,244**	7,549

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

The notes on pages 12 to 29 are an integral part of these financial statements.

KCA DEUTAG Drilling Limited

Balance Sheet as at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed Assets			
Tangible assets	9	**12,107**	11,410
Intangible assets	10	**1,924**	1,924
Investments	11	**219**	219
		14,250	13,553
Current Assets			
Debtors	12	**293,120**	321,122
Cash at bank and in hand		**13**	2,462
		293,133	323,584
Creditors: amounts falling due within one year	13	**(145,826)**	(112,965)
Net current assets		**147,307**	210,619
Total assets less current liabilities		**161,557**	224,172
Creditors: amounts falling due after more than one year	14	**(500)**	(73,832)
Retirement benefit obligations	18	**(2,245)**	(4,772)
Net assets		**158,812**	145,568
Capital and reserves attributable to Company's owners			
Called-up share capital	16	**142,048**	142,048
Share premium account		**7,252**	7,252
Hedging reserve		**-**	(794)
Translation reserve		**(7,338)**	(3,646)
Capital contribution reserve		**164,424**	164,424
Profit and loss account		**(147,574)**	(163,716)
Total shareholders' funds		**158,812**	145,568

The notes on pages 12 to 29 are an integral part of these financial statements.

The financial statements on pages 9 to 29 were approved by the board of directors on 27 June 2014 and signed on its behalf by:

G Paver
Director

Registered number SC031961

KCA DEUTAG Drilling Limited

Statement of changes in equity as at 31 December 2013

	Called-up share capital	Share premium account	Hedging reserve	Currency translation reserve	Capital contribution reserve	Profit and Loss account	Total Shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2013	142,048	7,252	(794)	(3,646)	164,424	(163,716)	145,568
Comprehensive income							
Profit for the year	-	-	-	-	-	14,404	14,404
Other comprehensive income							
Net movement on cash flows hedges	-	-	794	-	-	-	794
Exchange differences on foreign operations	-	-	-	(3,692)	-	-	(3,692)
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	1,738	1,738
Total other comprehensive expense	-	-	794	(3,692)	-	1,738	(1,160)
Total comprehensive income	-	-	794	(3,692)	-	16,142	13,244
At 31 December 2013	142,048	7,252	-	(7,338)	164,424	(147,574)	158,812
At 1 January 2012	142,048	7,252	(4,006)	-	-	(171,699)	(26,405)
Comprehensive income							
Profit for the year	-	-	-	-	-	8,729	8,729
Other comprehensive income							
Net movement on cash flows	-	-	3,212	-	-	-	3,212
Exchange differences on foreign operations	-	-	-	(3,646)	-	-	(3,646)
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(746)	(746)
Total other comprehensive income	-	-	3,212	(3,646)	-	(746)	(1,180)
Total comprehensive income	-	-	3,212	(3,646)	-	7,983	7,549
Transactions with owners							
Recapitalisation	-	-	-	-	164,424	-	164,424
At 31 December 2012	142,048	7,252	(794)	(3,646)	164,424	(163,716)	145,568

The notes on pages 12 to 29 are an integral part of these financial statements.

1 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") except for the departure explained in note 2. 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 Company is a qualifying entity for the purposes of FRS 101. Note 22 gives details of the Company's ultimate parent and from where the consolidated financial statements prepared in accordance with IFRS may be obtained. These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 January 2012. The previous financial statements were prepared in accordance with IFRSs as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The adoption of FRS 101 has not resulted in any change to the measurement principles under IFRSs and therefore the comparatives have not been restated, other than for certain presentational changes to comply with the Act's requirements.

The adoption of Financial Reporting Standard 101 has enabled the Company to take advantage of certain disclosure exemptions, most notably in respect of financial instruments (IFRS 7 requirements) and related party transactions with fellow 100% subsidiaries of KCA Deutag Drilling 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 cashflows including comparatives and statement of compliance with all IFRS;*
- *IAS 8: Accounting policies, changes in accounting estimates and errors' for the disclosure of new standards not yet effective;*
- *IAS 24: Related party disclosures in respect of key management compensation;*
- *IAS 24: Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group; and*
- *IAS 36: Impairment of assets in respect of the assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts.*

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.

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.

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 charged 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 (2012: £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 depreciation and any provision 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.

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 10 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.

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.

2 Summary of significant accounting policies (continued)

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 fair value less costs to sell and its value in use, is less than its carrying amount.

Investments in group undertakings
Investments in subsidiary undertakings comprise 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 market value and subsequently 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.

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 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 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. Such transaction costs are subsequently amortised over the remaining term associated with the borrowings. Borrowings are stated net of the residual transaction costs.

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.

2 Summary of significant accounting policies (continued)

Employee benefits - pension obligations (continued)
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 income.

For defined contribution plans, the group 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.

The Company has considered the impact of potentially restating the 2012 profit and loss and remeasurement figures in the statement of other comprehensive income in relation to the amendments in IAS 19. The value of such a restatement adjustment has been found to be immaterial and does not fundamentally alter the financial statement for 2012.

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

Operating leases
Rentals payable on operating leases are charged to the profit and loss account on a straight line basis over the term of the relevant lease.

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 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.

2 Summary of significant accounting policies (continued)

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 profit and loss account for that period. The functional currency of the Company is sterling (GBP) as this is the currency of the country in which the Company operates and it reflects the economic substance of underlying transactions and circumstances of the Company.

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 drilling operations is recognised in the accounting period in which the services are rendered.
The Company recognises flow through turnover based on the gross amount received or receivable in respect of its performance under the sales contract with the customer.

Incentive income is recognised when earned.

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

Mobilisation costs 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.

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.

2 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)
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 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.

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 a semi-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 equity 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 period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

The fair value of the interest rate swaps is estimated based on the discounting of expected future cash flows at prevailing interest rates at the balance sheet date, which is classified as level 2.

2 Summary of significant accounting policies (continued)

Critical 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. Significant judgements and estimates in these financial statements have been made with regard to tax balances (note 8) and tangible fixed assets (note 9). An explanation of key uncertainties or assumptions used by the management in accounting for these items is explained, where material, in the respective notes.

3 Exceptional items

		2013 £'000	2012 £'000
Write back of amounts owed to group undertakings	(a)	**8,610**	-

(a) The write back of amounts owed to group undertakings relates to loans from subsidiary undertakings following the liquidation of the following dormant companies: Deutag UK Limited, KCA Drilling UK Limited, Sandpiper Drilling Limited, Albyn Drilling Services and Deutag Overseas NV.

4 Interest receivable and other income

	2013 £'000	2012 £'000
Bank interest receivable	-	2
Interest receivable from group undertakings	**1**	6
Other finance income	**1,646**	3,637
	1,647	3,645

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

5 Interest payable and other charges

	2013 £'000	2012 £'000
Interest payable on overdrafts and interest rate swaps	**(832)**	(3,322)
Interest payable to group undertakings	**(4,472)**	(4,513)
	(5,304)	(7,835)

Notes to the financial statements for the year ended 31 December 2013 (continued)

6 Operating profit

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

		2013	2012
		£'000	£'000
Employee benefits expense (note 7)		**30,182**	23,981
Depreciation of tangible fixed assets (note 9)		**2,595**	2,902
Operating lease rentals	- land and buildings	**551**	286
	- other	**3**	15
Net foreign exchange (gain)/loss		**(4,439)**	297

Audit Remuneration
During the year the Company obtained the following services from the Company's auditor at the following cost.

	2013	2012
	£'000	£'000
Audit services		
Fees payable to Company's auditor	**164**	164

7 Directors and employees

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

	2013	2012
Directors/Highest paid director	**£'000**	£'000
Remuneration was as follows:		
Aggregate emoluments	**530**	486

Retirement benefits are accruing to 3 (2012: 3) directors under a defined contribution scheme.

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

		2013	2012
		£'000	£'000
Wages and salaries		**24,210**	19,734
Social security costs		**2,918**	2,440
Other pension costs	- defined benefit scheme	**2,093**	502
	- personal pension plans (note 18(b))	**961**	1,305
		30,182	23,981

7 Directors and employees (continued)

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

	2013 Number	2012 Number
Production	**155**	136
Administration	**155**	146
	310	282

8 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2013 £'000	2012 £'000
Corporation tax on profits for the year		
Overseas tax	**1,731**	1,276
Total current tax (note 8 (b))	**1,731**	1,276

(b) Factors affecting tax charge in year

The tax assessed for both years is lower than the standard rate of corporation tax in the UK of 23.25% (2012: 24.50%). The differences are explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	**16,135**	10,005
Profit on ordinary actvities before tax at standard rate of corporate tax in the UK 23.25% (2012: 24.50%)	**3,752**	2,451
Effects of:		
Group relief for nil consideration	**(2,547)**	(2,467)
Expenses not deductible for tax purposes	**46**	37
Other permanent differences	**(21)**	1,077
Adjustments in respect of foreign taxes	**28**	964
Deferred tax not recognised	**473**	(786)
Total tax charge for the year (note 8(a))	**1,731**	1,276

The Company has not recognised potential deferred tax assets at 20% of £3,383,000 (2012: at 23% of £4,068,000) 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.

A resolution passed by UK Parliament on 26 March 2012 reduced the main rate of UK corporation tax from 25% to 24% from 1 April 2012. The Finance Act 2012 reduced the UK Corporation tax rate from 24% to 23% with effect from 1 April 2013.

8 Tax on profit on ordinary activities (continued)

Further changes to the UK Corporation tax rates were enacted on 17 July 2013 in the Finance Act 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015.

9 Tangible fixed assets

	Land and buildings £'000	Drilling, rigs and equipment £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2013	359	29,995	5,190	35,544
Additions	-	3,268	209	3,477
Disposals	-	(257)	-	(257)
At 31 December 2013	**359**	**33,006**	**5,399**	**38,764**
Accumulated depreciation				
At 1 January 2013	268	18,676	5,190	24,134
Charge for the year	26	2,503	66	2,595
On Disposals	-	(72)	-	(72)
At 31 December 2013	**294**	**21,107**	**5,256**	**26,657**
Net Book Value				
At 31 December 2013	**65**	**11,899**	**143**	**12,107**
At 31 December 2012	91	11,319	-	11,410

Included in property, plant and equipment at 31 December 2013 is an amount of £230,379 (2012: £336,766) in relation to assets in the course of construction.

10 Intangible assets

	2013 £'000
Goodwill:Cost and net carrying amount	
At beginning and end of year	**1,924**

The goodwill value of £1,924,000 relates to the acquisition of the 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 receivable amount at each CGU is compared to the carrying value to identify any impairment.

10 Intangible assets (continued)

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to day rates and indirect costs in the period. 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. Growth rates and changes in day rates and direct costs 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 2013 and extrapolates cash flow for the following five years based on expected growth rates for each CGU. These forecasts take into account current market conditions combined with management's expectations of assumed growth from 2012 onwards. The value in use has been compared to the net book value of goodwill for each CGU and no impairment write down is required.

		Engineering
Growth Rate	**2013**	**2.5%**
	2012	2.5%
Discount Rate	**2013**	**11.0%**
	2012	11.0%

11 Investments

	Share in Group undertakings £'000
Cost and net carrying amount	
At 1 January 2013 and at 31 December 2013	**219**

During the year management performed the annual review of the carrying value of investments and found that there had been no impairment.

The principal subsidiary undertakings of the Company are as follows:

Name of undertaking	**Country of incorporation or registration**	**Proportion of nominal value of issued ordinary share held**
KCA DEUTAG Holdings Norge AS	Norway	100%
KCA DEUTAG LLC	USA	100%
KCA DEUTAG Saudi Arabia Limited	Saudi Arabia	*51%

*By virtue of shareholders agreement, 100% of the results of this entity are for account of the ultimate parent company.

The activities of all the above companies are the provision of drilling services to other group companies.

12 Debtors

	2013 £'000	2012 £'000
Trade debtors	**34,703**	26,286
Amounts owed by group undertakings	**257,558**	294,410
Other debtors	**289**	289
Prepayments and accued income	**570**	137
	293,120	321,122

The amounts owned by group undertakings are unsecured and repayable on demand. Interest is receivable on a total of £10,000 (2012: £9,000) of the amounts owed by group undertakings as at 31 December 2013. Interest is charged based on base rates plus appropriate margins. The remaining amounts owed by group undertakings are interest free. All group trading balances are settled on a monthly basis, therefore no impairment provision is required.

As of 31 December 2013, trade debtors of £34,703,000 (2012: £26,286,000) were fully performing, and no provision was necessary for 2013 (2012: £nil). The other classes within debtors do not contain impaired assets.

13 Creditors - amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	**3,640**	3,374
Amounts owed to parent company	**12**	36
Amounts owed to group undertakings	**127,075**	92,010
Bank overdraft	**200**	2,224
Other taxes and social security payable	**753**	858
Accruals and deferred income	**14,146**	13,659
Financial liabilities - derivative financial instruments - note 20	**-**	804
	145,826	112,965

The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The bank overdrafts bear interest based on LIBOR or foreign equivalents appropriate to the currency denomination of each borrowing. As part of the interest rate management strategy, the Company had entered into an interest rate swap contract. Details of the interest rate swap are included in note 20.

The average interest rate of the Company's overdraft facility as at 31 December 2013 was 0.7% (2012: 0.3%).

14 Creditors - amounts falling due after more than one year

	2013 £'000	2012 £'000
Amounts due to subsidiary undertakings	-	(73,332)
Liability component of preference shares - note 15	(500)	(500)
	(500)	(73,832)

The loans owed to group undertakings bear interest based on LIBOR plus appropriate margins. As part of the interest rate management strategy, the company has entered into an associated interest rate swap contract which expired in March 2013. Details of the interest rate swap are included in note 20.

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

	2013 %	2013 %
Amounts owed to group undertakings	5.8	10.4

15 Other interest–bearing loans and borrowings

	2013 £'000	2012 £'000
Shares classified as debt:		
250,000 (2012: 250,000) A 6% Cumulative preference shares of £1 each (issued at a premium of £14.50 each)	250	250
250,000 (2012: 250,000) B 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 (2012: £ nil) was paid to preference shareholders. Dividends in arrears in respect of both "A" and "B" preference shares amounts to £60,000.

16 Called-up share capital

Authorised, called-up and fully paid:

	2013	
	Shares	**£'000**
Ordinary shares of £1 each		
At 1 January and 31 December	**10,000**	**10**
Ordinary shares of 1p each		
At 1 January and 31 December	**14,203,817,700**	**142,038**

KCA DEUTAG Drilling Limited is a limited company incorporated and domiciled in Scotland.
The shares rank pari passu and have the rights normally attaching to ordinary shares as prescribed by law - ie one share one vote with other matters being determined by the Companies Act, 2006.

17 Operating lease commitments – minimum lease payments

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

	Land and Buildings	
	2013	2012
	£'000	£'000
Lease payments:		
- within one year	**816**	334
- between one and five years	**271**	65
	1,087	399

18 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. At 31 December 2013 there were 17 active members and 58 deferred members and 25 pensioners.

18 Retirement benefit obligations (continued)

The most recent actuarial valuation of the scheme was carried out at 31 December 2013 by the Company's pension advisers and the principal assumptions made by the actuaries were:

	2013	2012
	%	%
Rate of increases in pensionable salaries	**4.0**	3.6
Rate of increases in pensions in payment and deferred pensions	**2.5**	2.5
Discount rate	**4.6**	4.3
Inflation assumption	**3.4**	3.0

The life expectancy of a male member currently aged 45, retiring at age 65 is 89 years. The life expectancy of a female member currently aged 45, retiring at 65, is 91 years.

The amounts recognised in the balance sheet are determined as follows:

	2013	2012
	£'000	£'000
Present value of funded obligations	**(32,719)**	(33,009)
Fair value of scheme assets	**30,474**	28,237
Net liability	**(2,245)**	(4,772)

98% (2012: 95%) of the UK schemes 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:

	2013	2012
	£'000	£'000
Current service cost	**311**	303
Interest cost	**1,382**	1,393
Interest Income	**(1,060)**	(1,016)
Total included within administrative expenses	**633**	680

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

	2013	2012
	£'000	£'000
Present value of obligations, 1 January	**33,009**	30,303
Service cost	**311**	303
Interest cost	**1,382**	1,393
Remeasurement:(gain)/loss from change in financial assumptions	**(336)**	2,241
Member contributions	**76**	90
Benefits paid	**(1,723)**	(1,321)
Present value of obligations, 31 December	**32,719**	33,009

Notes to the financial statements for the year ended 31 December 2013 (continued)

18 Retirement benefit obligations (continued)

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

	2013	2012
	£'000	£'000
Fair value of plan assets, 1 January	**28,237**	24,761
Interest Income	**1,060**	1,016
Remeasurement:return on plan assets, excluding amounts included in interest expense/income	**1,402**	1,390
Benefits paid	**(1,723)**	(1,321)
Employer contributions	**1,422**	2,301
Member contributions	**76**	90
Fair value of plan assets, 31 December	**30,474**	28,237

Analysis of the movement in the balance sheet liability:

	2013	2012
	£'000	£'000
1 January	**4,772**	5,647
Total expense as above	**633**	680
Contributions	**(1,422)**	(2,301)
Remeasurements	**(1,738)**	746
31 December	**2,245**	4,772

Contributions expected to be paid to the plan during the annual period beginning after the balance sheet date is £1,362,000 (2012: £1,362,000).

b) Personal pension plans

During the year the Company contributed £937,000 (2012: £1,227,000) to the KCA DEUTAG Drilling Limited Group Personal Pension Plan and £24,000 (2012: £78,000) to other personal pension plans.

19 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.

20 Financial instruments

The fair value of the Company's derivative financial instruments at the balance sheet date was as follows:

	2013		2012	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Interest rate swap - cash flow hedge (level 2)	-	-	-	(804)
Total derivative financial instruments – current	-	-	-	(804)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability if the maturity of the hedged item is less than 12 months.

The Group's derivative financial instruments have been classified using the fair value hierarchy set out below The level in the fair value hierarchy that each instrument is categorised is detailed in the table above. There was no ineffectiveness recognised in the profit and loss account from cash flow hedges in either the current or preceding year.

Interest rate swaps

The Company had no outstanding interest rate swaps at 31 December 2013. The notional principal amount of the Company's outstanding interest rate swaps at 31 December 2012 was £63,509,400.

At 31 December 2012, the fixed interest rate excluding margin was 5.43% and the floating rate was 0.21%. The interest rate swap was for a period of 5 years in total and expired in March 2013.

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

The level referred to in the table above relate to the following Fair Value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that can be accessed at the measurement date;

Level 2: Valuations containing inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly; and

Level 3: Valuations containing unobservable inputs.

21 Capital commitments

The Company had no capital commitments at 31 December 2013 and 31 December 2012.

KCA DEUTAG Drilling Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

22 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.

KCAD Holdings I Limited was incorporated during March 2011. At 31 December 2013 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.