



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 987 558 741
Organisasjonsform: Aksjeselskap
Foretaksnavn: KCA DEUTAG HOLDINGS NORGE AS
Forretningsadresse: Espehaugen 37
5258 BLOMSTERDALEN

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

Konsern

Mørselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Forenklet IFRS
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Anders Langeland
Dato for fastsettelse av årsregnskapet: 10.06.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 18.08.2022



Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Kostnader			
Annen driftskostnad		124 000	95 000
Sum kostnader		124 000	95 000
Driftsresultat		-124 000	-95 000
Finansinntekter og finanskostnader			
Annen finansinntekt	5	9 164 000	0
Sum finansinntekter		9 164 000	0
Annen rentekostnad		17 704 000	23 234 000
Annen finanskostnad		1 000	0
Sum finanskostnader		17 705 000	23 234 000
Netto finans		-8 541 000	-23 234 000
Ordinært resultat før skattekostnad		-8 665 000	-23 329 000
Ordinært resultat etter skattekostnad		-8 665 000	-23 329 000
Årsresultat		-8 665 000	-23 329 000
Overføringer og disponeringer			
Overføringer til/fra annen egenkapital		-8 665 000	-23 329 000
Sum overføringer og disponeringer		-8 665 000	-23 329 000



Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Finansielle anleggsmidler			
Investering i datterselskap	6	1 313 742 000	1 313 742 000
Sum finansielle anleggsmidler		1 313 742 000	1 313 742 000
Sum anleggsmidler		1 313 742 000	1 313 742 000
Omløpsmidler			
Varer			
Fordringer			
Konsernfordringer	8	10 576 000	0
Sum fordringer		10 576 000	0
Sum omløpsmidler		10 576 000	0
SUM EIENDELER		1 324 318 000	1 313 742 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Selskapskapital	7	1 652 101 000	1 652 101 000
Overkurs	7	3 474 272 000	3 474 272 000
Sum innskutt egenkapital		5 126 373 000	5 126 373 000
Opptjent egenkapital			
Annen egenkapital	7	-4 273 574 000	-4 264 909 000
Sum opptjent egenkapital		-4 273 574 000	-4 264 909 000
Sum egenkapital		852 799 000	861 464 000



Balanse

Beløp i: NOK	Note	2020	2019
Sum langsiktig gjeld		0	0
Kortsiktig gjeld			
Kortsiktig konserngjeld	8	471 473 000	450 042 000
Annen kortsiktig gjeld		46 000	2 236 000
Sum kortsiktig gjeld		471 519 000	452 278 000
Sum gjeld		471 519 000	452 278 000
SUM EGENKAPITAL OG GJELD		1 324 318 000	1 313 742 000



KCA DEUTAG Holdings Norge AS
Annual Report and Financial Statements
for the year ended 31 December 2020

Registered Number: 0987558741



KCA DEUTAG Holdings Norge AS
Annual report and financial statements
for the year ended 31 December 2020

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KCA DEUTAG Holdings Norge AS

Board of Directors and other officers

Board of Directors

O Maier (appointed 17 June 2020)
R Lorentzen (resigned 17 June 2020)
B Tresselt (resigned 6 July)
A Hogg
G Paver (resigned 5 February)
L Clow (resigned 5 February)
T E Aasland (appointed 6 July 2020)

Independent Auditors

PricewaterhouseCoopers AS
Sandviksbodene 2A
5035 Bergen
Norway

Business Address

Espehaugen 37
Blomsterdalen
5258 Bergen
Norway



KCA DEUTAG Holdings Norge AS

Directors' report for the year ended 31 December 2020

The directors submit their annual report to the members together with the audited accounts of the Company for the year ended 31 December 2020.

Directorate

The directors in office at the date of this report and who served during the year are as follows:

O Maier
R Lorentzen
B Tresselt
A Hogg
G Paver
L Clow
T E Aasland

The business, operations and prospects

KCA DEUTAG Holdings Norge AS was incorporated on 11 November 2004, and the Company's registered office is in Bergen, Norway. The Company is a holding company and owns 100% of the shares of KCA DEUTAG Drilling Norge AS and Abbot Holdings Norge AS.

In the short and long term it is expected that the subsidiary KCA DEUTAG Drilling Norge AS will continue to trade profitably. The other subsidiary is Abbot Holdings Norge AS, a holding company which does not trade. It is expected that the subsidiaries which represent the investments held by Abbot Holdings Norge AS will trade profitably in the future. The prospects are positive within the Company's subsidiaries, both in the short and long term.

Going concern

The Company has net assets of NOK 852,799k (2019: NOK 861,464k), and its funding is dependent upon the overall funding position of the KCA Deutag Alpha Group ("the Group). The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

The onset of the pandemic and significant reduction in the oil price during the first quarter resulted in the Group reviewing its plans to refinance its debt facilities, the first of which was scheduled to fall due in May 2021. The Group's liquidity and covenant forecasts suggested that it would be very difficult for the Group to continue to comply with its quarterly leverage covenant under its loan documents. As a result, the Group decided to exercise the grace period available under its lending documents in relation to interest payments due at the start of April 2020. During this grace period, the Group entered into discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet and on 2 May 2020, the Group entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt for three months. During the standstill period, the Group had certain obligations to comply with, including the provision of an updated 5 year business plan and restructuring proposal for consideration by the lenders.

On 31 July 2020, the Group entered into a binding Lock-up Agreement with the majority of its secured creditors in connection with a financial restructuring, which would result in a significant reduction in Group debt from c.\$1.9 billion to \$505 million, principally through the issuance of new five year \$500 million Senior Secured Notes. Post restructuring, the Group's annual interest cost is expected to be c.\$50 million (pre-restructuring net interest payable was c.\$170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of c.\$1.9 billion was accordingly reduced on the same day. The Group was acquired by a new holding entity on completion, with additional equity of \$800 million being provided to the Group via a loan which was capitalised prior to the year end.



KCA DEUTAG Holdings Norge AS

Directors' report for the year ended 31 December 2020 (continued)

Going concern (continued)

The Company participates in a notional Cash Pooling arrangement with a number of other Group Companies. Cash and overdraft balances included within the cash pool are treated as intercompany receivables and payables respectively for the purposes of disclosure in these financial statements.

Senior secured notes (US\$ 500,000k) and guarantee facilities which are available to KCA Deutag Alpha Limited and certain subsidiaries, including the Company, are secured inter alia by a cross guarantee from the Company, by a floating charge over the assets of the Company and by a share pledge over the shares of the Company.

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process, along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the Directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis. Further details are provided in Note 12 to the financial statements.

Risk

Recognising and managing risk is an inherent part of the management culture. For further information on risk see note 2.

Health, security, environmental and corporate governance

The Company's business is that of a holding company and other than through its subsidiaries is not exposed to any environmental matters.

The Company has no employees. The Board and management will work to establish equal positions and opportunities for men and women in the Board.

Income statement and balance sheet

The loss for the year is NOK 8,665k (2019: NOK 23,329k). Of the Company's liabilities, NOK 471,519k (2019: NOK 452,278k) are due within one year from balance sheet date.

There was no cash outflow during the year.

Annual result and year-end appropriations

The board proposes the following appropriation of the annual result:

Total appropriation	(NOK 8,665,000)	(2019: NOK 23,329,000)
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The Company's positive equity at 31 December 2020 is	NOK 852,799,000	2019: NOK 861,464,000
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Bergen, 10 June 2021

Alisdair Hogg
Member of the Board

Ole Maier
Chairman of the Board

Tom Einar Aasland
Member of the Board

Thorbjørn Anhøj
General Manager



KCA DEUTAG Holdings Norge AS

Independent auditors' report to the members of KCA DEUTAG Holdings Norge AS

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KCA DEUTAG Holdings Norge AS

**Independent auditors' report to the members of KCA DEUTAG Holdings Norge AS
(continued)**

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KCA DEUTAG Holdings Norge AS

**Independent auditors' report to the members of KCA DEUTAG Holdings Norge AS
(continued)**

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KCA DEUTAG Holdings Norge AS

Income statement for the year ended 31 December 2020

	Note	2020 NOK'000	2019 NOK'000
Operating expenses			
Other operating expenses		(124)	(95)
Operating loss		(124)	(95)
Financial income and financial expenses			
Other financial expenses		(1)	-
Other interest expenses		(17,704)	(23,234)
Exceptional item - gain on refinancing and extinguishment of debt	5	9,164	-
Net financial expenses		(8,541)	(23,234)
Loss before tax charge		(8,665)	(23,329)
Tax charge on ordinary loss	4	-	-
Loss for the year		(8,665)	(23,329)
Applications:			
Transferred to other equity	7	(8,665)	(23,329)

Statement of comprehensive income for the year ended 31 December 2020

	2020 NOK'000	2019 NOK'000
Loss for the year	(8,665)	(23,329)
Total other comprehensive loss for year	-	-
Total comprehensive loss for the year	(8,665)	(23,329)



KCA DEUTAG Holdings Norge AS

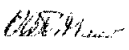
Balance Sheet as at 31 December 2020


	Note	2020 NOK'000	2019 NOK'000
Non-current assets			
Intangible assets			
<i>Financial assets</i>			
Investments in subsidiaries	6	1,313,742	1,313,742
Total non-current assets		1,313,742	1,313,742
Current assets			
Due from group companies	8	10,576	-
Total current assets		10,576	-
Total assets		1,324,318	1,313,742
Equity			
Paid-in capital			
Share capital	7	1,652,101	1,652,101
Share premium	7	3,474,272	3,474,272
Total paid-in equity		5,126,373	5,126,373
<i>Earned equity</i>			
Other equity	7	(4,273,574)	(4,264,909)
Accumulated losses		(4,273,574)	(4,264,909)
Total equity		852,799	861,464
Liabilities			
Current liabilities			
Due to group companies	8	471,473	450,042
Other current liabilities		46	2,236
Total current liabilities		471,519	452,278
Total liabilities		471,519	452,278
Total equity and liabilities		1,324,318	1,313,742

Bank balances within the Group's cash pooling arrangements are now shown within amounts due from/to Group companies.

Bergen, 10 June 2021


Alisdair Hogg
Member of the Board


Ole Maier
Chairman of the Board


Tom Einar Aasland
Member of the Board

Thorbjørn Anhej
General Manager



KCA DEUTAG Holdings Norge AS

Cash flow statement for the year ended 31 December 2020

	2020	2019
	NOK'000	NOK'000
Loss before tax charge	(8,665)	(23,329)
Change in receivables	(10,576)	-
Change in other provisions	(2,190)	690
Net cash flow used in operations	(21,431)	(22,639)
Proceeds long term inter-company loans	21,431	22,639
Net cash flow from financing	21,431	22,639
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

Bank balances within the Group's cash pooling arrangements are now shown within amounts due from/to Group companies.

The change in receivables in the year is largely driven by the exceptional gain on refinancing and extinguishment of debt. See note 5 for further details.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020

1 Accounting policies

General information

KCA DEUTAG Holdings Norge AS is a joint-stock company registered in Norway, which was incorporated on 11 November 2004.

Presentation of the financial statements

The financial statements of KCA DEUTAG Holdings Norge AS for 2020 have been prepared according to IFRS and instructions on simplified use of IFRS (2006-12-22 no. 1582), implying that the Company makes use of accounting policies in accordance with IFRS while notes have been prepared in accordance with chapter 7 of the Accounting Act.

The financial statements have been prepared under the historical cost convention.

Group affiliation

In accordance with the Accounting Act § 3-7 the Company does not prepare consolidated financial statements. The Company constitutes a part of the consolidated financial statements of KCA Deutag Alpha Limited, a company registered in England. The consolidated financial statements of KCA Deutag Alpha Limited have been made accessible through filing at the Register of Company Accounts.

Functional currency and presentation currency

The Company is presenting the financial statements in NOK. This is also the Company's functional currency.

Classification of balance sheet items

Assets which are considered as permanent ownership are classified as non-current assets. Receivables are classified as current assets if they are to be repaid within one year from payment date. Analogue criteria come into force for liabilities.

General valuation principles

Assets are valued at the lower of acquisition cost and fair value.

Investment in and return from investment in other companies

Shares, including shares in subsidiaries are valued according to the cost method in the Company accounts. The investment is valued at acquisition cost of the shares unless impairment has been necessary. Impairment to fair value has been made when a loss in value is not expected to be temporary and impairment is considered necessary according to generally accepted accounting principles. The impairment is reversed when the reason for the impairment is no longer present.

Dividends and other distributions are recognised as income in the same year as being allocated in the subsidiary. In case the dividend exceeds share of retained result after the acquisition, the excess amount represents repayment of invested capital and the distributions have been deducted from the value of the investment in the balance sheet.

Provisions

A provision is recognised when the Company has an obligation (legal or self-imposed) as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, the provision is made by discounting expected future cash flows at a discount rate before taxes that is reflecting the pricing of the market of the time value of money and, if relevant, risks specifically connected to the obligation.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

1 Accounting policies (continued)

Equity

Liabilities and equity

Financial instruments are classified as liabilities or equity in accordance with the underlying financial reality.

Interest, dividend, profit and loss related to a financial instrument classified as liability, will be recognised as expense or income. Distributions to owners of financial instruments that are classified as equity will be recognised directly against equity.

Expenses connected to equity transactions

Transaction costs directly connected to an equity transaction is recognised directly against equity less deduction for taxes.

Principles for revenue recognition

Revenue is recognised when transactions are likely to generate future financial profit that will accrue to the Company and the size of the amount can be reliably estimated.

Foreign currency transactions

Foreign currency transactions are translated at the exchange rate prevailing at the transaction date. Monetary items in foreign currency are translated into NOK using the exchange rate of the balance sheet date. Non-monetary items that are measured at historical exchange rate in foreign currency, are translated to NOK using the exchange rate prevailing at the transaction date. Non-monetary items that are measured at fair value in foreign currency are translated at the exchange rate prevailing at the balance sheet date. Exchange rate changes are recognised currently in the income statement in the accounting period.

Items at fair value in foreign currency are translated at the exchange rate prevailing at the time for valuation of fair value.

Taxes

The tax charge in the income statement comprises both payable tax of the period and change in deferred tax. Tax enhancing and tax reducing temporary differences that are reversed or may be reversed in the same period have been eliminated. Net deferred tax asset is recognised in the balance sheet to the extent that it is probable that it will be utilised.

Borrowings

Issued loans are historically recognised at fair value, net after incurred transaction costs. Subsequently borrowings are recognised as amortised cost by means of the effective interest method.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the balance sheet when the Company becomes part in the contractual provision for the instrument.

Financial derivatives and hedging accounting

The Company's activities involve financial risk related to changes in interest and currency exchange rates. The Company makes use of foreign forwarding contracts and interest swap arrangements to secure such positions. The Company does not make use of financial derivatives for speculative purposes.

Financial derivatives are recognised at fair value at the time of transaction. Carried amount of derivatives are currently re-measured by changes in fair value. The method for accounting of profit and loss depends on whether the derivatives are defined as hedging instrument and the qualities of the hedging object. The Company estimates appointed derivatives as either (1) hedging of fair value, (2) hedging of cash flows or (3) hedging of net investment in foreign entity. The Company has not used financial derivatives during the year ended 31 December 2020.

If hedging accounting is being used the Company has documented the connection between hedging instrument and hedging object, the purpose of the risk management and hedging strategy at accomplishment of the transaction. The Company may also document how hedging efficiency is measured, both at the time of transaction and currently. The Company is testing efficiency every six months.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

1 Accounting policies (continued)

Financial derivatives and hedging accounting (continued)

Changes in fair value at transactions defined as hedging of cash flows and where efficiency is documented, have been recognised directly against equity. The part of the transaction that is not efficient is recognised over the income statement. If the hedging of cash flows of a liability entered into or an expected transaction which involves recognition of a non-financial asset or liability, previous profit or loss for the derivative that is recognised against the equity will be included in the assessment of the value of the asset or liability at the time of recognition.

For hedging that does not involve recognition of assets or liabilities the allocated amount against equity will be recognised over the income statement in the same period as the hedging object brings about profit or loss.

Hedging accounting is not continued when the hedging object is omitted or sold, terminated or performed or no longer qualifies for hedging accounting. At this point in time accumulated profit or loss involved in the hedging instrument that is recognised against equity, is continued as equity element until the expected hedging transaction occurs. If the hedging transaction can no longer be expected to occur, accumulated profit and loss recognised against equity are recognised over the income statement.

Fair value of forwarding currency contracts is estimated based on the currency exchange rates prevailing at the balance sheet date.

Conditional liabilities and assets

Conditional liabilities are not recognised in the financial statements. Information is given about material conditional liabilities with the exception of conditional liabilities where the probability of the liability is low.

A conditional asset is not recognised in the financial statements, but informed about if a certain probability is present that an advantage will accrue to the Company.

Events after the balance sheet date

New information after the balance sheet date regarding the Company's financial position is taken into account in the financial statements. Events after the balance sheet date that do not have any impact on the Company's financial position on the balance sheet date, but will have impact on the Company's future financial position are disclosed if material.

Estimates

The preparation of the financial statements is subject to management using estimates and assumptions that influence the income statement and the assessment of assets and liabilities, and information related to insecure assets and liabilities at the balance sheet date.

Conditional losses that are probable and quantifiable are recognised as expense currently.

Statement of cash flows

The statement of cash flows has been prepared according to the indirect method. Cash and cash equivalents comprise cash, bank deposits and other short term liquid investments.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

2 Financial market risk

The Company has in place a risk management policy that seeks to limit the adverse effects on the financial performance of the instruments to fix interest rates.

Interest risk

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

Exchange risk

The Company's transactions are mainly in NOK. The Company carries a negligible exchange exposure on its small USD denominated bank balance. This position is regularly reviewed and managed to maintain a low risk profile.

3 Wages, number of employees, remunerations, loans to employees and auditor's fee

The Company has no employees. No loan or guarantees have been rendered to employees in other group companies. No remuneration has been rendered to the members of the Board.

Auditors' fee of NOK 59k (2019: NOK 51k) has been recognised in the income statement.

The Company is not obliged to have a mandatory pension scheme.

4 Tax charge on ordinary loss

	2020 NOK'000	2019 NOK'000
Tax charge for the year		
Tax charge on ordinary loss	-	-
Calculation of tax charge for the year		
Loss before tax charge	(8,665)	(23,329)
Timing differences	7	(1)
Tax deficit utilised/carried forward	8,658	23,330
Basis for taxes	-	-
Payable tax charge	-	-
Calculation of deferred tax asset/liability		
Tax losses	(183,844)	(175,185)
Other timing difference	(46)	(39)
Deferred tax not recognised	183,890	175,224
Basis for deferred tax	-	-
Tax rate	22%	22%
Deferred tax assets	-	-

A deferred tax asset has not been recognised due to uncertainty of future taxable income arising in the Company.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

5 Exceptional items

	2020 NOK'000	2019 NOK'000
Exceptional items after operating loss		
Exceptional gain on refinancing and extinguishment of debt	9,164	-
Net credit to Income Statement	9,164	-

On 21 December 2020, the Group closed its financial restructuring whereby its secured debt was reduced from c. \$1.9 billion to c. \$0.5 billion via a debt for equity exchange with its secured lenders. As a result of this transaction, an exceptional gain of NOK 9,164k has been reflected in the Income Statement which represents the extinguishment of bank interest payable.

6 Investments in subsidiaries

	Business address	Owner's share voting share	Book Value NOK'000
Abbot Holdings Norge AS	Bergen	100%	999,964
KCA DEUTAG Drilling Norge AS	Bergen	100%	313,778
Total			1,313,742

In 2020 Abbot Holdings Norge AS made a profit after tax of NOK 17,547k and as at 31 December 2020 had total positive equity of NOK 1,482,839k.

In 2020 KCA DEUTAG Drilling Norge AS made a profit after tax of NOK 86,542k and as at 31 December 2020 had total positive equity of NOK 276,799k.

7 Equity

	Share capital NOK'000	Share premium NOK'000	Other equity NOK'000	Total NOK'000
At 1 January 2020	1,652,101	3,474,272	(4,264,909)	861,464
Loss for the year	-	-	(8,665)	(8,665)
At 31 December 2020	1,652,101	3,474,272	(4,273,574)	852,799

The share capital at 31 December 2020 consists of 1,619,707,194 shares NOK 1.02 each.

8 Intercompany balances with Group companies

	2020 NOK'000	2019 NOK'000
Amounts owed from Group companies		
Abbot Group Ltd - short term receivable	10,576	-
Total	10,576	-

	2020 NOK'000	2019 NOK'000
Amounts owed to Group companies		
Abbot Holdings Norge AS - loan liability	461,589	-
Other short term payables	9,884	450,042
Total	471,473	450,042



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

8 Intercompany balances with Group companies (continued)

There is a loan liability of NOK 461,000k plus accruing interest of NOK 589k owing to a direct subsidiary company, Abbot Holdings Norge AS. The loan is repayable on demand. Interest is charged at the underlying NOK base rate plus a margin of 1.0%.

The other short term payable balance relates wholly to the Group cash pooling arrangement.

9 Financial institutions

As at 31 December 2020 and 2019, the Company has no non-current liabilities owing to financial institutions.

Senior secured notes (US\$ 500,000k) and guarantee facilities which are available to KCA DEUTAG Alpha Limited and certain subsidiaries, including the Company, are secured inter alia by a cross guarantee from the Company, by a floating charge over the assets of the Company and by a share pledge over the shares of the Company.

10 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of KCA DEUTAG Drilling Limited, which is registered in Scotland. The Company's ultimate controlling company is KCA Deutag International Limited, which is registered in Jersey.

At 31 December 2020, the smallest and largest group in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited. Copies of financial statements of KCA Deutag Alpha Limited are available from Group Headquarters, Bankhead Drive, City South Office Park, Porttiethen, Aberdeenshire, AB12 4XX.

11 Post Balance Sheet Events

There were no significant post balance sheet events.

12 Basis of preparation

The Company has net assets of NOK 852,799k (2019: NOK 861,464k), and its funding is dependent upon the overall funding position of the KCA Deutag Alpha Group ("the Group"). The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

The onset of the pandemic and significant reduction in the oil price during the first quarter resulted in the Group reviewing its plans to refinance its debt facilities, the first of which was scheduled to fall due in May 2021. The Group's liquidity and covenant forecasts suggested that it would be very difficult for the Group to continue to comply with its quarterly leverage covenant under its loan documents. As a result, the Group decided to exercise the grace period available under its lending documents in relation to interest payments due at the start of April 2020. During this grace period, the Group entered into discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet and on 2 May 2020, the Group entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt for three months. During the standstill period, the Group had certain obligations to comply with, including the provision of an updated 5 year business plan and restructuring proposal for consideration by the lenders.



KCA DEUTAG Holdings Norge AS

Notes to the financial statements for the year ended 31 December 2020 (continued)

12 Basis of preparation (continued)

On 31 July 2020, the Group entered into a binding Lock-up Agreement with the majority of its secured creditors in connection with a financial restructuring, which would result in a significant reduction in Group debt from c.\$1.9 billion to \$505 million, principally through the issuance of new five year \$500 million Senior Secured Notes. Post restructuring, the Group's annual interest cost is expected to be c.\$50 million (pre-restructuring net interest payable was c.\$170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of c.\$1.9 billion was accordingly reduced on the same day. The Group was acquired by a new holding entity on completion, with additional equity of \$800 million being provided to the Group via a loan which was capitalised prior to the year end.

The Company participates in a notional Cash Pooling arrangement with a number of other Group Companies. Cash and overdraft balances included within the cash pool are treated as intercompany receivables and payables respectively for the purposes of disclosure in these financial statements.

Senior secured notes (US\$ 500,000k) and guarantee facilities which are available to KCA Deutag Alpha Limited and certain subsidiaries, including the Company, are secured inter alia by a cross guarantee from the Company, by a floating charge over the assets of the Company and by a share pledge over the shares of the Company.

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process, along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the Directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.



To the General Meeting of KCA Deutag Holdings Norge AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KCA Deutag Holdings Norge AS, which comprise the balance sheet as at 31 December 2020, the income statement, statement of comprehensive income and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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authorised accounting firm*



Independent Auditor's Report - KCA Deutag Holdings Norge AS



If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and a true and fair view of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to <https://revisorforeningen.no/revisjonsberetninger>

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

(2)



Independent Auditor's Report - KCA Deutag Holdings Norge AS



Bergen, 10 June 2021
PricewaterhouseCoopers AS

Marius Kaland Olsen
State Authorised Public Accountant

(This document is signed electronically)

(3)



 Securely signed with Brevio

Auditor's report

Signers:

Name	Method	Date
Olsen, Marius Kaland	BANKID_MOBILE	2021-06-10 09:37

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KCA Deutag Alpha Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

Registered Number: 06433748



KCA Deutag Alpha Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

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KCA Deutag Alpha Limited

Chairman's Statement

I am pleased to present my first Chairman's Statement for the year ended 31 December 2020. Like many industries the oil & gas sector has faced extremely difficult trading conditions during 2020 as a result of the impact of the Coronavirus (COVID-19) pandemic which triggered a significant fall in the demand for oil resulting in much lower oil prices in the early part of the year.

The pandemic caused the Group significant logistical challenges, particularly in ensuring the business could provide appropriate crew levels in our operating locations. A number of land rigs which were expected to be in productive work were stacked and the majority of rigs which continued in operation did so on lower day rates.

The onset of the pandemic and significant reduction in the oil price during the first quarter resulted in the Group reviewing its plans to refinance its debt facilities, the first of which was scheduled to fall due in May 2021. The Group's liquidity and covenant forecasts suggested that it would be very difficult for the Group to continue to comply with its quarterly leverage covenant under its loan documents. As a result, the Group decided to exercise the grace period available under its lending documents in relation to interest payments due at the start of April 2020. During this grace period, the Group entered into discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet and on 2 May 2020, the Group entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt for three months. During the standstill period, the Group had certain obligations to comply with, including the provision of an updated 5-year business plan and restructuring proposal for consideration by the lenders.

On 31 July 2020, the Group entered into a binding Lock-up Agreement with the majority of its secured creditors in connection with a financial restructuring, which would result in a significant reduction in Group debt from c.\$1.9 billion to \$505 million, principally through the issuance of new five year \$500 million Senior Secured Notes. Post restructuring, the Group's annual interest cost is expected to be c.\$50 million (pre-restructuring net interest payable was c.\$170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of c. \$1.9 billion was accordingly reduced on the same day. The Group was acquired by a new holding entity on completion, with additional equity of \$800 million being provided to the Group via a loan which was capitalised prior to the year end.

On completion of the Group's restructuring on 21 December 2020, a new Board was appointed, with independent, non-executive Directors replacing Directors appointed by the Group's former ultimate shareholders. At the same date, Bob Ellis stood down from his role as Chairman. I would like to express my thanks to Bob for his significant contribution to KCA Deutag, particularly during the restructuring process where his advice to the other Directors and management team was invaluable.

The Group's financial position on completion of the restructuring placed it in a much stronger position despite there being only a modest recovery in oil prices in the second half of 2020 as additional global pandemic waves and renewed lockdowns delayed any return to economic and business normality. As a result, the markets in which we operate remain very competitive with a low pricing environment. However, the roll out of vaccination programmes globally and a recovering oil price may provide some much-needed relief.

We have seen a number of customers halt marginal projects in 2020. Set within the current macroeconomic context we expect to see a slow improvement in customer confidence. In order to mitigate the impact of this, the Group deployed an aggressive cost and cash preservation programme. This was put in place to minimise the impact of the pandemic and allow the Group to be competitive. However, compared to our pre-pandemic forecasts for the 2020-2025 period, we expect to see a deterioration in the financial performance of the Group in the short to medium term in many of the service lines and markets in which we operate.

Our business model is one in which we seek to provide a superior offering to our clients in those markets where we are able to secure a satisfactory return. We must be cost competitive and seek to have efficient and fit for purpose processes with the goal of driving to zero health and safety incidents in everything that we do. We also recognise that the energy industry is evolving towards a greener, lower carbon future. We want to play our role in supporting our customers as the Energy Transition gathers pace and scale. We also want to look for ways to continue to reduce our own carbon footprint. Innovation and using technology and automation will play a growing and more important role in the years ahead. Over the course of 2020 we have developed our offering to the market in particular through the Bentec Battery Energy Storage Solution and the RDS offshore modular substation concept which are designed to enable the Group to target business opportunities from the Energy Transition market.

At KCA Deutag a strong health and safety culture remains at the core of everything we do. Throughout 2020 we continued to focus on the health and wellbeing of our employees using the systems, processes and controls we have in place. This has become even more critical given the travel restrictions in most of the countries where we work as well as increased remote working from home as a result of COVID-19. The impact of the pandemic has also resulted in some teams and individuals having to remain stuck at our work locations for several months at a time. I would like to express my gratitude to all the Group's employees for their flexibility and resilience through an exceptionally challenging year.



KCA Deutag Alpha Limited

Chairman's Statement (continued)

We have continued to work with our employees on broader health and wellbeing issues with our 'healthy heart' and mental health campaigns. This has significantly improved employee engagement and has been positively embraced by a large proportion of our workforce globally. At the rig sites we continue to focus on removing our personnel from situations or locations which are in the "red zone" with increased risks from hazardous activities and potential falling objects. We ended the year with a total recordable incident rate of 0.30 per 200,000 man-hours worked. While this rate was much better than the industry average, it did show a small deterioration from 2019. We will continue to focus on this as we Drive to Zero Incidents.

Central to the Group's drive for continuous improvement are its *#enhancethebrand* initiatives. These provide a core focus on creating a leaner and more agile organisation set up for delivery and growth:

- Encouraging a bottom-up approach where all employees can contribute ideas to conserve cash by eliminating wasted time and spend
- Delivering technology and innovations to transform drilling operations throughout the industry
- Supply chain management changes to improve supply and inventory management to drive local spend efficiencies, cost avoidance, strategic sourcing and stock optimisation
- Reviewing the way in which functional support is delivered to the business so that it can be more effective and operate at optimum performance
- Increased focus on digitalisation from going paperless to building operational platforms to identify smarter technologies that allow us to deliver value to our customers
- Improved customer centricity to increase our understanding of key customer challenges so that we can invent innovative products and solutions
- Identifying and implementing internal carbon reduction projects and aggressively pursuing revenue generating opportunities in the energy transition space.

All the initiatives continue to be developed alongside the existing business focus on best in class service delivery, a drive to zero in health and safety incidents and provision of high-quality assets and personnel. These have all combined to allow KCA Deutag to continue to deliver excellent operational performance to our key customers and markets during 2020. KCA Deutag rigs are consistently among the top performers for many of our key clients.

2020 also saw the Group successfully extend its geographical footprint with entry into Kuwait which has built up our presence in the Middle East, a core market for the Group. The Group has demonstrated the breadth of its offering to the market with the Bentec equipment and Well of Innovation technologies used on this project. Although there were a number of early contract terminations within our Land Drilling division, we were able to publicly announce the award of new contracts of just over \$450 million across the business unit. However, many customers approached us for suspensions or discounts as the pandemic spread in order to reduce the financial impact, placing pressure on day rates. Tendering activity also decreased over the year resulting in a reduction in the utilisation of our fleet.

Growth has remained a key focus for our business despite the challenging market conditions in 2020 as we continue to offer value and provide solutions to our customers across their operations. In our Offshore Services business, our joint venture with SOCAR AQS - Turan Drilling & Engineering Company LLC - was successful in being awarded a contract amendment to manage procurement, maintenance and warehousing activities on behalf of BP Exploration (Caspian Sea) Ltd. This covers the seven platform drilling rigs we currently operate in the Caspian and has an initial term of five years with two one-year extension options.

This allows the Group to increase its offering to a strategic customer in an important location. Overall, across Offshore Services we have a strong contractual backlog position with a number of key contracts secured through 2021, 2022 and beyond. In addition to the award in Azerbaijan we were also awarded the final extension of the pipe pool contract in Norway with Equinor for the provision of management of all their drill strings for a two-year period.



KCA Deutag Alpha Limited

Chairman's Statement (continued)

In our Bentec business we successfully delivered the first 320 tonne cluster slider rig (part of a total order for seven rigs) to INK Service Group in Russia. The second and third rigs are due to be delivered in early 2021. These high performance, state-of-the-art land rigs are being manufactured at Bentec's production site in Tyumen, using some high-tech components supplied by its facility in Germany. The rigs will be fully equipped with the latest Bentec equipment including its recently launched integrity and optimisation software solutions, designed to deliver optimised drilling performance on demand. Delivery of the remaining four rigs has also been confirmed but delayed by the customer until 2022. Although new orders have reduced due to the challenging market conditions, a number of component contracts have been secured in the last few months.

RDS has been the business unit hardest hit by the longer-term industry downturn. However, it was awarded a contract extension for the detailed design of a drilling facility for an offshore platform throughout 2020 with follow on engineering in 2021. RDS continues to provide brownfield engineering services for clients in the North Sea and has started to be heavily involved in the reactivation of the Kizomba platform in Angola. RDS also completed a FEED study for a project in the Gulf of Mexico.

As part of an increasing focus on Energy Transition opportunities the Group has also developed and tested a Battery Energy Storage System through Bentec and designed a Modular Offshore Wind Substation concept through RDS. These are part of a range of opportunities being developed to target the renewables market where tendering activity increased at the end of 2020. Although no firm contract has been signed to date, this is a key focus for 2021 as our customers target more of their future spend on renewables projects.

As we closed the year the Group had an order backlog of \$4.7 billion (2019: \$5.7 billion). The reduction was mainly driven by the unwinding of one year of backlog on longer-term offshore contracts but also due to a number of Land Drilling contracts being terminated early as a result of the pandemic.

In challenging market conditions, where pricing has continued to be one of the primary drivers of contract awards by our customers, we have maintained a high focus on our costs and what we can control. During 2020 the Group initiated a number of cash preservation and cost saving actions to respond to the impact that the world pandemic and market conditions were having on the business and protect margins where possible. This included reducing all non-business critical spend, temporarily reducing the working week, employees taking voluntary pay cuts and introducing a shared services model as well as Middle East support hubs to improve operational efficiencies. As a result, the Group's EBITDA margin for the year ended 31 December 2020 has only slightly decreased to 21.7% from 22.0% in 2019.

Overall, we have stayed focused on what we can control, have managed our costs robustly with the launch of a number of new initiatives, delivered excellent health & safety performance and continued to offer best in class service quality.

In 2020, Group revenues decreased by 14.1% to \$1,168.6 million (2019: \$1,359.9 million). Land Drilling revenues decreased across most countries due to market and price pressures partially offset by a new contract commencing in Kuwait. Offshore Services revenues have seen a small increase compared to 2019 largely due to the start of the reactivation of the Kizomba rig in Angola and the addition of a new procurement, maintenance and warehousing contract in Azerbaijan. Bentec activity decreased year on year with lower rig sales. RDS revenues were lower year on year with market conditions remaining challenging.

Correspondingly, operating EBITDA decreased by 15.3% to \$253.4 million (2019: \$299.2 million). This drop was significantly reduced by the aforementioned cash preservation and cost action plans. Land Drilling EBITDA decreased as a number of operations were suspended and fewer opportunities were available. We have also experienced lower returns from Bentec where the reduced activity levels resulted in lower levels of EBITDA. RDS also showed a year on year decrease as activity remained at low levels. However, Offshore Services EBITDA has slightly increased despite reduced activity in some areas.

The financial results of the Group for the year ending 31 December are as follows:

	2020	2019
	\$m	\$m
Revenue	1,168.6	1,359.9
EBITDA before exceptional items	253.4	299.2
Operating profit before exceptional items	42.2	85.4
Operating loss	(476.0)	(2.2)
Loss after tax before all exceptional items	(198.6)	(151.6)
Profit (loss) after tax	8.7	(239.2)

A reconciliation of EBITDA to operating profit (loss) is provided in Note 5 to the financial statements.



KCA Deutag Alpha Limited

Chairman's Statement (continued)

The Group recognised a \$176.4 million net exceptional pre tax credit in 2020 (2019: charge \$87.6 million), mainly as a result of a \$694.6 million gain arising from the Group's restructuring transaction which has been partially offset by goodwill impairment charges of \$218.3 million in respect of the Land Drilling, Bentec and RDS business units, impairment charges of \$92.6 million against the Group's intangible assets as well as impairment charges totalling \$199.7 million against the carrying values of certain of our Land Drilling rigs within property, plant and equipment. The impact of the COVID-19 pandemic and ongoing challenging market conditions facing the oil & gas industry resulted in significant reduction in activity and forecast profitability. Consequently, this triggered impairment charges in respect of the Group's goodwill, intangible assets and property, plant and equipment to reflect lower carrying values. Other operating exceptional costs, mainly in respect of reorganisation costs, totalled \$7.6 million.

2021 Outlook

As we move into 2021, overall market conditions continue to be challenging for the global economy in general and the oil & gas sector as additional lockdowns continue to delay the recovery due to the ongoing pandemic. Oil prices have started to improve at the start of 2021, but the consequences of the pandemic on demand will take some time to reverse before drilling activity is expected to pick up.

The successful completion of the Group's restructuring, with the positive impact on its Balance Sheet, combined with a strong liquidity position means KCA Deutag is well positioned to manage its way through a prolonged recovery and to begin to bounce back quickly with any increased market activity. The new independent Board brings considerable industry expertise, knowledge and experience to support the Company and help move the business forward to achieve its strategic aspirations.

The combination of the *#enhancethebrand* initiatives and our strategic tactics will allow the Group to continue to optimise the current business whilst protecting the excellent health & safety and service quality we have always delivered to our clients. This will also allow us to further upgrade our offering while we continue to share, develop and better communicate our value added technology solutions to target growth. We will also focus on how we can reduce the carbon emissions we make as a business, help our customers achieve their own objectives in this area, and target business opportunities as the energy transition gathers pace and scale.

The business must continue to evolve to secure a long-term successful future to deliver growth and sustainable value across all our key markets for the benefit of all stakeholders: employees, customers, shareholders and the communities where we operate.

T Ehret

Chairman, KCA Deutag Alpha Limited
29 March 2021



KCA Deutag Alpha Limited

Strategic Report

Market Dynamics and Positioning

In 2020 the Group has continued to focus on delivering high quality products and services to our clients combined with safe, effective, trouble-free operations. As the pandemic and renewed lockdowns continue to slow the global economic recovery, we have focussed on managing our costs and controlling what we can control whilst at the same time seeking to differentiate KCA Deutag from our competitors through our technology offerings and our best in class processes and people. Market sentiment reflects caution and uncertainty which is keeping overall activity at lower levels.

At the end of 2020 the Group has a healthy backlog position of \$4.7 billion (2019 \$5.7 billion). In Offshore Services our market position is good with only two of our existing contracts not secured for all of 2021. In Land Drilling activity levels have been stable in Russia whilst elsewhere utilisation has weakened in 2020 although we expect this to start to improve in late 2021 as demand recovers. Bentec's performance remained stable year on year and it continues to hold a reasonable level of backlog whilst RDS has continued to face challenging market conditions. Both of these businesses have sought to develop their technology offerings and to diversify outside of the traditional oil & gas sector.

Our 2021 outlook has been strengthened by completing our financial restructuring at the end of 2020 and the Group is well positioned to take advantage of the market recovery when it comes.

2020 Performance

Overall, 2020 was another challenging year for the Group and was the sixth full year of the sectoral downturn which started in the latter half of 2014. The main themes of our business performance were:

- In Land Drilling we saw a decrease in utilisation in 2020 as a result of the Coronavirus pandemic with customers either terminating their operations (e.g. Iraq, Algeria) or suspending some of their operations (e.g. KSA, Oman) which has had an impact on our revenue streams. The Russian market generally has remained relatively active with high levels of fleet utilisation. However, day rates have been under pressure with limited ability to escalate rates and a number of requests for discounts in the current market conditions.
- Offshore Services has continued to perform well in 2020. A key development was the award to our joint venture company Turan Drilling & Engineering Company LLC of additional services at a contract value of up to \$120 million with BP in Azerbaijan for the provision of procurement and warehousing management of seven platform drilling rigs in the Caspian Sea. These additional services were added to the main operations and maintenance contract which has a fixed initial term that runs until April 2024 followed by two one-year extension options. Elsewhere, we have continued to operate in our core markets of Norway, UK, Canada and Sakhalin. Activity in Angola increased year on year with work continuing on preparations for the reactivation of the Kizomba platform.
- RDS had another challenging year and delivered lower levels of EBITDA compared to 2019, partially due to the need to make a provision for a customer claim. We have continued to work on a detailed greenfield project as well as a new FEED contract for a client based in Houston. Reasonable progress had also been made in developing the RDS business into non-traditional markets with a number of new strategic alliances and tenders for work in the renewables sector. Brownfield work has remained steady in the UKCS and Norway.
- Bentec completed delivery of the first of seven rigs for a customer in Russia. This was a critical development for Bentec to secure utilisation of its production capacity through into 2022. Revenues for after sales services were also more active in 2020 with reasonable levels of tendering activity in a very competitive market.



KCA Deutag Alpha Limited

Strategic Report (continued)

Strategic Review

KCA Deutag aims to deliver safe, reliable, efficient and innovative drilling technologies and operations even in the world's most harsh and challenging environments. Where possible we aim to offer our customers total end-to-end solutions from innovative design and manufacture through to trouble-free quality operations.

In 2020 KCA Deutag had four Business Units.

Our Land Drilling business unit owns and operates a high-quality fleet of 75 land drilling rigs ranging from highly mobile units to large rigs capable of drilling extended reach wells.

Bentec is one of the world's leading manufacturers of drilling rigs and oilfield equipment. It designs and manufactures state-of-the-art, high quality and cost-effective drilling rigs as well as a range of components which include top drives. These can operate in all environments, from the desert to the Arctic. Bentec has also created a Battery Energy Storage System (BESS) to position the business for entry into the battery storage for the renewables market.

Our Offshore Services business unit is one of the world's largest international platform services operators with approximately 30 client owned platform rigs under management. In addition, given our experience of operating jack-up rigs in marine environments, we also operate mobile assets owned by our clients.

Our drilling rig and engineering specialist, RDS, is the world's leading rig design specialist with over four decades of proven performance, engineering some of the world's safest and most efficient drilling rigs. RDS delivers comprehensive engineering services at every stage in the design, construction or modification of drilling facilities. RDS has also developed a concept for a modular offshore power substation which could be used alongside wind and/or hydrogen infrastructure.

In carrying out our day to day business we believe in operating the KCA Deutag Way which defines the type of group that we are and will continue to be for our people, our clients, the environment and the communities in which we operate. The KCA Deutag Way is the combination of tried and tested policies and procedures combined with key behaviours that support our six Core Values. These govern the way we do business and ensure that we operate safely, succeed globally and our customers enjoy world class service wherever we operate.

Our six Core Values are:

Health & Safety. We believe that all our employees have the right to work in an accident-free workplace and have the responsibility to create and maintain a safe environment. During 2020, we achieved a total recordable incident rate of 0.3 per 200,000 man-hours worked. While this was still a strong performance, it was not as good as the rate of 0.29 recorded in 2019. We will continue to strive to improve our behaviours, systems and processes with the aim of having zero incidents.

Valuing All People. We provide more than 8,400 talented people with training and development in their respective roles. We continue to invest in improved systems and processes to track and monitor competence and develop our people.

Performance Improvement. The KCA Deutag Way drives continuous improvement as we strive to make each well we drill better than the last. We proactively measure our performance well by well and seek ways to make and recommend improvements.

Environmental Stewardship. Our processes and policies aim to minimise the impact of our operations on the social and physical environments in which we work.

Business Integrity. The KCA Deutag Way preserves business integrity under all circumstances with robust policies and procedures and a 'zero tolerance' approach.

Sustainable Growth. We aim to achieve profitable and long-term sustainable growth with a culture of financial discipline across the Group. We aim to invest wisely in new projects which need to achieve key Return on Investment parameters and to operate efficiently with a robust cost management culture.

We believe that if we focus on these six Core Values, operate the KCA Deutag Way and deliver meaningful results from our *#enhancethebrand* improvement initiatives, we have a sustainable business model that will continue to deliver successful financial performance and strong customer relationships.

We continue to maintain a balance and focus on 'asset-light' opportunities in our platform, engineering and manufacturing businesses whilst also capitalising on the opportunities for our Land Drilling business to invest in new assets which meet the Group's investment thresholds, when the market conditions are right.



KCA Deutag Alpha Limited

Strategic Report (continued)

Operating Review

Land Drilling

KCA Deutag's Land Drilling business unit delivered average rig fleet utilisation of 65% in 2020, a decrease from 73% in 2019. This reduction is a direct result of both COVID-19 and steps taken by OPEC+ in Q2 2020 to reduce oil production. The subsequent large reduction in the price of oil led to many of our clients demanding price discounts. In addition, there were an unprecedented twelve early contract terminations during 2020 with Algeria and Iraq being most affected. Despite this, the Business Unit's net operating margin slightly increased from 2019 due to a major cost saving exercise on all operating costs. During 2020 there was the start-up of our first drilling rig in Kuwait which is seen as a major step in increasing our footprint in a strategically targeted region.

Europe

The European business had three of six rigs operating in Q1/Q2 2020 under contracts continued from 2019 with 18% overall utilisation. Tendering activity was low in 2020 but a purchase order was received prior to year-end to partially revamp one of our rigs with the prospect of being chosen to carry out a drilling campaign in 2021 for a major oil and gas client.

Russia

Business in Russia, the second largest market for the Land Drilling business unit, remained steady with 90% utilisation, the same as in 2019. Twelve of the seventeen rigs were fully utilised in 2020 and demand for our rigs remains high. Our Russian business was awarded 'Best International Production and Exploration Drilling Company' from a survey of 64 oil and gas companies in Russia.

Middle East/Far East

Oman, our largest Land Drilling market, averaged 86% utilisation for 2020. We continued to expand our client base in Oman; a country where historically we had only two clients and as a result we ended the year with five. We received nine long term contract extensions during 2020 in Oman adding to the contract backlog.

Three of our eight rigs in Saudi Arabia were put on unpaid standby by the client during 2020 in response to the low oil price. The remaining five rigs enjoyed full utilisation during the period.

Iraq was badly affected by reduced utilisation in 2020. We started the year with six of seven rigs contracted, but by July 2020 all of these had been released early from their contracts. Major efforts were undertaken to stack these rigs correctly and restructure our country overheads in-line with this reduced utilisation.

In Kuwait our partner continued the building and mobilisation of two rigs for the contract with the Kuwait Oil Company. KCA Deutag leases and operates the rigs. The first rig commenced operations in August 2020 with the second rig doing the same in early 2021.

In Pakistan only one of the rigs was contracted in 2020 and this rig was released in the middle of the year. This rig has since been mobilised by the same client and will re-commence drilling in 2021. We also won a one year contract for a large drilling rig which will be mobilised from the UAE and commence operations in 2021. Tendering activity was high in Pakistan during the year offering further opportunities.

Africa

Algeria was also badly impacted by the pandemic in 2020 with four out of five rigs being terminated early by clients. We did manage to start up one of our rigs for a new client successfully despite very limited travel within the country. Other tendering was slow in 2020.

In Nigeria we had three rigs working for different clients at varying points in 2020. By the end of the year, these had all been released. Tendering activity is high in Nigeria although business conditions remain difficult.

Offshore Services

North Sea

As a result of the impact of the coronavirus pandemic and significant reduction in the oil price at the start of 2020, all clients in the UK North Sea down-manned their platforms. As a result, we saw a significant reduction in activity levels in this region. However, we were able to secure one contract extension in 2020 and at the end of the year we began to up-man one platform.



KCA Deutag Alpha Limited

Strategic Report (continued)

In Norway we were awarded by Equinor an extension of the pipe pool contract for two years whilst the Kvitbjorn platform recommenced operations at the start of 2020, meaning there were 4 out of 5 platforms operating under the Equinor fixed platforms contract in 2020. The two Equinor 'Cat J' jack-up rigs which started up operations in early 2018 worked all year and will continue under contract until May 2024. The Ringhorne platform, which had recommenced drilling operations at the end of 2019 was down-manned for a 6 month period due to the impact of the coronavirus pandemic, however it restarted operations in Q4 2020.

Caspian

Throughout 2020 there continued to be a high level of activity and strong performance with BP in Azerbaijan, despite the impact of the coronavirus pandemic. In June 2020 we expanded the scope of our contract with BP, to include the provision of procurement and warehousing services. This additional scope was added to our existing contract with BP, which runs until April 2026 including options.

Sakhalin

In 2020 two of the three platforms which we operate in Sakhalin reduced their activity levels, with one switching to project mode, and one moving to stacked mode during Q2. We were able to continue these operations despite the challenges as a result of the coronavirus pandemic.

Angola

As a result of the coronavirus pandemic, ExxonMobil paused the reactivation of one of the Kizomba platforms in Q2 2020. We continued to support the reactivation with low levels of activity until Q4 when reactivation activity was able to re-commence, with the rig expected to restart operations in late 2021 or early 2022.

Canada

Throughout 2020 there continued to be a high level of activity and strong performance with ExxonMobil on the Hebron platform.

RDS

In Q1 2020 RDS had started to see steady increases of activity in both greenfield and brownfield prior to the COVID-19 impact. RDS continues to explore opportunities outside the oil and gas markets as well as developing modular rig products and specialised rig designs for future plug and abandonment work. A concept study for an Offshore Sub Station supporting the Wind and Hydrogen sectors has also been completed.

Greenfield

In 2020, RDS was awarded a FEED study in the Zama Field in the Gulf of Mexico and continued the detailed design contract for a rig in Azerbaijan which will transition to Follow-On Engineering in 2021. Tendering activity is beginning to show some signs of improvement and it is hoped that this will continue as we progress in 2021.

Brownfield

RDS continued to support engineering work with UK based clients throughout 2020 albeit it at a slower pace due to COVID-19. The Kizomba reactivation started during the year where the pace increased once laser surveys were completed in October.

Our team in Norway continues to have an excellent relationship with its main customer and was awarded engineering scopes in 2020 as well as developing the relationship with Vår Energi on new platform opportunities.

There has been continued engineering scopes of work on both the 'Cat J' jack-ups and the Gullfaks platforms.

Bentec

Fabrication of the 7 drilling rigs for our Russian customer INK continued in 2020 with the successful delivery of the first rig in December 2020. Due to the pandemic a revised delivery schedule was agreed with delivery of the next 2 rigs scheduled in 2021 and the remaining 4 rigs in 2022.

The OPEC+ crises and Coronavirus pandemic resulted in very low demand in the Oil & Gas sector. The complete market spend dropped dramatically compared to previous years. As a result, the Bentec order intake for 2020 remained below budget expectation. 2021 started with good order intake for top drives as well as increased market and tender activity in general.



KCA Deutag Alpha Limited

Strategic Report (continued)

Principal Risks and Uncertainties

As with any business, the Group faces a number of risks and uncertainties in its day to day operations. The principal risks and uncertainties, and mitigating actions that are employed by the Group to manage those risks, are noted below. During the year the Group continued to apply an enterprise risk management framework to allow for ongoing identification and monitoring of risks and to develop mitigation strategies to manage those risks. The methodology used to identify key risks was both a bottom up approach from the country and functional organisations as well as a top down review of the key strategic risks.

Oil & gas market risk

The Group operates in the oil and gas sector which is a market driven, cyclical industry where activity is closely correlated with the market prices for oil and gas. Changes in these prices may lead to an increase or decrease in our activity levels. From mid-2014 and continuing through 2016 we saw a rapid and sustained reduction in market prices for oil and gas which has reduced activity throughout the industry as new projects were cancelled or delayed. The oil price remained lower though to early 2020 leading to a prolonged period of lower levels of activity in the oil and gas sector during those years. The global Coronavirus pandemic and the OPEC+ agreement breakdown had knock on effects on the oil price, global economy, market conditions, customers and governments. This has had a material impact on our business as almost all customers have either reduced their level of operations or sought discounts in terms of pricing. Confidence levels remain relatively low and will require a sustained period of energy price recovery and stability before many of our customers choose to invest in longer term projects. 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 contract assurance programmes and effective record retention, provides us with the ability to rigorously defend commercial claims as and when they arise.

In direct response to the COVID and OPEC+ crisis the business established a crisis management group overseen directly by the executive team who met three times a week to track and support agile decision making in response to the fast-changing landscape. Detailed contingency planning was completed at a country level to support focusing on the health and wellbeing of our employees and maximising our ability to support and maintain our ongoing operations. KCA Deutag took advantage of government schemes around the world to help our business navigate the economic challenges caused by the crisis. This ranged from salary support schemes to tax payment deferral programmes.

Energy Transition risk

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

Investors are now increasingly focusing on a company's approach towards policies on Environment, Social and Governance (ESG). There is a strong push from many clients towards environmental sustainability, e.g. reducing carbon footprint, eliminating waste, recycling and alternative energy sources. There is also a moral obligation on us as a business to minimise any negative impact we have on the social or environment eco systems in which we operate.

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

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



KCA Deutag Alpha Limited

Strategic Report (continued)

Changes in the market for Drilling & Engineering Services

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

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

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

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

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

In response to these threats we must ensure that we offer a compelling reason for our customers to procure our products and services through providing excellent service quality, which is cost competitive and industry leading. With the launch of our +veDRILL technology in 2020, we believe we have enhanced our proposition to customers. We have to be a Group that is easy to do business with, which has a flexible commercial model and is able to form new alliances which can be mutually beneficial. We also have to continually challenge ourselves to look at new ways of working, to develop new service offerings and to look at new sourcing models as markets continue to mature and evolve.

Local market risk

All the markets in which we operate continue to change and evolve as local political and economic influences impact the industry in which we operate. In 2020, our activities in Azerbaijan were impacted by that country's conflict with Armenia over the disputed Nagorno-Karabakh region although local management were able to ensure drilling operations remained unaffected. In certain markets, such as in West Africa, we have also seen an increasing trend and pressure from governments to increase the local content of the services which we provide, both in terms of the provision of local skilled personnel as well as the focus on in-country value through the use of local suppliers or supply chain for the provision of goods or services. Where this can be achieved in a planned and structured way it can have benefits both for the local economies in which we operate, as well as allowing us to provide a more efficient and effective service to our clients.

We have a good track record of training and developing local staff in many of the countries in which we operate and so far as possible sourcing equipment locally, where this is cost effective and quality can be assured. In Russia, for example, we have a very high rate of nationalisation and virtually all of our rig crews are Russian. We seek to replicate this process in other markets and have training and development programmes for local staff.

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

Globalisation is slowing down and we are seeing increasing protectionism in countries like the US, Russia and China. The UK will also be impacted by Brexit even though a trade deal was secured. The impact of the recent US election and resulting change in the administration will not begin to be seen until later into 2021 but there will inevitably be changes. The Group does not expect the impact to be significant given the wide geographical exposure we have with a strong presence in each of the local markets in which we operate.



KCA Deutag Alpha Limited

Strategic Report (continued)

Financial and Working Capital risk

The Group has significantly deleveraged from a gross debt position of \$1.9 billion to \$505 million reducing net leverage from 6.6x to 1.4x. This places the Group in a much stronger financial position with a much-improved debt servicing requirement which reduces by approximately \$120 million to around \$55 million per annum. Our ability to service our debt and other financial obligations depends in large part on the levels of cash flow generated in our business. A surplus of cash which should now be much more achievable would allow the Group to grow and manage the changes in business activity levels over time.

Where possible the Group seeks to secure long term debt financing which provides access to funds for a number of years into the future. The Group has sought to diversify its access to debt markets away from wholly traditional bank debt towards institutional debt by way of the corporate bond markets. Periodic reviews of fixed rate and variable rate interest rate exposures are also made with the aim of maintaining a balance between the two.

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

The challenging market conditions driven by the pandemic and oil price sentiment has led to a slight deterioration to working capital as customers pay slightly later and negotiate longer payment terms. The Group continues to be very focused on controlling our costs and maximising our revenues in this challenging environment.

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

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.

Summaries of our geographical exposure and the sensitivity of our results to foreign exchange movements are included in Notes 5 and 21 to the financial statements.

Cyber security risks

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

Although we use various procedures and controls to mitigate our exposure to such risk, cybersecurity risks are evolving with new threats emerging. These could have a material adverse effect on our business.



KCA Deutag Alpha Limited

Strategic Report (continued)

Ethics and violation of applicable anti-corruption laws

We are an international business with operations in developing countries and in countries which are high on the Corruption Perceptions Index published by Transparency International. Violation of anti-corruption laws may result in criminal and civil sanctions and could subject us to other liabilities in the UK, the US and elsewhere. Legislation in the areas of ethics, bribery and tax evasion continue to evolve and place increasing responsibility on businesses to behave to a very high standard supported by the appropriate processes, controls and other safeguards.

We have developed an ethics & compliance programme which is supported by policies and procedures designed to assist our compliance with applicable laws and regulations and have trained our employees to comply with such laws and regulations. We have enshrined business integrity as one of our six Core Values and foster a compliance culture within our operations. We have put in place appropriate assurance processes to monitor compliance and seek to continuously improve our systems of internal controls and to remedy any weaknesses.

Asset integrity & compliance regime

We are subject to increasingly stringent laws and regulations relating to environmental protection as well as being exposed to potentially substantial liability claims due to the hazardous nature of our business and the businesses we provide services for. An accident or a service failure can cause personal injury, loss of life, damage to property, equipment or the environment, consequential losses or the suspension of operations or possibly the termination of a contract. Furthermore, we may be liable for damages resulting from pollution both on land and in offshore waters. With the fall in commodity prices and increased competition in the market we have also seen many of our customers seek to pass on risk to their suppliers which may have historically been borne by the operator.

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

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

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

Credit related risk

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

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



KCA Deutag Alpha Limited

Strategic Report (continued)

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

We seek to mitigate these risks through continuous monitoring of exposures to individual clients as well as overall exposure to particular geographies. Financial credit checks are required to be performed on new clients prior to tendering submissions and where possible we will seek payments in advance of services or protection via bank guarantees and similar mechanisms. We have robust escalation processes to chase overdue accounts with regular reviews with our senior management team. In some cases, we are able to leverage our position to push for the release of payments but where this is not possible early and robust legal processes are used to accelerate a conclusion to the process. We also structure contracts to be paid in US Dollars where possible. We seek appropriate professional advice before entering new markets and have internal review and approval mechanisms to challenge the returns we expect on new contracts. In some cases we have decided to exit markets where we have been unable to make a consistent level of acceptable return.

Human capital risk

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

During 2020 the Group has seen an increased focus on nationalisation as a result of the limitations imposed by the pandemic as the mobility of expatriate employees has been impacted. The business must also position itself to source and deploy the right skills and experience to support operational growth as we enter the Energy Transition.

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

Business continuity risk

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

Many of the key markets in which we operate are potentially at a higher risk of political upheaval. Over the past few years we have witnessed the impact of conflict in Azerbaijan with neighbouring Armenia, terrorist incidents in Algeria and Saudi Arabia and the threat of terrorism or unrest in Kurdistan and Iraq. In addition, there is the potential threat of political and economic sanctions against certain sovereign states which by their very nature can be both unpredictable and potentially disruptive. Over the past few years, for example, we have seen certain sanctions imposed against specific types of business activities in Russia from the EU and US. As a consequence of Brexit the UK is bringing in 30 new country sanctions regimes.

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

Before we enter a new country, we carry out risk assessments and third-party security reviews. To mitigate risks once operating in each country we have a robust emergency response system to ensure that we are able to move our personnel rapidly and safely in the event of an unplanned incident. We work with specialist third parties to maintain a good understanding of the security risks and how to react in each set of circumstances. Where possible we seek to limit our exposure to higher risk regions such that an emergency in one location does not have a material impact on the ability of the Group to continue operating. In the past we have been able to rapidly redeploy personnel when required and reduce costs in impacted countries to a minimum. We have access as required to specific legal and advisory expertise to support regulatory compliance in all our operations across disciplines such as export control and adherence to sanctions. We work with various governmental authorities to get assistance with ensuring compliance and the appropriate awareness of rules and regulations.



KCA Deutag Alpha Limited

Strategic Report (continued)

Impairment charges

As a result of its annual review of the carrying value of its non-current assets, the Group has recognised \$510.6 million of pre-tax, non-cash, exceptional impairment charges during 2020 in respect of the carrying value of Goodwill in our Land Drilling, RDS and Bentec Business Units, intangible assets in our Land Drilling and Bentec Business Units along with impairment charges in respect of certain of our Land Drilling rigs. These impairment charges have arisen from management's annual review of the carrying values of the Group's non-current assets. A detailed review of the rig values of the Land Drilling rig fleet has been undertaken, taking into consideration factors such as forecast utilisation and rig age. We also considered the carrying values of our intangible assets, specifically brand names and customer relationships and contracts, where we considered factors such as current market environment and likely future value the Group may derive from these assets. Finally, in terms of goodwill, we reassessed our assumptions around discount rate and terminal growth rate for calculating the recoverable amounts of each CGU.

On behalf of the Board of Directors

J Elkhoury
Chief Executive Officer, KCA Deutag Alpha Limited
29 March 2021



KCA Deutag Alpha Limited

Corporate Governance Report

For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Group has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website).

As a result of the Group's restructuring, there have been several changes to the composition of the Board of Directors as well as changes to the Group's ultimate ownership. Notwithstanding these changes, the Group continues to have a strong focus on Corporate Governance and seeks to comply with the Wates Principles where practical and possible.

Principle 1 – Purpose and leadership

With over 130 years of experience, KCA Deutag is one of the world's leading drilling and engineering contractors working onshore and offshore with a focus on safety, quality and operational performance.

We operate approximately 105 drilling rigs, either directly or on behalf of our customers, employing people in Africa, Europe, Russia, the Middle East, the Caspian Sea and Canada.

Our aim is to be recognised as the world's most successful drilling and engineering contractor through measurable performance improvement, delivering safe, effective and trouble-free operations.

We have a guiding behavioural framework and six Core Values which define our purpose, goals and behaviours. This is reinforced with communication and training for employees on how they can contribute as well as the expected behaviours at differing levels within the Group. This builds on the Group's existing commitment to good governance and social responsibility. The Group promotes, amongst many other things, positive health, safety and wellbeing for all its staff; ethical business practices; working with local community initiatives; and a culture of environmental stewardship in all its activities.

Principle 2 – Board Composition

The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual director effectiveness.

The Directors have equal voting rights when making decisions, although certain matters are reserved for the Group's ultimate shareholders as defined in the investment agreement between the ultimate parent company and its shareholders. All Directors have access to the advice and services of the Group General Counsel and may, if they wish, take professional advice at the Group's expense. Under the investment agreement, the Group's major shareholders are also able to appoint observers to attend Board meetings on their behalf.

Subsequent to the restructuring, the KCA Deutag Alpha Limited Board is now comprised of independent non-Executive Directors as well as the Group's Chief Executive and Chief Financial Officers. The size and composition of the Board is appropriate to a Group of our size and complexity. A biography for each member of the Board can be found on the Group's website: <https://www.kcadeutag.com/whoweare/Pages/Meet-the-management-team.aspx>.

The Executive Management Team ensures that the values, strategy and culture are aligned, implemented and communicated to the workforce most notably through regular Executive Management Team meetings as well as Town Hall webinar presentations that are available to all employees worldwide to attend.

As a result of the recent changes to the Group's Board and Executive team, steps have been taken to broaden diversity. We are committed to making the Group an ever-more inclusive environment, thereby fostering a more diverse workforce which should further increase diversity at the most senior levels.

Principle 3 – Director Responsibilities

Accountability

Good governance supports open and fair business, ensures that the Group has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience.

The Board has a programme of meetings every year and each Board member has a clear understanding of their accountability and responsibilities.

The Directors and Committee members are asked to declare their interests at the start of each Board/Committee meeting so as to avoid any conflict of interest issues. As part of the annual audit, each Director is required to complete a Related Party information request, in which they disclose any directorships and/or substantial shareholdings they may have in non-Group companies.



KCA Deutag Alpha Limited

Corporate Governance Report (continued)

Committees

Audit Committee

The Committee's primary concerns are the integrity of the Group's financial statements; the effectiveness of internal controls; enterprise risk management; the performance of the internal audit function; the performance and independence of the external auditors; and the Group's compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference which were updated and revised early in 2021. These outline the Committee's objectives and responsibilities relating to financial reporting, internal controls, risk management as well as overseeing compliance with legal and regulatory requirements and the application of appropriate accounting standards and procedures. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls, internal audit and risk management processes and reviewing the scope, results and terms of engagement of the external audit.

Subsequent to the completion of the financial restructuring, Peter Thomas has succeeded Robert Ellis as the Chair of the Audit Committee. The Audit Committee comprises two other Non-Executive Directors; the Group Chairman, Tom Ehret, and Sheikh Salah Al Qahtani. The Board is satisfied that the recent and relevant financial experience of both the Committee Chair and the Committee's members during 2020, both pre- and post-restructuring, followed the principles of good governance in relation to their skills, knowledge and experience.

Remuneration Committee

The Remuneration Committee has clearly defined terms of reference which have also been updated as a result of the Group restructuring and will be reviewed annually. The Committee is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Group operates and from other sectors. Pay is aligned with performance and taking into account fair pay and conditions across the Group's workforce. The Group's remuneration policy for executives is consistent with companies of a similar size and complexity, as well as other companies operating within the oil and gas sector. The Directors' remuneration is disclosed on page 78 (note 27).

The Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by attracting, retaining and motivating quality senior management who can deliver the Group's strategic ambitions within a framework that is aligned with shareholder interests.

The Committee firmly believes that retaining the best people on the right remuneration, with an emphasis on performance-related pay, strengthens the Group's ability to face challenges emanating from economic and market change, and to deliver long-term sustainable value for all stakeholders. During 2020, prior to restructuring, the Remuneration Committee comprised four Non-Executive Directors, the Chief Executive Officer and was chaired by Robert Ellis. Shortly post-completion of the restructuring, Angela Durkin succeeded Robert Ellis as Chair of the Remuneration Committee, with two other Non-Executive Directors; the Group Chairman, Tom Ehret, and Marwan Moufarrej.

Ethics Committee

The Group's Ethics Committee is chaired by the Head of Legal and meets on a quarterly basis. Attendees are the Chief Executive Officer, Chief Financial Officer, Business Units Presidents/Senior Vice Presidents, Senior Vice President, HR and the Group's Head of Operational Integrity and HSSE. The quarterly meetings cover a standing agenda around five key areas, namely: Anti-Bribery and Corruption, Third Party Risk Management, Export Controls and Sanctions, Emerging Legislation and Investigations. A summary of matters discussed by the Ethics Committee is also discussed at the Audit Committee.

Risk Management Committee

The Risk Management Committee, consisting of the Chief Executive Officer, Chief Financial Officer, and Group General Counsel, supported by business unit and functional leads, ensures that inherent and emerging Group risks are identified and managed appropriately and in a timely manner. The Committee meets on a weekly or as required basis to deal with any specific risk-related items and to consider investment decisions on new projects and contracts.

The Board remains satisfied that the composition of the Committee strengthens the Group's approach to risk management and mitigation and that the Committee remains focused on the key risks affecting financial and operational performance.

To support the Committees' work and to enhance the cohesion of the Group's risk management approach, including the cascade of Group-wide messages and lessons learnt, heads of business units and functions attend meetings as required to discuss their respective risk management and mitigation plans.



KCA Deutag Alpha Limited

Corporate Governance Report (continued)

Executive Management Team

The Board delegates authority for day-to-day management of the Group to the Executive Management Team under the leadership of the Chief Executive according to an agreed Group Authorisation Matrix.

The Executive Management Team meet regularly and consists of individuals responsible for the strategic business units and key functions. A biography for each member of the Executive Management Team can be found on the Group's website: <https://www.kcadeutag.com/whoweare/Pages/Meet-the-management-team.aspx>.

The Executive Management Team's duties include formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

Integrity of information

The Board receives regular information on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, and market conditions, all supported by Key Performance Indicators (KPIs).

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by PricewaterhouseCoopers LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function. Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, is reviewed on a cyclical basis by the Group's internal audit function with quarterly reporting provided to the Audit Committee.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk.

Opportunity

Long term strategic opportunities are highlighted in the annual Group budgeting and business planning process which results in the budget and five year plan being presented to the Group Board each year. The Board seeks out opportunities drawn from the business as well as those presented to the shareholder group. Short term opportunities to improve performance, resilience and liquidity within the Group are collated through the weekly meetings of the Risk Management Committee.

Risk

The Group has an Enterprise Risk Management framework which consolidates the risk registers across the Group for any changes in underlying conditions. Risk registers are reviewed and updated twice-yearly by the Business Units and corporate functions to ensure they reflect the current risks facing the business. Annual presentations of the most significant risks are made by the Business Units and corporate functions to the Risk Management Committee.

Management continues to refine and enhance the Group's risk management framework and risk registers and works to ensure consistency across the Group. The Group's key operational risks and mitigations are outlined in the Strategic Report (on pages 5 to 14).

The Group's Strategic Risk Report which is presented to the Audit Committee and the Board on an annual basis includes key risks that are monitored by the Risk Management Committee and the Board. The Group's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

Responsibilities

The Group has developed an Operating Framework based on its World Wide Standards which encapsulates the Group's operating rules, processes, best practice standards and delegated authorities.

Specifically, the Group Board approves an annual Budget and Business plan, any contract above a certain value or any transaction that requires an unbudgeted allocation of capital (as described in the Group Authorisations Matrix), to ensure that the appropriate level of diligence has been performed in understanding the obligations, risks and terms of the contract. This enables the Group to protect the integrity and long-term sustainability of all its businesses, to meet its strategic objectives and to create value for its shareholders, customers and suppliers.

The Group's Risk Management Committee performs an oversight role in terms of the management and mitigation of risk within the Group's operations as well as reviewing new business opportunities before they are approved.



KCA Deutag Alpha Limited

Corporate Governance Report (continued)

Principle 5 – Remuneration

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the Group's human resources by securing and retaining quality senior management who can deliver the Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

As part of the Group's focus on Diversity, the Group set up a Gender Diversity Group Forum based in the Group Corporate Office in Aberdeen, comprising of a number of managers who have been tasked with looking at areas which impact all our employees. These have included flexible working initiatives and the impact of unconscious bias in the workplace.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the Group's brand, reputation and relationships with all our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work. The Board continues to seek to align the Group's strategic direction with its purpose and to the shareholders' long-term aspirations for sustainability and growth.

The Group's Chief Executive and Chief Financial Officer provide the primary communication route between the Executive Management Team, the Board and the shareholders. Under the shareholders' investment agreement, the shareholders have the right to appoint Directors to the boards of group companies, including the Company, as well as sending observers to attend board meetings of KCA Deutag International Limited, the Group's ultimate parent company. The appointments of the current non-executive directors of KCA Deutag International Limited have been approved in accordance with the terms of the shareholders' investment agreement.

External impacts

The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to: a culture of zero harm (ensuring the safety, health and wellbeing of everyone who works with us); creating positive environmental and social impact; and seeking to be an employer of choice where everyone is valued and respected.

Stakeholders

The Board promotes accountability and transparency with all external stakeholders.

The Group also has in place its six Core Values which provide the framework for effectively leading, supporting and managing employees. The Group CEO hosts Town Hall webinar meetings to provide a briefing on the Group's performance and allows individuals to raise questions and concerns. The Group monitors its employees' commitment to its guiding framework by asking members of senior management to submit a quarterly declaration confirming whether they have complied with the key requirements of critical World Wide Standards. All Group employees complete an annual appraisal with their line manager. This appraisal process is linked directly to each of the Group's six Core Values giving a strong linkage of individual performance to these values.

If any employee wishes to highlight any inappropriate behaviour, they can contact the independent whistleblowing services provider and a formal investigation follows, with reporting to the Audit Committee.

The Executive Management Team has overseen a number of initiatives over the past few years to improve employee relations by seeking to expand the menu of flexible benefits on offer, encouraging more flexible working practices and wellbeing initiatives and updating the Group's intranet platform and channels of communication to share information, best practice, achievements and success.

The Group continues to comply with legal requirements in the UK in respect of Gender Pay Reporting and Payment Practices and Performance Reporting, both of which are published externally. The additional analysis required to conduct this reporting has highlighted some areas on which the Group needs to improve. The Group welcomes these changes as it is looking to constantly improve in its engagement with all stakeholders. These relationships are key to ensuring that the decisions made by both the Group reflect the interest of all stakeholders. The Group's website (www.kcadeutag.com), intranet and social media channels provide extensive and up-to-date news on recent developments as well as regular updates from the Chief Executive via his blog.



KCA Deutag Alpha Limited

Corporate Governance Report (continued)

During 2020 Joseph Elkhoury has continued to seek to increase employee engagement levels by conducting virtual visits to Group locations and rigs, as well as initiating “Chat with Joseph” sessions where small groups of staff have the opportunity to ask questions in an informal setting via video-conference. He also continues to engage with employees on a one-to-one basis in order to understand the current state of the business and concerns faced by employees.

Since his appointment as Chief Executive Officer in 2019, Joseph launched several *#enhancethebrand* improvement initiatives. These initiatives are led by separate teams that combine diverse groups of employees from different functions, business units and organisational levels to encourage proactive collaboration across the Company. One initiative in particular takes a bottom-up approach, the **SKORE** initiative, which encourages employees to provide process improvements to eliminate waste and reduce cost through **Streamlining, Kollaboration, Outperforming, Retaining and Expanding**. This initiative is aimed at ensuring the Group operates in an efficient and cost-effective manner while also looking to increase employee engagement, accountability and ownership.

Activities of the Board in 2020

The Board operates a forward agenda of standing items appropriate to the Group’s operating and reporting cycles. Items requiring Board approval or endorsement are clearly defined whilst other items are for monitoring or reviewing progress against strategic priorities, risk management or the adequacy of internal controls.

During 2020 the Board

- Developed the strategy for and oversaw the execution of the Group’s financial restructuring process throughout the year through to its completion in December;
- Approved the Annual Accounts and Report for 2019;
- Set the Group’s 2020 budget and five year business plan;
- Considered the allocation of capital to support the rolling five year business plan;
- Received detailed reports on the Group’s operating and financial performance;
- Gave consideration to the Group’s safety performance;
- Received updates on progress against strategic programmes and tested the overall strategy against the delivery of shareholders’ long term objectives;
- Frequently considered the evolving economic, political and market conditions, in particular with respect to the ongoing COVID-19 pandemic;
- Considered competitor behaviour, assessing KCA Deutag’s performance in comparison to its peers;
- Considered opportunities for organic growth and growth via Merger & Acquisition activity
- Considered and agreed in principle a set of targets for the acceptable level of liquidity;
- Reviewed the Group’s forecast funding requirements, debt capacity and potential financing options that would enable achievement of the desired targets;
- Reviewed cash forecasts, cash management and status reports on the Group’s funding;
- Reviewed key risks, together with the adequacy of mitigation controls;
- Considered future potential capital investment opportunities with an assessment made on risk versus reward;
- Received regular reports from the Chairs of the Audit and Remuneration Committees;
- Considered the continued personal development of the Executive Management Team, including senior management succession planning;
- Implemented a review of the Group’s remuneration of senior management incentive arrangements to ensure alignment with shareholder returns;
- Evaluated the short and long terms trends in the oil and gas sector that would help to inform the wider business strategy and the Group’s long term planning process;
- Considered the data and narrative relevant to the Group’s Gender Pay Reporting and Payment Practices Regulations; and
- Approved the annual statements on the Group’s policies on anti-slavery and human trafficking, anti-bribery and corruption and the Group’s tax strategy, which can all be found on the Group’s website <http://www.kcadeutag.com>

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KCA Deutag Alpha Limited

Corporate Governance Report (continued)

External Auditors

PricewaterhouseCoopers LLP were re-appointed external auditors during 2020. The Audit Committee assesses the effectiveness of their performance every year after completion of the annual audit plan and during 2020 the Audit Committee evaluated their performance in relation to the 2019 audit. The evaluation takes the form of discussions with Management and other members of the Executive Management Team. The calibre of the external auditors, their governance, independence and professionalism continues to receive good feedback. Both management and the external auditors are committed to a positive working relationship that enhances the effective and efficient execution of the audit process.

As it is privately owned, the Group is not subject to the same external restrictions in terms of non-audit work provided by the external auditors as if it were a public company, but for good governance has chosen to implement its own policy in relation to the level of their remuneration and the extent of their non-audit services.

Throughout 2020 the Audit Committee was satisfied that the Group's external auditors' engagement policy had been complied with and concluded that the external auditors remained objective and independent and that the audit process was robust.

The Audit Committee meets quarterly ahead of the Main Board meetings and more frequently if required.



KCA Deutag Alpha Limited

Financial Review

Overview

The financial statements of the Group for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 and are presented in US Dollars, which is the principal functional and presentational currency of the Group's income streams and cash flows. Group profit after tax was \$8.7 million after including a number of exceptional items described below, compared with a loss after exceptional items of \$239.2 million in 2019. Excluding exceptional items, which generated a tax credit of \$30.9 million (2019: nil), the loss after tax was \$198.6 million (2019: \$151.6 million).

Trading Performance

Note 5 to the financial statements sets out the segmental analysis of the business analysed between Offshore Services, RDS, Land Drilling and Bentec, highlighting EBITDA performance before exceptional items which is the key financial performance indicator that the Group uses for its operations.

The following table sets out the 2020 figures:

	Revenue 2020 \$m	EBITDA* 2020 \$m	Operating profit (loss) 2020 \$m	EBITDA Margin 2020 %
Offshore Services	497.1	92.7	79.9	18.6
RDS	45.1	2.0	(21.7)	4.4
Land Drilling	555.8	167.9	(417.1)	30.2
Bentec	70.6	3.9	(97.7)	5.5
Central overheads / exchange	-	(13.1)	(19.4)	-
	1,168.6	253.4	(476.0)	21.7

* before exceptional items

The above table has been extracted from Note 5 to the financial statements, which also includes the comparative information for 2019.

Group revenues decreased by 14.1% from 2019, primarily due to lower revenues from Land Drilling across most countries due to market and price pressures partially offset by a new contract commencing in Kuwait. Offshore Services revenues have seen a small increase as a result of the start of the reactivation of the Kizomba rig in Angola. Bentec and RDS had lower activity year on year with market conditions remaining challenging. The EBITDA margin decreased in 2020 to 21.7% from 22.0% in 2019. This decrease in margin is primarily a result of customer discounts which had to be provided in response to the pandemic and the relative mix between the business units, being partially offset by aggregative cost control programmes undertaken across the business.

Offshore Services EBITDA was higher in 2020 due to relatively strong performance particularly in Norway, Angola and Azerbaijan. Although we experienced a fall in revenues in UKNS and Sakhalin due to client reduced activity, we were able to grow underlying levels of EBITDA across the business unit. The growth in EBITDA from 2019 benefited from the new procurement contract in Azerbaijan.

In Land Drilling the results were negatively affected by the number of customers who cancelled operations within many of the countries we operate in. Activity in Oman and Russia has been more robust and have seen a year on year increase. A new contract in Kuwait commenced in 2020 to add a new country to our business in the core Middle Eastern market. Elsewhere we had lower levels of EBITDA as activity decreased.

RDS activity has remained at low levels as market conditions have remained extremely challenging. Despite continued tight cost management, the positive EBITDA has been adversely impacted by a provision in relation to a client dispute.

Bentec delivered a lower EBITDA result with one rig delivered compared to four in 2019. The underlying activities in rig component orders and after sales also slowed in 2020. The pandemic caused the seven rig order for a customer in Russia to be delayed with the remaining rig deliveries now scheduled for 2021 and 2022.

Depreciation and Amortisation

Depreciation of the Group's tangible assets totalled \$169.0 million (2019: \$179.6 million) of which \$164.0 million (2019: \$174.2 million) related to depreciation of drilling rigs and equipment. Amortisation of intangible assets, which consist of the value of customer relationships and contracts, trade names and technology, amounted to \$14.6 million (2019: \$15.4 million). Depreciation of right of use assets of leased equipment amounted to \$27.6 million (2019: \$18.8 million).



KCA Deutag Alpha Limited

Financial Review (continued)

Exceptional Items

The Group incurred the following exceptional items which are separately disclosed within Notes 10, 11, 12 and 13 to the financial statements:

- On 21 December 2020, the Group closed its financial restructuring whereby its secured debt was reduced from c. \$1.9 billion to c. \$500 million via a debt for equity exchange with its secured lenders. As a result of this transaction, an exceptional gain of \$694.6 million has been reflected in the Income Statement. The gain represents the net impact of extinguishing \$2,068.4 million of pre-existing bank debt, accrued interest and capitalised fees, and replacing it with the issuance of new five year \$500 million Senior Secured Notes and \$800 million in respect of equity issued by the Group's new ultimate parent company, which was lent to the Group and subsequently capitalised before the end of the year. Costs expensed associated with the restructuring process totalled \$73.8 million.
- Goodwill impairment charges totalling \$218.3 million have been recorded in 2020 in relation to the Group's Land Drilling Business Unit (\$120.6 million), Bentec Business Unit (\$74.6 million) and RDS Business Unit (\$23.1 million). In 2019 impairment charges of \$48.0 million in respect of the Group's Land Drilling Business Unit and \$31.8 million in relation to the Group's RDS Business Unit were recorded (see Note 12).
- Intangible asset impairment charges totalling \$92.6 million have been recorded in 2020 (see note 13). These relate to \$45.1 million in respect of the Group's trade names (2019: nil) and \$47.5 million in respect of the Group's customer relationships and contracts (2019: nil).
- Impairment charges totalling \$199.7 million have been recorded in 2020 (see note 11) in respect of certain of the Land Drilling Business Unit's Property, Plant and Equipment (2019: nil).
- During 2020, a \$6.8 million charge was recorded in respect of reorganisation costs primarily relating to the Group's cost reduction initiatives, redundancy expenditure, along with professional fees associated with the Group's strategic activities looking at potential mergers and acquisitions (Note 10).
- The Group has booked a further charge of \$0.8 million (2019: \$6.2 million) in Bentec relating to a dispute with a sub-supplier in the Ukraine, together with certain other related costs (Note 10).
- In 2019 a charge of \$5.3 million was recorded arising principally from the costs incurred in respect of the integration of the Dalma business acquired in April 2018 as well as certain transaction costs associated with the acquisition (Note 10).
- On 23 December 2019 the Group acquired two land rigs in Iraq including associated inventory and customer contracts. Negative goodwill of \$3.7 million arose on the transaction and this was accounted for as a bargain purchase with the gain arising credited through the Income Statement within exceptional items (Note 10).

Finance Costs

Net finance costs for the Group in the year amounted to \$206.9 million (2019: \$218.2 million) and the analysis is shown in Note 7 to the financial statements.

During the year the Group amortised \$8.8 million (2019: \$8.7 million) of debt arrangement fees, \$1.5 million (2019: \$1.5 million) of the original issue discount relating to the Group's Senior Secured Notes, and \$0.4 million (2019: \$0.4 million) of the discount asset relating to the Group's term loan debt.

The net exchange loss of \$11.1 million (2019: gain \$5.4 million) includes accounting gains or losses arising on non-functional currency debt, including a net exchange gain of \$1.8 million (2019: gain \$1.8 million) arising on revaluation of US Dollar debt held in the Balance Sheet of Group companies whose functional currency is denominated in Sterling. It also includes accounting losses of \$9.1 million (2019: gain \$1.8 million) arising on non-functional currency pension liabilities.

Taxation

Notes 9 and 23 to the financial statements set out the analysis of the Group's tax charge and breakdown of deferred tax respectively along with the Group's effective tax rate.

The 2020 total tax charge of \$3.0 million (2019: \$18.8 million) has decreased. There was an increase in taxable profits, as well as exchange movements, which have resulted in a higher corporate tax charge of \$36.6 million (2019: charge of \$21.1 million). There was an increase in deferred tax credits arising in the year of \$33.6 million (2019: credit of \$2.3 million).

Net income tax liabilities in the Group Balance Sheet include \$15.9 million (2019: 16.1 million) relating to uncertain tax positions where management has had to exercise judgement in determining the most likely outcome in respect of the relevant issue. Where the final outcome on these issues differs to the amounts provided, the Group's tax charge will be impacted. Cash taxes paid in the year were \$35.6 million (2019: \$32.9 million).

Capital Investment

During the year a total of \$46.8 million (2019: \$102.3 million) was invested in fixed assets, of which \$45.8 million related to drilling rigs and equipment (2019: \$102.3 million).



KCA Deutag Alpha Limited

Financial Review (continued)

Group Cash flow and Debt

The Group's cash flow and debt movements in the year were as follows:

	2020	2019
	\$m	\$m
Net debt at start of year	(1,724)	(1,708)
Cash generated from operating activities	220	304
Capital expenditure and investments, net of disposal proceeds	(42)	(69)
Non-cash extinguishment of debt, net of new bond issuance	1,404	-
Restructuring costs	(69)	-
Tax paid	(36)	(33)
Interest paid - net	(8)	(172)
Acquisition of subsidiaries	-	(7)
Lease payments	(33)	(21)
Dividends paid	(7)	-
Exchange rate and other non-cash effects	7	(7)
Capitalised arrangement fees amortised	(11)	(11)
Capitalisation of new arrangement fees	7	-
Net debt at 31 December	(292)	(1,724)

Net debt is defined as the excess of the Group's long and short term borrowings (including overdrafts) over cash, cash equivalents and other deposits, capitalised debt arrangement fees and original issue discount assets. At the end of 2020, the Group held cash balances of \$201.5 million (2019: \$78.6 million).

KCA Deutag Alpha Limited, its affiliates, or other related parties may or may not opportunistically purchase debt in one or more series of open market transactions from time to time.

Borrowings

At 31 December 2020 the Group's total bank borrowings were \$500.9 million (2019: \$1,802.9 million), 99.8% (2019: 93.6%) of which is due to mature in more than one year and 100.0% (2019: 71.7%) of the borrowings were at fixed rates.

Equity

On completion of the Group's financial restructuring in December 2020, an \$800 million loan was made by the Group's parent company. This was subsequently capitalised before the end of the year. Prior to the restructuring, \$327.3 million in respect of a loan payable by the Company to its former parent, KCA Deutag Alpha II Limited was capitalised in exchange for shares.

Pensions

At 31 December 2020, the Group had a total of \$151.8 million (2019: \$138.6 million) of liabilities relating to various defined benefit pension schemes. The largest element thereof was \$139.8 million (2019: \$128.3 million) relating to unfunded liabilities in Germany where the Group pays out pensions to scheme members after retirement.

In the UK, the Group's two defined benefit pension schemes had a net deficit totalling \$12.0 million (2019: \$10.3 million) which is being funded by the Group over the medium term.



KCA Deutag Alpha Limited

Financial Review (continued)

Going concern

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

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process, along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

N Gilchrist
Chief Financial Officer, KCA Deutag Alpha Limited
29 March 2021



KCA Deutag Alpha Limited

Corporate Information

Board of Directors

R Ellis	(resigned 21 December 2020)
J Elkhoury	
D Merritt	(resigned 29 April 2020)
N Gilchrist	
D Trucano	(resigned 29 April 2020)
M Lonnqvist	(resigned 29 April 2020)
V Farzad	(resigned 29 April 2020)
A Al Mansoori	(resigned 29 April 2020)
S Al Qahtani	(resigned 29 April 2020, re-appointed 7 January 2021)
B Babcock	(appointed 9 January 2020, resigned 29 April 2020)
J Ensall	(appointed 6 May 2020, resigned 21 December 2020)
A Durkin	(appointed 7 January 2021)
T Ehret	(appointed 7 January 2021)
M Moufarrej	(appointed 7 January 2021)
P Thomas	(appointed 7 January 2021)

Company Secretary

A Byrne

Registered Office

1 Park Row
Leeds
LS1 5AB

Principal Bankers

HSBC Bank plc
95 – 99 Union Street
Aberdeen
AB11 6BD

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
7th Floor
The Capitol
431 Union Street
Aberdeen
AB11 6DA



KCA Deutag Alpha Limited

Directors' report

The Directors present their report on the affairs of KCA Deutag Alpha Limited ("the Company") and its subsidiary undertakings (together "the Group"), together with the audited consolidated financial statements, for the year ended 31 December 2020.

Strategic Report and Principal Activities

The Company's principal activity is as a holding company whose principal subsidiary undertakings provide drilling and related well and facilities engineering services on a worldwide basis to the energy industry.

Further information regarding the Group, including important events and its progress during the year, events since the year end and likely future development is contained in the Chairman's Statement and in the Strategic Report on pages 1 to 14. The information that fulfils the requirements of the Strategic Report (as required the Companies Act 2006), which is incorporated in this Directors' Report by reference, can be found on the following pages of this Annual Report:

Information	Location	Page(s)
Development and performance during the financial year	Chairman's Statement; Strategic Report	1 5
Position at the year end including analysis and key performance indicators	Strategic Report; Financial Review	5 21
Other performance including environmental and employee matters	Strategic Report	5
Principal risks and uncertainties facing the business	Strategic Report	9
Explanation of amounts included in the financial statements	Financial Review; Notes to the Financial Statements	21 42
Explanation of financial risk management	Note 21	72
Explanation of exceptional items	Financial Review; Notes 10-13 to the Financial Statements	21 60-65

Results and Dividends

The Group made a profit after taxation of \$8.7 million (2019: loss \$239.2 million) which has been added to the retained earnings deficit. The audited financial statements for the year ended 31 December 2020 are set out on pages 36 to 94. The Directors do not recommend the payment of a dividend.

Directors

The Directors who served during the year and up to these financial statements being signed were as follows:

R Ellis	(resigned 21 December 2020)
J Elkhoury	
D Merritt	(resigned 29 April 2020)
N Gilchrist	
D Trucano	(resigned 29 April 2020)
M Lonnqvist	(resigned 29 April 2020)
V Farzad	(resigned 29 April 2020)
A Al Mansoori	(resigned 29 April 2020)
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A Durkin	(appointed 7 January 2021)
T Ehret	(appointed 7 January 2021)
M Moufarrej	(appointed 7 January 2021)
P Thomas	(appointed 7 January 2021)

Substantial Shareholdings

The Company's ultimate controlling company is KCA Deutag International Limited which is registered in Jersey. The shareholders of KCA Deutag International Limited are principally comprised of holders of the pre-restructuring secured debt which was partially swapped for equity in KCA Deutag International Limited as part of the restructuring transaction. At 31 December 2020, the Company's ordinary shares were wholly owned by KCA Deutag International 3 Limited, a company incorporated in England and Wales.



KCA Deutag Alpha Limited

Directors' report (continued)

Supplier Payment Policy

The Group's policy is to agree terms of payment with suppliers prior to entering into contractual relationships and to abide by those terms of payment. As the Company is principally a holding company it has no trade creditors and accordingly no disclosure is made of the year end creditor days.

Employees

The Group 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 Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Health and Safety at Work

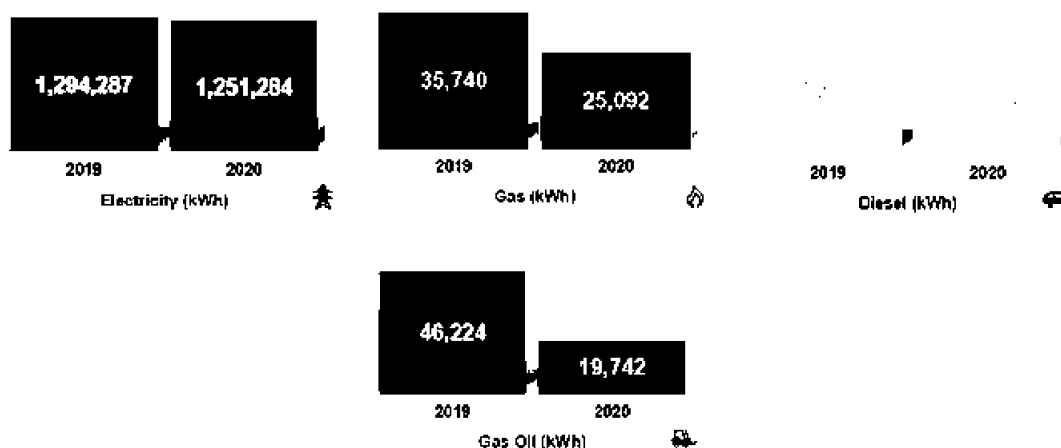
The well-being of the employees is given the highest priority throughout the Group and it is the Group's policy not only to comply with health and safety measures, as required by law, but to act positively to prevent injury and ill health, and damage to the environment arising from its operations.

Environment

The Company has various subsidiaries that provide drilling and related well and facilities engineering services both onshore and offshore. In the execution of these services they undertake environmental risk assessments and site appraisals as standard. These assessments are discussed with the clients to improve the environmental performance of the operation as a whole, through the preparation and implementation of site-specific environmental plans.

The below figures provide details of annual Greenhouse Gas (GHG) emissions from activities for which the Company is directly responsible from our office facilities and a small fleet of company vehicles used in the UK and covers the financial year ended 31 December 2020. The methodology used to calculate total energy consumption and carbon emissions has been through the extraction of consumption data from invoices and meter readings during the period. Energy and fuel consumption have been converted to carbon (KGCO_{2e}) using 2019 DEFRA published conversion factors.

Fuel for transportation has been converted using statistical data sets published by Department of Transport (www.gov.uk/government/statistical-data-sets/energy-and-environment-data-tables-env).





KCA Deutag Alpha Limited

Directors' report (continued)

Energy Source	Consumption	Energy Intensity	Carbon Emissions	Carbon Intensity
	kWh	kWh/m ²	tCO ₂ e	tCO ₂ e/m ²
Electricity	1,251,284	67.83	291.72	0.01582
Gas	25,092	1.38	4.61	0.00025
Diesel	1,954	0.11	0.45	0.00002
Gas Oil	19,742	1.07	5.04	0.00027
Total	1,298,073	70.37	301.83	0.016

There has been a drop in all metrics in 2020 compared to 2019, which can partly be attributed to the global pandemic as individuals work from home. The key environmental risks identified in the UK include waste management, provision of utilities and fuel for the company vehicles.

The Group remains committed to reducing its carbon footprint and moved to a brand new Head Office building in Aberdeen in late 2016 which incorporated many energy efficient technologies and systems. These were further advanced in 2019 when electric car charging points were installed in the staff car park. The Group is engaging with a third party who will assess our carbon footprint across the Group's operations and identify further ways we can measure our environmental impact across the business.

As a responsible drilling and technology company we have an important role to play in improving energy efficiency and in developing new technologies to minimise greenhouse gas emissions generated by us and the work we undertake on behalf of our customers. As a business our aim is to improve efficiency and reduce our emissions and energy consumption to as low as is practically possible within the context of our own business operations. We continue to work on improving environmental sustainability by reducing our carbon footprint, eliminating waste, recycling and using alternative energy sources where possible.

KCA Deutag is also looking to diversify into the wider alternative energy market as the Energy Transition gather pace and scale and is developing a strategy for this.

Our Land Drilling and Offshore businesses are focusing upon improving their environmental impact through a number of initiatives such as operating from the power grid rather than rig generators, improving the power management of engines, exploring battery storage power to manage peak loads, considering solar power/batteries to power rig camps, using less plastics. The Group has reduced the number of plastic bottles water bottles we use by 2 million in 2020. We are also working on ways to accurately measure diesel consumption on our land rigs in order to establish a baseline of emissions and allow projects to achieve reductions to be developed. Furthermore, the commercial teams are engaging customers as they focus on their own emission monitoring and means of achieving reductions.

Going forward, the company will produce a Sustainability Report for 2021 which will set out the company's position on longer term strategy, governance, risk management and reporting in relation to moving towards a lower carbon future.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group 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 IFRSs in conformity with the requirements of the Companies Act 2006, 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 Group and Company will continue in business.

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



KCA Deutag Alpha Limited

Directors' report (continued)

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

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By working in a manner which promotes the Group's six Core Values and behavioural framework, the Group's Directors have performed their duties with a view to promoting the success of the Group for the benefit of its members and can confirm that they have considered the following when acting as a Director, as required by sections 170-177 of the Companies Act 2006:

- The likely consequences of any decision in the long term – decisions are made with a view to seeking to improve financial and non-financial operation of the Group. Decisions taken in relation to strategic, long-term matters are taken with a view to achieving positive outcomes under the Sustainable Growth and Performance Improvement Core Values;
- The interests of employees – decisions are taken which look to encourage staff retention and development. Such decisions are taken with a view to promoting the Valuing All People Core Value;
- The need to foster relationships with suppliers, customers and others – the Group's Directors have empowered Group Management to seek to build positive relationships with stakeholders, based on mutual trust and clear communication of expectations. Such behaviours principally promote the Business Integrity and Sustainable Growth Core Values;
- The impact of operations on the community and environment – the Group's Directors and management make decisions to promote the Group operating in a manner which has positive health, safety and environmental impacts wherever possible. Also, Directors have sought to promote health and well-being within the workforce. The main Core Values which are promoted here are Health & Safety, Business Integrity and Environmental Stewardship;
- The desirability of the Group maintaining a reputation for high standards of business conduct – the Directors promote the Group operating in a way which demonstrates strong business ethics in everything it does, both in terms of within the Group and in its dealings with external stakeholders. This is embodied in our Business Integrity Core Value;
- The need to act fairly as between the members of the Company – based on the above, the Directors look to act fairly, taking into account the interests of all members at all times.

Directors' confirmations

Each Director in office at the date the Directors' report is approved confirms that:

- The Directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.
- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

On behalf of the Board of Directors

J Elkhoury
Director
29 March 2021



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

Report on the audit of the financial statements

Opinion

In our opinion, KCA Deutag Alpha Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's and company's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheets as at 31 December 2020; the Consolidated Income Statement, the Consolidated Statement of Changes in Shareholders' Equity, the Company Statement of Changes in Shareholders' Equity and Cash Flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

KCA Deutag Alpha Limited provides drilling and related well and facilities engineering services on a worldwide basis to the energy industry. The Group is organised into four divisions: Platforms, Land, Bentec and RDS. Each division conducts its business in a number of locations around the world. We included in our group audit scope those components which accounted for the largest share of the Group's results or where we considered there to be areas of significant risk. We also considered the markets in which the Group operates when we performed our assessment of scope and areas of significant risk. In December 2020, the Group completed its financial restructuring exercise which resulted in a significant reduction in Group debt from c.\$1.9 billion to \$505 million, a gain on extinguishment of debt of \$695 million. The former debtholders received equity in exchange. This significantly reduced the Group and Company's Going Concern risk.

Overview

Audit scope

- We conducted full scope audits on 14 reporting entities and the audit of specified balances and classes of transactions in a further 8 reporting entities.
- The scope of work at each reporting entity was determined by its contribution to the Group's overall financial performance and its risk profile. The Group engagement audit team performed the audit procedures over UK and Russian entities as well as the Group's centralised functions.
- We engaged our network firms in Oman, Germany, Norway, Saudi Arabia and Azerbaijan to perform the audit procedures in each respective location.
- The 22 reporting entities where we performed audit work accounted for approximately 84% (2019: 74%) of Group revenue.

Key audit matters

- Carrying Value of Goodwill, PP&E and intangible assets (group)
- Covid-19 (group and parent)



Independent auditors' report to the members of KCA Deutag Alpha Limited (continued)

Materiality

- Overall group materiality: US\$6.3m (2019: US\$7.2m) based on 2.5% of Earnings before interest, tax, depreciation, and amortisation.
- Overall company materiality: US\$5.7m (2019: US\$7.2m) based on 1% of Total Assets.
- Performance materiality: US\$4.7m (group) and US\$4.3m (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified the principal risks of non-compliance with laws and regulations related to employment laws and indirect taxes impacting the different territories in which the Group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- enquiries of certain key management personnel, internal audit and in-house legal team of their awareness of any instances of actual or potential litigation and claims and consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- evaluation of management's controls designed to prevent and detect irregularities.
- review of Board Minute.
- identifying and testing journal entries, in particular any journal entries posted by unusual staff members including Senior Management and unusual account combination.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Carrying value of Goodwill, PP&E and intangible assets is a new key audit matter this year. Carrying Value of Investments in subsidiaries was a key audit matter last year and is no longer included because of the impact of the Group restructuring exercise and the absence of an impairment charge in the subsidiaries. The carrying value of goodwill has been extended to cover PP&E and intangible assets in the current year. Otherwise, the key audit matters below are consistent with last year.



Independent auditors' report to the members of KCA Deutag Alpha Limited (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying Value of Goodwill, PP&E and intangible assets (group)</i></p> <p>During the second half of 2020, management identified indicators of impairment across the Group's assets as a result of the impact of Covid-19 and the prolonged market downturn impacting trading performance.</p> <p>Given the current challenging market conditions and the uncertainty of timing around market recovery, a total impairment charge of \$218.3 million was recognised in respect of goodwill, \$199.7 million in respect of PP&E and total intangible asset impairment of \$92.6 million allocated to the RDS, Bentec and Land CGUs.</p>	<p><i>Goodwill</i></p> <p>We obtained management's impairment model and assessed whether the principles and integrity of the cash flow model are in accordance with relevant accounting standards and managements underlying cash flows.</p> <p>We performed audit procedures over the assumptions used in respect of forecast growth rates and discount rates. We involved our valuation specialists to corroborate the appropriateness of the rates used by forming an independent view of the rate using third party source data to calculate a range of acceptable rates and comparing this to the rate used by management.</p> <p>We performed our own sensitivity analysis including the impact of a reasonably possible reduction in forecast cash flows and an alternative discount rate assumption to assess level of sensitivity to these</p> <p>We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to a reasonably possible change in the discount rate and cash flows reflected the risks inherent within the recoverable amounts.</p> <p>We agree with management's impairment assessment and the carrying value of goodwill as at 31 December 2020.</p> <p><i>PP&E and Intangible assets</i></p> <p>We obtained management's impairment assessment for PP&E and intangible assets and checked the mathematical accuracy of the assessment and its compliance under IAS 36.</p> <p>We audited the key assumptions in respect of the intangible asset impairment and corroborated this to third party evidence where possible.</p> <p>We reviewed management's PP&E impairment assessment. We performed procedures to test the impairment of the individual assets within the CGUs to supporting evidence.</p> <p>We have assessed the disclosures in the financial statements to be compliant with the requirements of IAS 1 'Presentation of Financial Statements' and IAS 36 'Impairment of Assets'.</p> <p>Based on the work performed, we agree with management's assessment and impairment of PP&E and intangible assets allocated to RDS, Land and Bentec.</p>
<p><i>Covid-19 (group and parent)</i></p> <p>The COVID-19 pandemic has caused significant global disruption and economic uncertainty. The outbreak has had an impact on the Group's results and future expected cash flows could be impacted due to the heightened uncertainty, which could have a direct impact on the recoverability of assets and on the going concern of the Group and Company.</p> <p>Additionally, there is a heightened risk of the Group's controls being bypassed with employees working remotely in most locations around the world.</p> <p>Management has included COVID-19 considerations when modelling future cash flows, including in relation to going concern, and assessing assets for impairment.</p>	<p>We reviewed and evaluated management's cash flow forecasts which were prepared to support the Board's going concern assessment and the process by which they were determined and approved.</p> <p>We agreed the forecasts to the latest Board approved budgets and confirmed the mathematical accuracy of underlying calculations.</p> <p>We assessed management's forecast assumptions for base case and severe but plausible downside scenarios and the impact of COVID-19 on forecasts. Further, we considered whether there were any views which were contrary to those of management which should be considered. We concluded that management's forecasts were reasonable.</p> <p>We considered the Group's liquidity and availability of financing to support the going concern and viability assessments.</p> <p>We tested journal entries posted across the Group to underlying support with consideration to the risk of management override of controls.</p> <p>We assessed the related Covid-19 disclosures included in the Group financial statements and consider them to be appropriate.</p>



Independent auditors' report to the members of KCA Deutag Alpha Limited (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate. KCA Deutag Alpha Limited provides services primarily to the oil and gas industries worldwide. Its activities and results continue to be impacted by low oil and gas prices which resulted in lower levels of activity and margin pressures. During the year, the Group has operated through four segments: Offshore Services, RDS, Land Drilling, Bentec with centralised Group functions. Our audit was planned to take into account the impact of market conditions and the financial restructuring on the results and activities of the Group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
<i>Overall materiality</i>	US\$6.3m (2019: US\$7.2m).	US\$5.7m (2019: US\$7.2m).
<i>How we determined it</i>	2.5% of Earnings before interest, tax, depreciation, amortisation and exceptional items	1% of Total Assets
<i>Rationale for benchmark applied</i>	Based on the benchmarks used in the annual report, Earning before interest, tax, depreciation and amortisation is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between \$1m and \$6m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US\$4.7m for the group financial statements and US\$4.3m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$0.3m (group audit) (2019: \$0.3m) and \$0.3m (company audit) (2019: \$0.3m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.



Independent auditors' report to the members of KCA Deutag Alpha Limited (continued)

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- review and evaluation of management's cash flow forecasts and the process by which they were determined and approved, agreeing the forecasts with the latest Board approved budgets and confirming the mathematical accuracy of underlying calculations;
- assessment of management's forecast assumptions for base case and severe but plausible downside scenarios which include the impact of COVID-19 on the Group's ability to continue as a going concern;
- consideration of the Group's liquidity and availability of financing to support the going concern basis of accounting.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.



Independent auditors' report to the members of KCA Deutag Alpha Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
29 March 2021



KCA Deutag Alpha Limited

Consolidated Income Statement

for the year ended 31 December 2020

	Note	2020 \$m	2019 \$m
Revenue	5	1,168.6	1,359.9
Cost of sales		(1,073.9)	(1,216.7)
Gross profit		94.7	143.2
Administrative expenses		(36.6)	(42.4)
Net impairment loss on financial and contract assets	16	(1.3)	-
Amortisation of intangible assets	13	(14.6)	(15.4)
Operating profit before exceptional items		42.2	85.4
Exceptional items - net operating costs	10	(7.6)	(7.8)
Exceptional items - impairment of other non-current assets	11,12,13	(510.6)	(79.8)
Operating loss		(476.0)	(2.2)
Finance costs	7	(209.4)	(226.9)
Finance income	7	2.5	8.7
Exceptional items - gain on refinancing and extinguishment of debt	10	694.6	-
Profit (loss) before taxation	8	11.7	(220.4)
Taxation	9	(3.0)	(18.8)
Profit (loss) for the year		8.7	(239.2)
Profit (loss) attributable to:			
Owners		0.6	(243.4)
Non controlling interests		8.1	4.2
		8.7	(239.2)

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own Income Statement and Statement of Comprehensive Income.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 \$m	2019 \$m
Profit (loss) for the year		8.7	(239.2)
Other comprehensive expense:			
Fair value movement on cash flow hedges		(1.1)	0.6
Exchange differences on foreign operations		(8.9)	3.6
Remeasurements on end of service gratuity provision		-	0.3
Remeasurements on defined benefit pension schemes	28	(4.1)	(20.4)
Total other comprehensive expense for year - net of tax		(14.1)	(15.9)
Total comprehensive expense for the year - net of tax		(5.4)	(255.1)
Comprehensive expense attributable to:			
Owners		(13.5)	(259.3)
Non controlling interests		8.1	4.2
		(5.4)	(255.1)

All items, with the exception of the remeasurements on defined benefit pension schemes, may subsequently be reclassified to the Income Statement.

The Notes on pages 42 to 94 form an integral part of the financial statements.




KCA Deutag Alpha Limited


Balance Sheets as at 31 December 2020

	Note	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Assets					
Non-current assets					
Property, plant and equipment	11	583.5	910.2	-	-
Right of use leased assets	31	88.0	56.7	-	-
Goodwill	12	479.8	698.1	-	-
Other intangible assets	13	17.1	122.4	-	-
Investments	14a,b	-	-	800.0	431.5
Deferred tax assets	23	49.0	48.5	-	-
		1,217.4	1,835.9	800.0	431.5
Current assets					
Inventories and work in progress	15	139.9	145.2	-	-
Trade and other receivables	16	248.0	299.3	0.8	1.8
Amounts owed by parent company	33	-	7.6	-	6.8
Amounts owed by subsidiaries	16,33	-	-	240.3	74.8
Financial assets - derivative financial instruments	21	-	0.9	-	-
Cash, cash equivalents and other deposits	18	201.5	176.6	-	64.2
		589.4	629.6	241.1	147.6
Total assets		1,806.8	2,465.5	1,041.1	579.1
Liabilities					
Current liabilities					
Trade and other payables	19	(228.5)	(316.7)	(3.0)	(2.3)
Bank overdrafts	18	-	(98.0)	(13.4)	-
Tax liabilities	9	(26.7)	(26.7)	-	-
Financial liabilities – derivative financial instruments	21	(0.7)	-	-	-
Financial liabilities – borrowings	20	(0.9)	(115.8)	-	-
Lease liabilities	31	(30.8)	(20.7)	-	-
Provisions and other payables	22	(1.1)	(1.7)	-	-
		(288.7)	(579.6)	(16.4)	(2.3)
Non-current liabilities					
Deferred income		(8.5)	(7.0)	-	-
Financial liabilities – borrowings	20	(492.8)	(1,687.1)	-	1.1
Amounts owed to parent company	33	-	(289.9)	-	(289.6)
Amounts owed to subsidiaries	33	-	-	-	(0.7)
Deferred tax liabilities	23	(18.3)	(52.1)	-	-
Retirement benefit obligations	28	(151.8)	(138.6)	-	-
Lease liabilities	31	(64.4)	(42.4)	-	-
Provisions and other payables	22	(2.2)	(3.4)	-	-
		(738.0)	(2,220.5)	-	(289.2)
Total liabilities		(1,026.7)	(2,800.1)	(16.4)	(291.5)
Net assets (liabilities)		780.1	(334.6)	1,024.7	287.6
Capital and reserves					
Share capital	24	-	-	-	-
Share premium	25	3,429.3	227.8	3,429.3	227.8
Other reserves		92.8	2,177.0	-	2,074.2
Accumulated losses	26	(2,752.2)	(2,748.2)	(2,404.6)	(2,014.4)
Non controlling interest		10.2	8.8	-	-
Total equity		780.1	(334.6)	1,024.7	287.6

The loss for the Company for the year was \$390.2 million (2019: loss \$497.5 million).

The financial statements on pages 36 to 94 were approved by the Board of Directors on 29 March 2021 and signed on its behalf by


J Elkhoury
Director


N Gilchrist
Director

Registered Number: 06433748



KCA Deutag Alpha Limited

Consolidated Statement of Changes in Shareholders' Equity

	Share capital \$m (Note 24)	Share premium \$m (Note 25)	Accumulated losses \$m (Note 26)	Other reserves					Total equity \$m
				Capital contribution reserve \$m	Merger reserve \$m	Hedging reserves \$m	Currency translation reserves \$m	Non- controlling interests \$m	
At 1 January 2020	-	227.8	(2,748.2)	2,074.2	104.4	0.8	(2.4)	8.8	(334.6)
Comprehensive expense									
Profit for the year	-	-	0.6	-	-	-	-	8.1	8.7
Other comprehensive expense									
Fair value movement on cash flow hedges	-	-	-	-	-	(1.1)	-	-	(1.1)
Exchange differences on foreign operations	-	-	-	-	-	-	(8.9)	-	(8.9)
Remeasurements on defined benefit pension schemes	-	-	(4.1)	-	-	-	-	-	(4.1)
Total other comprehensive expense	-	-	(4.1)	-	-	(1.1)	(8.9)	-	(14.1)
Total comprehensive expense	-	-	(3.5)	-	-	(1.1)	(8.9)	8.1	(5.4)
Transactions with owners									
Dividend paid to minority shareholder	-	-	(0.5)	-	-	-	-	(6.7)	(7.2)
Capitalisation of capital contribution reserve	-	2,074.2	-	(2,074.2)	-	-	-	-	-
Capitalisation of intercompany balances	-	1,127.3	-	-	-	-	-	-	-1,127.3
At 31 December 2020	-	3,429.3	(2,752.2)	-	104.4	(0.3)	(11.3)	10.2	780.1

Other reserves in the Balance Sheet consist of the hedging reserve, capital contribution reserve, merger reserve, currency translation reserve and non-controlling interests. The increase in share premium in the year to 31 December 2020 arose due to the Company undertaking a bonus issue of shares where the subscription was paid up using the entire value of its capital contribution reserve. Intercompany payables to the previous and existing parent company were capitalised as part of the restructuring.



KCA Deutag Alpha Limited

Consolidated Statement of Changes in Shareholders' Equity (continued)

	Share capital \$m (Note 24)	Share premium \$m (Note 25)	Accumulated losses \$m (Note 26)	Other reserves			Currency translation reserves \$m	Non- controlling interests \$m	Total equity \$m
				Capital contribution reserve \$m	Merger reserve \$m	Hedging reserves \$m			
At 1 January 2019	-	227.8	(2,484.2)	2,074.2	104.4	0.2	(6.0)	5.7	(77.9)
Comprehensive expense									
Loss for the year	-	-	(243.4)	-	-	-	-	4.2	(239.2)
Other comprehensive expense									
Fair value movement on cash flow hedges	-	-	-	-	-	0.6	-	-	0.6
Exchange differences on foreign operations	-	-	-	-	-	-	3.6	-	3.6
Remeasurements on end of service gratuity provision	-	-	0.3	-	-	-	-	-	0.3
Remeasurements on defined benefit pension schemes	-	-	(20.4)	-	-	-	-	-	(20.4)
Total other comprehensive expense	-	-	(20.1)	-	-	0.6	3.6	-	(15.9)
Total comprehensive expense	-	-	(263.5)	-	-	0.6	3.6	4.2	(255.1)
Transactions with owners									
Dividend paid to minority shareholder	-	-	(0.5)	-	-	-	-	(1.1)	(1.6)
At 31 December 2019	-	227.8	(2,748.2)	2,074.2	104.4	0.8	(2.4)	8.8	(334.6)

Other reserves in the Balance Sheet consist of the hedging reserve, capital contribution reserve, merger reserve, currency translation reserve and non-controlling interests. The merger reserve of \$104.4 million relates to the acquisition of Global Tender Barges during the year ended 31 December 2011 which was accounted for under predecessor accounting.

Non-controlling interests represent the share of profits or losses attributable to non-Group shareholders of certain subsidiaries.

**KCA Deutag Alpha Limited****Company Statement of Changes in Shareholders' Equity**

for the year ended 31 December 2020

	Share capital	Share premium	Accumulated losses	Capital contribution reserve	Total equity
	\$m	\$m	\$m	\$m	\$m
	(Note 24)	(Note 25)	(Note 26)		
At 1 January 2020	-	227.8	(2,014.4)	2,074.2	287.6
Comprehensive expense					
Loss for the year	-	-	(390.2)	-	(390.2)
Total comprehensive expense	-	-	(390.2)	-	(390.2)
Capitalisation of capital contribution reserve	-	2,074.2	-	(2,074.2)	-
Capitalisation of intercompany balances	-	1,127.3	-	-	1,127.3
At 31 December 2020	-	3,429.3	(2,404.6)	-	1,024.7

	Share capital	Share premium	Accumulated losses	Capital contribution reserve	Total equity
	\$m	\$m	\$m	\$m	\$m
	(Note 24)	(Note 25)	(Note 26)		
At 1 January 2019	-	227.8	(1,516.9)	2,074.2	785.1
Comprehensive expense					
Loss for the year	-	-	(497.5)	-	(497.5)
Total comprehensive expense	-	-	(497.5)	-	(497.5)
At 31 December 2019	-	227.8	(2,014.4)	2,074.2	287.6

Other reserves in the Balance Sheet consist of the capital contribution reserve. The share premium reserve movement of \$1,127.3 million relates to the conversion to equity of an intercompany loan payable of \$800 million to KCA Deutag International 3 Limited as well as the capitalisation of a \$327.3 million loan balance with the Company's former parent KCA Deutag Alpha II Limited.



KCA Deutag Alpha Limited

Cash Flow statements

for the year ended 31 December 2020

	Note	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Cash generated from (used in) operating activities	29	220.7	303.9	(44.3)	65.2
Tax paid		(35.6)	(32.9)	-	-
Net cash generated from (used in) operating activities		185.1	271.0	(44.3)	65.2
Cash flows from investing activities					
Purchase of property, plant and equipment		(42.0)	(74.1)	-	-
Proceeds from sale of property, plant and equipment		1.5	0.9	-	-
Purchase of intangible assets	13	(1.5)	(2.1)	-	-
Investment in joint venture		-	0.3	-	-
Interest received		19.6	24.6	4.5	9.2
Net cash (used in) generated from investing activities		(22.4)	(50.4)	4.5	9.2
Cash flows from financing activities					
Bank loan repayments		(18.0)	(34.7)	-	-
Arrangement fees paid		(7.2)	-	0.7	0.5
Lease payments	31	(32.6)	(21.2)	-	-
Interest paid, including capitalised interest		(27.4)	(196.6)	(0.4)	(1.6)
Exceptional costs of refinancing and extinguishment of debt		(69.1)	-	(38.1)	-
Settlement of working capital facility on restructuring		115.0	-	-	-
Dividend paid to minority shareholders		(7.2)	(1.6)	-	-
Net cash used in financing activities		(46.5)	(254.1)	(37.8)	(1.1)
Effect of exchange rate changes on cash and cash equivalents		6.7	(6.7)	-	-
Net increase (decrease) in cash and cash equivalents		122.9	(40.2)	(77.6)	73.3
Cash and cash equivalents at beginning of year		78.6	118.8	64.2	(9.1)
Cash and cash equivalents at end of year	18	201.5	78.6	(13.4)	64.2

Cash and cash equivalents as set out in the above Cash Flow Statement include overdraft facilities which form part of the Group's cash management strategy.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

1 General information

KCA Deutag Alpha Limited ('the Company') is a holding company whose principal subsidiary undertakings provide drilling and related well and facilities engineering services on a worldwide basis to the energy industry.

The Company is a private company, limited by shares, incorporated in England and Wales and domiciled in Scotland. The address of its registered office is 1 Park Row, Leeds, LS1 5AB.

2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost modified by revaluation of financial assets and financial liabilities held at fair values through profit and loss. A summary of the significant Group accounting policies is set out below.

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

At the year end the Group has a strong liquidity position and has headroom under its financial covenants which form a part of these facilities. The Directors have reviewed the most recent projections and forecasts as prepared as part of its budgeting and strategic planning process along with assessing severe but plausible downside sensitivity scenarios and their potential impacts on Group profitability and cash generation over the same period. By completing this analysis, these projections indicate that the Group's liquidity and covenant headroom is adequate. Therefore, the directors are confident that the Group has sufficient covenant headroom as well as adequate cash resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

3 Summary of significant accounting policies

The principal accounting policies applied 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.

a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company for the year to 31 December 2020. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated or deconsolidated from the effective date control is transferred to or from the Company. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any excess of the fair values of the identifiable net assets over the cost of acquisition is recognised directly in the Income Statement.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

(ii) Associates and joint ventures

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement within operating profit and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the costs of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill and included within the carrying amount of the associate. Any excess of the Group's share of the fair values of the identifiable net assets of the associate over the costs of acquisition is recognised directly in the Income Statement.

Where a Group company transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in US Dollars. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operated (the functional currency). The Company's functional and presentation currency is the US Dollar.

The exchange rates used in respect of the major currencies in which the Group operates, compared to the US Dollar, are as follows:

	Average rate for year	Closing rate
GBP	0.7774	0.7355
NOK	9.3898	8.5495
EUR	0.8774	0.8138
RUB	72.290	74.404



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

b) Foreign currency translation (continued)

(ii) Transactions and balances

Transactions denominated in foreign currencies are translated and recorded at the rate of exchange 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. Gains and losses arising on retranslation are recognised in the Income Statement for the year, except where hedge accounting is applied.

(iii) Group companies

On consolidation, the assets and liabilities of the Group's non US Dollar functional entities are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the actual transaction rate will be used).

All resulting exchange differences are recognised as a separate component of equity. Such translation differences are recognised in the Income Statement in the year in which the operation is disposed of.

(iv) Goodwill and fair value adjustments

Goodwill and fair value adjustments arising on the acquisition of a non US Dollar functional entity are treated as assets and liabilities of the non US Dollar functional entity and translated at the closing exchange rate.

c) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resource and assessing performance of the operating segments, has been identified as the Group's Board of Directors that make all strategic decisions. Key performance measures include EBITDA and rig utilisation.

EBITDA is the profit measure used by the group as a simple proxy for pre-tax cash flows from operating activities. It is defined as pre-exceptional operating profit underlying results before share of associates' post-tax results, interest, tax, depreciation, impairment and amortisation.

d) Business combinations and goodwill

(i) Business combinations accounted for using the acquisition method

Business combinations are accounted for using the acquisition method. All assets and liabilities of the acquiree are measured at fair value at the date of acquisition. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill arising on acquisition (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) is recognised as an asset and reviewed for impairment at least annually. On disposal of an entity, the attributable amount of remaining goodwill is included in the determination of profit and loss on disposal.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised through the Income Statement. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity.

When deferred consideration is payable on the acquisition of a business, an estimate of the amount payable is made at the date of acquisition and reviewed regularly thereafter, with any subsequent change in the estimated liability being reflected in the Income Statement. Where deferred consideration is payable after more than one year the estimated liability is discounted using an appropriate rate of interest.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

d) Business combinations and goodwill (continued)

(ii) Business combinations under common control

It is the Group's policy to account for business combinations involving entities under common control using predecessor accounting. Under predecessor accounting, the Group has elected to include the acquired entity's results and capital structure from the date of acquisition.

A merger reserve, recognised in equity, represents the differences on consolidation arising on the adoption of predecessor accounting. This comprises the difference between consideration paid and the book value of net assets acquired in the transaction. No additional goodwill is created or gain recognised.

e) Other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any provision for impairment. On acquisition of an entity, intangible assets are identified and evaluated to determine the fair value on the acquisition Balance Sheet. Amortisation is provided to write off the cost of each asset over its estimated useful life, using the straight-line method, on the following basis:

Trade names	up to 21 years
Customer relationships and contracts	up to 13 years
Technology	up to 10 years

We perform an annual review of our intangible assets to determine the appropriateness of their carrying values. When determining the impairment charge for each intangible asset category management has assessed the current and likely future benefit obtained from the specific assets, taking into account the current market environment.

f) Property, plant and equipment

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

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over their estimated useful life.

Drilling rigs and equipment

The depreciation for drilling rigs and equipment is calculated by dividing the total number of days a rig is operational in any year (regardless of revenue generated) 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.

Other assets

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

Freehold buildings	50 years
Leasehold improvements - land and buildings	50 years (or over the unexpired lease, if shorter)
Plant, machinery and vehicles	2-10 years

Assets in the course of construction are not depreciated until ready for 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 Income Statement.

Asset lives and residual values are assessed at each Balance Sheet date. Where an impairment trigger is identified with relation to specific assets a review is undertaken to confirm the appropriateness of the carrying value taking into account factors such as comparable asset values and available third party valuations.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

g) Goodwill

The Group performs impairment reviews in respect of goodwill annually, and other intangible assets and property, plant and equipment when circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, calculated as 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.

For the purpose of impairment testing, assets are allocated to the appropriate cash generating unit ("CGU"). The CGUs are aligned to the structure the Group uses to manage its business. Cash flows are discounted in determining the recoverable amount.

h) Net borrowing costs and interest income

Borrowing costs directly attributable to the construction of qualifying assets such as property, plant and equipment are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the Income Statement in the year in which they are incurred.

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

i) Investments in subsidiaries, associates and intercompany loans

Investments held as non-current assets are measured at cost less appropriate provision for impairment where the Directors consider that an impairment in value has occurred. Intercompany loans which are classified as investments are accounted for at their amortised cost with provisions for Expected Credit Losses ("ECLs") being booked when considered necessary. The same process used to determine ECLs for trade and other receivables is also applied for intercompany loans (Note 16). Investments are considered for impairment at least annually. In respect of the accounting treatment for investments in associates for Group purposes see Note 3a) above.

j) Inventories

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

k) Cash, cash equivalents and other deposits

Cash and cash equivalents comprise cash in hand, deposits with maturities of less than three months held with banks and bank overdrafts.

l) Trade receivables

Trade receivables, including contract assets, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for an expected credit loss, if applicable. When determining the level of expected credit loss provision, management consider the age of the outstanding receivable along with prior experience in relation to the specific customer as well as the jurisdiction in which the balance is due before booking any provision.

When determining the level of expected credit loss provision required in respect of trade receivable balances, management also consider the creditworthiness and probability of the future default of the customer.

m) Taxation

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



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

m) Taxation (continued)

Deferred income tax is provided, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation on property, plant and equipment, pension liabilities, 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 substantively enacted, by the Balance Sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

In relation to uncertain tax positions, a tax charge is created to reflect management's best estimate of the amount payable in relation to a portfolio of tax claims and the risk of occurrence of each claim as at the Balance Sheet date.

n) Employee benefits - pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group 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.

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 Income Statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group 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.

o) Financial assets and liabilities

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

(i) Derivative financial instruments and hedge accounting

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

KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

o) Financial assets and liabilities (continued)

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 Group 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 Group 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 Group documents at the inception of the transactions the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction.

The Group also documents its assessment, both at hedge inception and on an on-going 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 Group 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 Income Statement. 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.

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.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the Income Statement in the same year 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.

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.
- The fair value of forward currency contracts has been estimated based on market forward exchange rates at the Balance Sheet date, which is classified as level 2.

(ii) 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.

(iii) Embedded derivatives

Embedded derivatives are recognised at fair value based on calculations using an established option pricing model, and are subsequently annually remeasured at their fair value. The carrying amount of an embedded derivative is reported within the same consolidated Balance Sheet category as the host contract.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

p) Capital management

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 long-term debt facilities for example have no significant capital repayments required until 2025. 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 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 interest rate exposures are also made looking at fixed rate and variable rate exposures with the aim of maintaining a balance between fixed and variable rates. 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.

q) Provisions

Provisions are measured at the net 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.

r) Revenue recognition

Revenue 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. Revenue from Land Drilling, Offshore Services' platform drilling operations and RDS engineering operations is recognised in the accounting period in which the services are rendered, typically based on a day rate for rigs and/or manpower provided to the customer.

In Offshore Services, the Group provides personnel to operate and maintain customer owned assets based on contractually agreed rates.

In Land Drilling, the Group typically provides the drilling rig and crew to the customer on a day rate which varies dependent on activity. In our day rate drilling contracts, we typically receive compensation and incur costs for mobilisation, equipment modification or other activities prior to the commencement of a contract. Any such compensation may be paid through a lump-sum payment or other daily compensation.

Pre-contract compensation and costs are deferred until the contract commences and then spread on a straight-line basis over the primary term of the relevant drilling contract. The deferred pre-contract compensation and costs are amortised, using the straight-line method, into income or loss over the term of the initial contract period, regardless of the activity taking place, in a manner consistent with the economics of the customer contract. Where there are no elements of up-front consideration in a drilling contract, the Group recognises revenue in line with the amount to which we are contractually able to invoice the customer for performance obligations which have been completed to date. Therefore, the IFRS 15 expedient allowing the Group to recognise revenue in line with its right to invoice its customers has been applied in preparing these financial statements.

Mobilisation costs which are incurred in relation to the mobilisation of new rigs are capitalised and depreciated over the life of the rig. Mobilisation costs incurred on moving rigs to locations under a new customer contract are amortised on a straight line basis over the primary period of the new contracts.

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

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

Early Termination Fees in relation to Land Drilling contracts are recognised as a point in time revenue stream at the time they are agreed with the customer and the Group has no future performance obligations under the relevant contract.

Incentive income is recognised when earned. Incentive income is earned in respect of contract Key Performance Indicators (KPIs) detailed in customer contracts, and revenue is recognised only when a KPI has been achieved and achievement has been agreed with a customer.



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3 Summary of significant accounting policies (continued)

r) Revenue recognition (continued)

In RDS, the Group provides personnel on a time-cost basis to customers to work on engineering projects as well as a number of contracts that are accounted for as engineering contracts as described in s) below.

Recognition of revenue from Bentec engineering contracts is described in s) below. For all other Bentec revenue streams revenue is recognised based upon completion of the relevant service or delivery of goods.

The Group recognises flow through revenue, 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.

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

s) Engineering contracts

Where the outcome of a long term engineering contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the Balance Sheet date dependent on the relevant provisions in the contract with the customer. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion or the contractual position prevents this treatment in accordance with IFRS 15, which results in revenue being recognised at a point in time rather than with reference to the stage of completion of the contract. Revenue variations in contract work, claims and incentive payments are included to the extent that they have been agreed in writing by the customer. Typically the performance obligation in respect of these contracts is fulfilled on delivery.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised in full as an expense immediately.

Deferred income represents the value of advance payments received from customers for engineering contracts which are in excess of the value of work done at the Balance Sheet date.

t) Leases

Where the group is a lessee almost all leases are recognised on the balance sheet. An asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The lease liability is measured at the present value of the future lease payments. The lease term includes all periods covered by extension options if exercise of the extension is reasonably certain. The present value is calculated based on an appropriate discount rate being the Group's incremental borrowing rate.

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

The group has also chosen to take advantage of the exemptions as allowed in the standard for certain short term leases and leases of low value assets;

i) Short term leases

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

ii) Low-value assets

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

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



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3 Summary of significant accounting policies (continued)

u) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are initially recognised at fair value and subsequently held at amortised cost.

v) Exceptional items

Exceptional items shown within operating profit are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to operational exceptional items include write-downs or impairments of assets including goodwill, restructuring costs, asset or business disposals and litigation settlements.

Exceptional items shown below operating profit are those significant non-operational items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to non-operational exceptional items include gains or losses arising on financial restructuring.

w) Share capital

Ordinary shares and share premiums are classified as equity.

x) Dividends

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

y) Disclosure of impact of accounting standards

i) New standards, amendments and interpretations

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

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

ii) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Company impact of new standards

The Company's principal accounting policies applied in the preparation of these financial statements are the same as those applied in the preparation of the Group's financial statements, except for investments in subsidiaries that are stated at cost, which is the fair value of the consideration paid, less provision for impairment. These policies have been consistently applied to all the years presented.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the KCA Deutag Group and are not managed separately.



KCA Deutag Alpha Limited

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for the year ended 31 December 2020

4 Significant accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical accounting estimates and assumptions

(i) Useful economic lives of property, plant and equipment and other intangible assets

The annual depreciation charge for property, plant and equipment and other intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Notes 11 and 13 for the carrying amount of property, plant and equipment and other intangible assets and Notes 3f) and 3e) for the useful lives for each class of asset.

(ii) Estimated impairment of non current assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3g). The recoverable amounts of the cash generating units (CGUs) have been determined based on fair value less estimated cost to dispose calculations. These calculations require the use of certain estimates of the future profitability and cash flows of each CGU. These are subject to the impact of changing market conditions, our competitors and the future operational performance of the Group. See Note 12 for the disclosure, key assumptions and sensitivity analysis in relation to the impairment calculation.

During the year ended 31 December 2020 a review was undertaken of the Group's intangible assets to determine the appropriateness of their carrying values. This review took account of current as well as forecast market conditions experienced by the Group. The benefit obtained from our customer relationships and contracts and trade names was assessed with respect to each Business Unit.

During the year ended 31 December 2020 a review was undertaken of the carrying values of the Group's Land Drilling rigs. Factors considered when determining the impairment charge for each rig included the age of the rig, client contract backlog and forecast utilisation, comparable rig data across the Group's fleet as well as current and forecast market conditions within the country in which the rig operates.

(iii) Impairment of trade receivables

The Group makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management consider factors including the credit rating of the customer, the ageing profile of receivables and historical experiences. See Note 16 for the net carrying amount of trade and other receivables and the associated impairment provision.

(iv) Retirement benefit obligations

The Group has an obligation to pay pension benefits to certain employees and former employees under defined benefit pension arrangements. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, future salary increases, asset valuations and the discount rate on high quality corporate bonds. Management, with the assistance of qualified actuaries, estimates these factors in determining the net pension obligation at each Balance Sheet date. The assumptions reflect historical experience and estimated future trends. See Note 28 for the disclosures and key assumptions in relation to the retirement benefit obligations.



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Notes to the consolidated financial statements

for the year ended 31 December 2020

4 Significant accounting judgements and estimates (continued)

b) Critical judgements in applying the accounting policies

(i) Income taxes

The Group is subject to income taxes in numerous jurisdictions and judgement is required in determining the provision for uncertain tax positions in respect of income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(ii) Recoverability of deferred tax balances

The Group exercises judgement in determining if deferred tax assets can be recognised. They will only be recognised to the extent that it is probable that future taxable profits will be available. These are determined based on business plans for individual subsidiaries in the Group.

(iii) Provisions and contingent liabilities

We exercise judgement in determining the timing and quantum of all provisions to be recognised. Our assessment includes consideration of whether we have a present obligation, whether payment is probable and if so whether the amount can be estimated reliably. As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future which are not recognised as liabilities on our Balance Sheet. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes. Performance obligations arising from lump sum upfront payments such as mobilisation fees or customer funded capital expenditure are amortised on a straight line basis over the primary period of the drilling contract. This treatment, in the Group's judgement, is consistent with the economics of the contract agreed with the customer.

(iv) Revenue recognition - performance obligations satisfied over time

Performance obligations arising from lump sum upfront payments such as mobilisation and demobilisation fees or customer funded capital expenditure, are amortised on a straight line basis over the primary period of the drilling contract. This treatment, in the Group's judgement, is consistent with the economics of the contract agreed with the customer.

5 Segmental reporting

The Group's primary segment reporting format is determined to be business segments. The Group is currently organised into four continuing business segments, which are as follows:

Operating Segment

Offshore Services

RDS

Land Drilling

Bentec

Principal Activities

the provision of offshore platform drilling services

the provision of engineering services

the provision of land rig drilling services

the provision of drilling rig design, construction and components

Reportable operating segments are identified as those that when aggregated represent at least 75% or more of the Group's external revenue. Central overheads have been shown separately to provide additional information as a reconciliation to the primary statements. Central overheads consist of administration and related expenses of the Group. The KPI used to measure divisional profitability is EBITDA, before exceptional items.



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for the year ended 31 December 2020

5 Segmental reporting (continued)

EBITDA, a non-GAAP profit measure, is used as a simple proxy for pre-tax cash flows from operating activities. It is calculated as operating profit before exceptional items, share of associates' post-tax results, interest, tax, depreciation, impairment and amortisation.

The following tables present revenue, profit (loss) and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2020.

Year ended 31 December 2020	Offshore Services \$m	RDS \$m	Land Drilling \$m	Bentec \$m	Central Overheads \$m	Eliminations \$m	Total \$m
Revenue							
External revenue	497.1	45.1	555.8	70.6	-	-	1,168.6
Inter segment revenue	-	-	0.9	10.8	0.5	(12.2)	-
Total revenue	497.1	45.1	556.7	81.4	0.5	(12.2)	1,168.6
Results							
EBITDA	92.7	2.0	167.9	3.9	(13.1)	-	253.4
Exceptional items - net operating	-	-	(2.1)	(0.8)	(4.7)	-	(7.6)
Exceptional items - impairment of non current assets	-	(23.1)	(391.4)	(96.1)	-	-	(510.6)
Depreciation of property, plant and equipment	(2.8)	-	(163.9)	(2.7)	0.4	-	(169.0)
Depreciation of right of use assets	(6.9)	(0.6)	(19.1)	(0.1)	(0.9)	-	(27.6)
Intangible asset amortisation	(3.1)	-	(8.5)	(1.9)	(1.1)	-	(14.6)
Operating profit (loss)	79.9	(21.7)	(417.1)	(97.7)	(19.4)	-	(476.0)
Net finance costs	-	-	-	-	(206.9)	-	(206.9)
Exceptional items- gain on refinancing and extinguishment of debt	-	-	-	-	694.6	-	694.6
Profit (loss) before taxation	79.9	(21.7)	(417.1)	(97.7)	468.3	-	11.7
Taxation	-	-	-	-	-	-	(3.0)
Profit for the year							8.7
Assets and liabilities							
Segment assets	332.7	49.2	1,061.8	143.3	18.3	-	1,605.3
Unallocated assets	-	-	-	-	-	-	201.5
Total assets							1,806.8
Segment liabilities	(73.3)	(9.5)	(348.3)	(62.7)	(27.9)	-	(521.7)
Unallocated liabilities	-	-	-	-	-	-	(505.0)
Total liabilities							(1,026.7)
Other segment information							
Capital expenditure							
Property, plant and equipment	1.8	-	42.8	1.9	0.3	-	46.8
Intangible assets	-	-	-	0.9	0.6	-	1.5



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for the year ended 31 December 2020

5 Segmental reporting (continued)

The following tables present revenue, profit (loss) and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2019.

Year ended 31 December 2019	Offshore Services \$m	RDS \$m	Land Drilling \$m	Bentec \$m	Central Overheads \$m	Eliminations \$m	Total \$m
Revenue							
External revenue	480.0	51.6	667.6	160.7	-	-	1,359.9
Inter segment revenue	-	-	0.9	17.5	0.5	(18.9)	-
Total revenue	480.0	51.6	668.5	178.2	0.5	(18.9)	1,359.9
Results							
EBITDA	88.8	5.0	202.7	16.1	(13.4)	-	299.2
Exceptional items - net operating	-	-	(1.6)	(6.2)	-	-	(7.8)
Exceptional items - impairment of non current assets	-	(31.8)	(48.0)	-	-	-	(79.8)
Depreciation of property, plant and equipment	(4.6)	-	(173.1)	(1.9)	-	-	(179.6)
Depreciation of right of use assets	(5.7)	-	(11.5)	(0.7)	(0.9)	-	(18.8)
Intangible asset amortisation	(2.4)	-	(8.4)	(3.3)	(1.3)	-	(15.4)
Operating profit (loss)	76.1	(26.8)	(39.9)	4.0	(15.6)	-	(2.2)
Net finance costs	-	-	-	-	(218.2)	-	(218.2)
Profit (Loss) before taxation	76.1	(26.8)	(39.9)	4.0	(233.8)	-	(220.4)
Taxation	-	-	-	-	-	-	(18.8)
Loss for the year							(239.2)
Assets and liabilities							
Segment assets	380.0	77.6	1,578.6	209.9	34.1	-	2,280.2
Unallocated assets	-	-	-	-	-	-	185.3
Total assets							2,465.5
Segment liabilities	(112.7)	(11.3)	(294.6)	(88.3)	(30.4)	-	(537.3)
Unallocated liabilities	-	-	-	-	-	-	(2,262.8)
Total liabilities							(2,800.1)
Other segment information							
Capital expenditure							
Property, plant and equipment	3.9	-	66.0	2.5	1.7	-	74.1
Intangible assets	-	-	-	1.1	1.0	-	2.1

Included in the above revenue figures are the following amounts of flow-through turnover:	2020 \$m	2019 \$m
Offshore Services	63.2	55.1
RDS	17.3	15.9
Land Drilling	19.1	16.1

Flow-through turnover is defined as turnover in respect of the purchase of equipment and materials on behalf of customers which is recharged at minimal or no margin.

Unallocated assets and liabilities represent investments, cash, derivatives, tax and borrowings.

All inter-segment revenues are priced on an arm's length basis and are fully eliminated on consolidation. Results arising from revenues between segments are not material.

Central overheads includes exchange gains and losses arising on the retranslation of non-functional currency trading balances. The impact in 2020 is nil (2019: nil).



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5 Segmental reporting (continued)

Geographical Segments

The Group manages its business segments on a global basis divided into five geographical areas and does not manage nor maintain information on a country by country basis. It therefore presents the geographical segmental information on an area basis. The UK is the home country of the parent. The five main geographical areas are as follows:

- North Sea and Europe
- Caspian and Russia
- Middle East
- Africa
- Other

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the years ended 31 December 2020 and 2019.

Year ended 31 December 2020	North Sea and Europe	Caspian and Russia	Middle East	Africa	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	406.6	283.7	380.0	73.6	24.7	1,168.6
Other segment information						
Segment assets	468.6	294.7	718.7	110.0	13.3	1,605.3
Unallocated assets						201.5
Total assets						1,806.8
Capital expenditure of continuing operations						
Property, plant & equipment	3.9	8.3	32.1	2.5	-	46.8
Intangible assets	0.9	-	-	-	0.6	1.5

Year ended 31 December 2019	North Sea and Europe	Caspian and Russia	Middle East	Africa	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	515.9	295.9	445.2	65.4	37.5	1,359.9
Other segment information						
Segment assets	549.1	430.4	1,014.7	211.9	74.1	2,280.2
Unallocated assets						185.3
Total assets						2,465.5
Capital expenditure of continuing operations						
Property, plant & equipment	14.3	13.9	35.0	8.1	2.8	74.1
Intangible assets	1.1	-	-	-	1.0	2.1



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6 Business combinations

Acquisition during 2019

On 23 December 2019, the Group acquired two land rigs along with associated inventory and customer contracts in South Iraq for \$6.7 million in cash. The fair value of the identifiable assets as at the date of acquisition are set out in the table below.

The cash outflow of \$6.7 million per the Cash Flow Statement represents the cash consideration paid to the sellers.

	2019
	Fair value
	\$m
Assets	
Property, plant and equipment	9.5
Inventories and work in progress	0.9
	10.4
Total identifiable net assets	10.4
Goodwill arising on acquisition	(3.7)
Purchase consideration transferred	6.7
Purchase consideration	
Cash	6.7
Total consideration	6.7

The purchase has been accounted for using acquisition accounting. All assets acquired have been recognised at their fair values. As the fair value of net assets acquired exceeds the consideration paid, this transaction has been accounted for as a bargain purchase under IFRS 3, with the corresponding gain arising on acquisition being credited to the Income Statement within Exceptional Items for the year ended 31 December 2019.



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7 Finance costs - net

	2020	2019
	\$m	\$m
Interest payable to former immediate parent company	(23.3)	(33.8)
Interest payable on bank borrowings	(146.0)	(169.5)
Interest payable on finance leases	(7.2)	(4.9)
Commitment fees	(0.6)	(0.9)
Amortisation of arrangement fees	(8.8)	(8.7)
Amortisation of discount assets (a)	(1.9)	(1.9)
Other finance costs	(8.5)	(7.0)
Exchange losses (b)	(13.1)	(0.2)
Finance costs	(209.4)	(226.9)
Bank interest receivable	0.5	2.8
Other finance income	-	0.3
Exchange gains (c)	2.0	5.6
Finance income	2.5	8.7
Finance costs - net	(206.9)	(218.2)

a) The amortisation of the discount assets in 2020 relates to: i) an amortisation of a discount of \$7.7 million which was deducted from the proceeds of \$535 million generated by a bond issue completed in April 2017 and ii) an amortisation of a discount of \$2.1 million which was deducted from the net proceeds arising from the refinancing of a term loan facility in April 2018. All remaining discount assets and capitalised arrangement fees were written off as part of the financial restructuring of the Group and have been accounted for within exceptional items.

b) Exchange losses include the exchange movements during the year on non-functional currency pension liabilities which are largely denominated in Euros.

c) Exchange gains include exchange movements during the year on the US Dollar debt held by a subsidiary company whose functional currency is denominated in Sterling.

8 Profit (loss) before taxation

	2020	2019
	\$m	\$m
The following items have been included in arriving at the Group's profit (loss) before taxation:		
Included within cost of sales:		
- Cost of inventories consumed	39.9	51.7
- Depreciation of property, plant and equipment (Note 11)	169.0	179.6
- Depreciation of right of use assets (Note 31)	27.6	18.8
- Net gain on disposal of property, plant and equipment	(1.2)	(0.4)
- Net foreign exchange operating loss (gain)	0.2	(0.2)
Included within both cost of sales and administration expenses:		
- Employee benefit expense (Note 27)	526.0	534.3
Impairment of trade receivables (Note 16)	1.3	0.5
Impairment of non current assets (Note 11, 12, 13)	510.6	79.8
Amortisation of other intangible assets (Note 13)	14.6	15.4



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8 Profit (loss) before taxation (continued)

Auditors' remuneration / services provided by the Group's auditors and their associates

	2020	2019
	\$m	\$m
Audit of the financial statements	1.0	0.9
Audit of subsidiaries	0.6	0.6
Total audit	1.6	1.5
Fees payable to the Group's auditors and their associates for other services		
Taxation compliance services	0.1	0.1
All taxation advisory services	0.1	0.1
Other non-audit services not covered above	-	0.1
Total non-audit services	0.2	0.3
Total fees	1.8	1.8

9 Taxation

	2020	2019
	\$m	\$m
Current tax	34.4	21.8
Adjustments in respect of previous years	2.2	(0.7)
	36.6	21.1
Deferred tax	(31.0)	(1.3)
Adjustments in respect of previous years	(2.6)	(1.0)
	(33.6)	(2.3)
Total tax charge	3.0	18.8

The tax charge for the year varied from the standard effective rate of corporation tax in the UK for 2020 of 19% (2019: 19%) due to the following factors:

	2020	2019
	\$m	\$m
Profit (loss) before taxation	11.7	(220.4)
Profit (loss) before taxation at standard rate of corporation tax in the UK 19% (2019: 19%)	2.2	(41.9)
Effects of:		
Adjustments in respect of previous years	(0.4)	(1.8)
Non-recognition of current year losses	12.6	2.9
De-recognition of Norwegian deferred tax asset	4.4	(5.3)
Recognition of UK deferred tax asset	(0.1)	12.2
Impairment of non-current assets	66.1	13.6
Group relief to parent undertakings for nil consideration	-	21.0
Non-recognition of deferred tax assets relating to property, plant and equipment and other temporary differences in the UK	-	6.2
Deemed profit tax on overseas profits	8.3	5.4
Different effective tax rates on overseas profits including the impact of taxes not computed in US Dollars and current year losses where no offset available	28.1	0.6
Extinguishment of external debt and impact of refinancing	(130.6)	-
Other permanent differences	12.4	5.9
Total tax charge	3.0	18.8

Other permanent differences relate primarily to non-deductible interest costs, goodwill and other impairment and legal and professional fees.



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9 Taxation (continued)

The Group has substantial activities in overseas jurisdictions where different rates of tax apply. The Group's effective rate of tax is therefore subject to fluctuations depending upon where the Group obtains contracts, the effective tax rates in the countries concerned and the availability of double tax relief. In many countries the Group's tax liability is calculated on the profits earned in local currency including exchange differences on the translation of US Dollar assets and liabilities into the local currency. During the year such exchange differences, as well as being unable to obtain tax relief on a substantial element of its interest costs, have had a material effect on the Group's tax charge.

Factors affecting current and future tax charges

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%.

Summary of current tax liabilities:	2020	2019
	\$m	\$m
At 1 January	26.7	40.1
Charge to Income Statement	36.6	21.1
Tax paid	(35.6)	(32.9)
Offset of withholding tax	(1.0)	(1.8)
Exchange and other movements	-	0.2
At 31 December	26.7	26.7

Net income tax liabilities in the Group Balance Sheet include \$15.9 million (2019: \$16.1 million) relating to uncertain tax positions where management has had to exercise judgement in determining the most likely outcome in respect of the relevant issue. Where the final outcome on these issues differs to the amounts provided, the Group's tax charge will be impacted.

10 Exceptional items

		2020	2019
		\$m	\$m
(a) Exceptional items included in operating loss			
Reorganisation costs	(i)	(6.8)	(5.3)
Supplier dispute	(ii)	(0.8)	(6.2)
Fair value adjustment for business combination (Note 6)	(iii)	-	3.7
Net charge to Income Statement		(7.6)	(7.8)

i) Reorganisation costs in 2020 primarily relate to the Group's cost reduction, restructuring and redundancy expenditure along with professional fees associated with the Group's strategic activities looking at potential mergers and acquisitions.

ii) In 2020 the Group booked a charge of \$0.8 million (2019: \$6.2 million) in Bentec relating to disputes with suppliers, together with certain other related costs.

iii) On 23 December 2019 the Group acquired two land rigs along with associated inventory and customer contracts in South Iraq. The fair value of the net assets acquired exceeds the consideration paid and the associated gain has been classified as an exceptional item, see Note 6.

	2020	2019
	\$m	\$m
(b) Exceptional items after operating loss		
Exceptional gain on refinancing and extinguishment of debt	694.6	-
Net credit to Income Statement	694.6	-

On 21 December 2020, the Group closed its financial restructuring whereby its secured debt was reduced from c. \$1.9 billion to c. \$0.5 billion via a debt for equity exchange with its secured lenders. As a result of this transaction, an exceptional gain of \$694.6 million has been reflected in the Income Statement. The gain represents the net impact of extinguishing \$2,068.4 million of pre-existing bank debt, including accrued interest and capitalised fees, and replacing it with \$500 million of new Senior Secured Notes and \$800 million in respect of equity issued by the Group's new ultimate parent company. Costs expensed associated with the restructuring process totalled \$73.8 million.



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for the year ended 31 December 2020

11 Property, plant and equipment

Group	Land and buildings- long leasehold improvements and freehold \$m	Drilling rigs and equipment \$m	Plant, machinery and vehicles \$m	Total \$m
Cost				
At 1 January 2020	39.0	1,954.2	95.5	2,088.7
Additions at cost	0.1	45.8	0.9	46.8
Disposals	(3.1)	(147.8)	(0.3)	(151.2)
Exchange adjustments	-	3.5	2.1	5.6
At 31 December 2020	36.0	1,855.7	98.2	1,989.9
Accumulated depreciation and impairment				
At 1 January 2020	9.6	1,158.2	10.7	1,178.5
Charge for year	1.3	164.0	3.7	169.0
Disposals	(1.1)	(147.5)	(0.3)	(148.9)
Impairment	-	199.7	-	199.7
Exchange adjustments	-	6.0	2.1	8.1
At 31 December 2020	9.8	1,380.4	16.2	1,406.4
Net carrying amount				
At 31 December 2020	26.2	475.3	82.0	583.5

Group	Land and buildings- long leasehold improvements and freehold \$m	Drilling rigs and equipment \$m	Plant, machinery and vehicles \$m	Total \$m
Cost				
At 1 January 2019	38.5	1,867.8	93.1	1,999.4
Additions arising on acquisitions	-	9.5	-	9.5
Additions at cost	0.1	93.8	2.6	96.5
Disposals	-	(21.0)	(0.1)	(21.1)
Exchange adjustments	0.4	4.1	(0.1)	4.4
At 31 December 2019	39.0	1,954.2	95.5	2,088.7
Accumulated depreciation				
At 1 January 2019	7.9	1,003.5	6.8	1,018.2
Charge for the year	1.6	174.2	3.8	179.6
Disposals	-	(20.8)	(0.1)	(20.9)
Exchange adjustments	0.1	1.3	0.2	1.6
At 31 December 2019	9.6	1,158.2	10.7	1,178.5
Net carrying amount				
At 31 December 2019	29.4	796.0	84.8	910.2

During the year ended 31 December 2020 a review was undertaken of the carrying values of the Group's Land Drilling rigs. Factors considered when determining the impairment charge for each rig included the age of the rig, client contract backlog and forecast utilisation, comparable rig data across the Group's fleet as well as current and forecast market conditions within the country in which the rig operates. The review resulted in an overall impairment charge of \$199.7 million being recognised against the Land Drilling Business Unit's fleet of drilling rigs, included within exceptional items in the consolidated income statement

Included within the drilling rigs and equipment additions arising on acquisition for the year ended 31 December 2019 is a \$3.7 million fair value uplift and included within the drilling rigs and equipment additions at cost are \$25.0 million relating to a rig transferred into the group for the year ended 31 December 2019.

As at 31 December 2020 cumulative capitalised interest of \$10.6 million (2019: \$13.0 million) is included in the carrying value of drilling rigs and equipment. There was no interest capitalised during the year ended 31 December 2020 or 2019.



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11 Property, plant and equipment (continued)

In relation to assets in the course of construction as at 31 December 2020, there are amounts included as follows: \$32.6 million (2019: \$56.2 million) included in drilling, rigs and equipment; \$0.8 million (2019: \$0.9 million) in plant, machinery and vehicles. No depreciation has been charged in respect of these assets.

The Company held no property, plant and equipment as at 31 December 2020 (2019: nil).

12 Goodwill

Group	2020 \$m	2019 \$m
Cost and carrying amount		
As at 1 January	698.1	773.5
Arising on acquisition of Dalma business	-	4.4
Impairment of RDS goodwill	(23.1)	(31.8)
Impairment of Land Drilling goodwill	(120.6)	(48.0)
Impairment of Bentec goodwill	(74.6)	-
At 31 December 2020	479.8	698.1

The Group acquired 100% of the share capital of Abbot Group plc in 2008. All tangible and intangible assets were recognised at their fair value at acquisition and the residual excess over the net assets acquired was recognised as goodwill.

The carrying amounts of goodwill by business segment are Offshore Services \$205.2 million (2019: \$205.2 million), RDS \$26.2 million (2019: \$49.3 million), Land Drilling \$217.7 million (2019: \$338.3 million), and Bentec \$30.7 million (2019: \$105.3 million). The Directors will continue to keep the carrying value of goodwill, intangible and tangible assets under review in the coming year. As a result of the annual review of the carrying value of its assets a \$120.6 million impairment charge was booked in 2020 in respect of goodwill in the Land Drilling Business Unit (2019: \$48.0 million) as well as a \$23.1 million impairment charge in respect of the RDS goodwill balance (2019: \$31.8 million) and a \$74.6 million impairment charge in respect of the Bentec goodwill balance (2019: nil).

Accumulated impairments as at 31 December 2020 for each CGU are as follows: Offshore Services \$229.6 million (2019: \$229.6 million); Land Drilling \$493.2 million (2019: \$372.6 million); RDS \$90.3 million (2019: \$67.2 million) and Bentec \$228.7 million (\$154.1 million)

The Group tests goodwill annually for impairment or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired through business combinations is allocated, at acquisition, to relevant CGUs. 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 CGUs are determined from discounted cash flow calculations. The key assumptions for the discounted cash flow calculations are those regarding discount rates, growth rates, rig day rates, 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 each of the CGUs.

The Group prepared updated financial forecasts in 2020, including cash flows for five years and extrapolated cash flows for the period beyond the initial five year plan based on expected growth rates for each CGU. These forecasts took into account current market conditions combined with management's view of future market conditions including rig day rates and rig utilisations, and capital investment. A terminal value has been applied to take account of the expected growth of each CGU into perpetuity.



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12 Goodwill (continued)

Key assumptions used in the impairment test are:

		Offshore Services	RDS	Land Drilling	Bentec
Revenue growth rate	2020	1.1%	12.2%	2.4%	22.3%
	2019	5.1%	12.1%	2.0%	8.2%
Discount rate (post tax)	2020	13.0%	11.0%	14.0%	12.0%
	2019	11.0%	11.0%	11.0%	11.0%
EBITDA margin	2020	18.8%	10.1%	33.3%	10.0%
	2019	17.0%	9.9%	31.6%	12.0%
Undiscounted free cash flow (\$ million)	2020	52.6	2.8	74.7	1.3
	2019	60.0	4.5	115.1	1.5
Annual capital expenditure (\$ million)	2020	1.7	-	52.5	0.9
	2019	1.5	-	59.2	2.2
Recoverable amount of the CGU (\$ million)	2020	494.3	40.0	711.2	79.0
	2019	748.4	67.3	1,286.8	146.5
Carrying value of goodwill (\$ million)	2020	205.2	26.2	217.7	30.7
	2019	205.2	49.3	338.3	105.3

Revenue growth rate is the average annual anticipated increase in each of the CGU's revenues over the five year forecast period. The long term growth rate has been assumed to be 2.0% (2019: 2.5%) for each of the CGUs after the end of the five year growth period. This has reduced to take into account the current and forecast market conditions faced by the Group's Business Units, particularly given the potential impact of the move to a lower carbon global economy.

As part of the annual impairment review, an assessment was made of the discount rates applicable to each CGU. As a result of this review, there have been increases in the discount rates for all CGUs except RDS in comparison to those at 31 December 2019. This reflects the changes experienced by the Group across its Business Units as well as additional risk associated with specific countries and in relation to the ongoing COVID-19 pandemic.

EBITDA margin is annual EBITDA expressed as a percentage of annual revenues. The percentages in the table above show the average EBITDA margins for each of the CGUs over the five year forecast period.

Free cash flow is the average annual operating cash flow for each of the CGUs over the five year period.

Annual capital expenditure represents the average annual amount spent to purchase tangible fixed assets in the five year forecast period for the Group's Land Drilling fleet. No capital expenditure for the building of additional land rigs is included in future years, similarly EBITDA for the Land Drilling CGU is based on the portfolio of rigs operated by the Group as at 31 December 2020.

Sensitivity analysis

		Offshore Services	RDS	Land Drilling	Bentec
Headroom (\$ million)	2020	240.8	-	-	-
	2019	482.5	-	-	27.4

The table above showing headroom for each CGU demonstrates that Offshore Services has sufficient headroom. An impairment charge of \$120.6 million has been reflected in the 2020 Income Statement to take account of the continued challenging trading environment and resultant pressure on margins in the Land Drilling CGU's forecast performance and to ensure that the carrying value of its Goodwill balance reflects the reduction in the recoverable amount of this CGU. A further \$23.1 million impairment charge has been reflected in the 2020 Income Statement in respect of the RDS CGU, to take account of a potential downside effect of a continued delay in the recovery of this CGU's forecast performance and to ensure that the carrying value of its Goodwill balance reflects the respective reduction in the recoverable amount of this CGU. Finally, an impairment charge of \$74.6 million has been reflected in the 2020 Income Statement in respect of the Bentec CGU to take account of a slower than previously forecast pick-up in demand in its markets.



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12 Goodwill (continued)

The level of impairment charges booked in 2020 across the Land Drilling, RDS and Bentec CGUs are all highly sensitive to even a small change in the key assumptions noted in the table below.

The variables which could result in the Group's trading performance deteriorating are discussed in the Business Review – Principal Risks and Uncertainties section on pages 9 to 14 of the Annual Report.

The table below shows the potential impact on CGU recoverable amounts of a 1% movement in each of our CGUs' key assumptions:

		Offshore Services	RDS	Land Drilling	Bentec
Terminal revenue growth rate: 1% sensitivity	2020	23.4	2.3	37.1	5.9
	2019	52.6	4.6	92.5	14.8
Discount rate (post tax): 1% sensitivity	2020	39.5	4.2	56.4	9.8
	2019	78.5	7.5	127.5	22.0
EBITDA margin: 1% sensitivity	2020	46.2	8.1	50.3	15.9
	2019	67.7	9.7	84.1	24.1
Short-term revenue growth rate: 1% sensitivity	2020	34.5	3.0	62.5	6.2
	2019	44.8	3.5	106.1	12.5



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13 Other intangible assets

Group	Customer relationships and contracts \$m	Trade names \$m	Technology \$m	Total \$m
Cost				
At 1 January 2020	254.4	176.3	44.6	475.3
Additions	-	-	1.5	1.5
Exchange	-	-	1.6	1.6
At 31 December 2020	254.4	176.3	47.7	478.4
Accumulated amortisation and impairment				
At 1 January 2020	202.8	111.4	38.7	352.9
Charge for the year	4.1	8.0	2.5	14.6
Impairment	47.5	45.1	-	92.6
Exchange	-	1.1	0.1	1.2
At 31 December 2020	254.4	165.6	41.3	461.3
Net carrying amount				
At 31 December 2020	-	10.7	6.4	17.1
Remaining useful life	7 years	8 years	1-3 years	

Group	Customer relationships and contracts \$m	Trade names \$m	Technology \$m	Total \$m
Cost				
At 1 January 2019	254.4	176.3	42.2	472.9
Additions	-	-	2.1	2.1
Exchange	-	-	0.3	0.3
At 31 December 2019	254.4	176.3	44.6	475.3
Accumulated amortisation				
At 1 January 2019	198.7	103.5	34.9	337.1
Charge for the year	4.1	7.9	3.4	15.4
Exchange	-	-	0.4	0.4
At 31 December 2019	202.8	111.4	38.7	352.9
Net carrying amount				
At 31 December 2019	51.6	64.9	5.9	122.4
Remaining useful life	8 years	9 years	1-3 years	

During the year ended 31 December 2020 a review was undertaken of the Group's intangible assets to determine the appropriateness of their carrying values. This review took account of current as well as forecast market conditions experienced by the Group. The benefit obtained from our customer relationships and contracts and trade names was assessed with respect to each Business Unit. Based on this review, impairment charges of \$47.5 million and \$45.1 million respectively have been reflected within exceptional in the Income Statement in 2020 to write these balances down to their fair values.

The Company has no intangible assets (2019: nil).



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14 Investments

	2020 Company \$m	2019 Company \$m
a) Shares in subsidiaries		
At 1 January	431.5	901.7
Additions	368.5	-
Impairment of shares in subsidiaries	-	(470.2)
31 December	800.0	431.5

Investments in subsidiaries are stated at cost. The carrying value of the Company's shares in subsidiaries is reviewed for impairment annually by management. The recoverable amount of the Group's CGUs is compared to the carrying value to determine whether any impairment charge is required. As a result of this review, there was no impairment charge booked in 2020 (2019: \$470.2 million).

During the period, the Group performed a restructuring which resulted in an addition of \$368.5 million to investments.

A list of subsidiary undertakings is given in Note 34.

	2020 Group \$m	2019 Group \$m
b) Other investments – associates		
At 1 January	-	0.3
Disposal of associate undertaking	-	(0.3)
At 31 December	-	-

During the year to 31 December 2019 the group disposed of its share capital in its joint venture JV Rider International BV.



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15 Inventories and work in progress

	2020 Group \$m	2019 Group \$m
Materials and consumables	89.4	126.3
Work in progress - engineering contracts	50.5	18.9
	139.9	145.2

The value of provisions against inventory was \$22.8 million (2019: \$26.0 million).

Engineering contracts - relating to rig manufacture

There are no accrued contract revenues which have been recognised as an asset on the Balance Sheet at the year end (2019: \$nil).

The status of contracts in progress at the end of the year is as follows:

	2020 Group \$m	2019 Group \$m
Gross amount due to customers for contract work presented as a liability	5.3	34.6

The Company has no inventories (2019: nil).

16 Trade and other receivables

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Trade receivables	202.8	252.3	-	-
Other receivables	19.8	33.0	0.7	0.1
Prepayments and accrued income	5.2	1.6	0.1	1.7
Contract assets	20.2	12.4	-	-
	248.0	299.3	0.8	1.8

The Group operates in over 20 countries around the world and in certain of these countries slow or late payment of outstanding accounts is the norm.

	2020 \$m	2019 \$m
The following table details the age of the Group's trade receivables:		
Total	228.6	276.8
Less provision for doubtful trade receivables	(25.8)	(24.5)
Total trade receivables, net	202.8	252.3

The increase in provision for doubtful trade receivables is principally due to overdues in Africa.

	2020 Gross receivables \$m	2020 Provision for impairment \$m	2020 Net receivables \$m	2019 Net receivables \$m
Current	166.3	(0.1)	166.2	214.4
Past due less than 90 days	31.4	-	31.4	34.5
Past due more than 90 days less than 180 days	5.8	(0.6)	5.2	3.0
Past due more than 180 days	25.1	(25.1)	-	0.4
Total trade receivables	228.6	(25.8)	202.8	252.3



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16 Trade and other receivables (continued)

The movement on the provision of impairment for trade receivables is as follows:	2020	2019
	\$m	\$m
At 1 January	(24.5)	(24.0)
Provided	(3.3)	(0.5)
Released	1.8	-
Exchange difference	0.2	-
At 31 December	(25.8)	(24.5)

The Group applies lifetime Expected Credit Losses (“ECLs”) to trade receivables, accrued revenue, and contract assets upon their initial recognition.

The Group assesses the ECLs on its receivables, which are based on the age of the outstanding receivable along with prior experience in relation to the specific customer as well as the jurisdiction in which the balance is due before booking any provision. As well as considering historical factors, the Group also considers each customer’s risk of default when determining the level of ECL provision.

Receivables are appropriately grouped by geographical region, product type or type of customer, and separate calculations produced, if historical or forecast credit loss experience shows significantly different loss patterns for different customer segments.

Actual credit loss experience is then adjusted to reflect differences in economic conditions over the period the historical data was collected, current economic conditions, forward-looking information and the Group’s view of economic conditions over the expected lives of the receivables.

The following tables present the Group's trade receivables by business segment:

	Gross receivables	Provision for impairment	Net receivables	Receivable days
Year ended 31 December 2020	\$m	\$m	\$m	
Offshore services	63.4	-	63.4	58
Land Drilling	137.2	(25.4)	111.8	86
Bentec	13.9	(0.4)	13.5	19
RDS	14.1	-	14.1	108
Total at 31 December 2020	228.6	(25.8)	202.8	67

	Gross receivables	Provision for impairment	Net receivables	Receivable days
Year ended 31 December 2019	\$m	\$m	\$m	
Offshore services	82.7	-	82.7	58
Land Drilling	158.4	(23.5)	134.9	58
Bentec	18.1	(1.0)	17.1	140
RDS	17.6	-	17.6	77
Total at 31 December 2019	276.8	(24.5)	252.3	62

Receivable days are calculated by allocating the closing trade receivables balance to current and prior year revenue. A receivable days calculation of 67 indicates that closing trade receivables represents the most recent 67 days of revenue.

	2020	2019	2020	2019
	Group	Group	Company	Company
	\$m	\$m	\$m	\$m
Amounts owed by subsidiaries	-	-	240.3	74.8

For the purposes of the Company cash flow statement, inflows from Group lendings include movements on loans to Group undertakings and movements in short-term Group lendings are included within trade and other receivables and trade and other payables.

Loans to subsidiaries are repayable on demand.

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17 Contract assets and liabilities

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

	2020	2019
	\$m	\$m
Contract assets		
Balance at 1 January	12.5	7.4
Mobilisation and demobilisation costs deferred	11.4	10.5
Amounts charged to income statement	(3.7)	(5.4)
Balance at 31 December	20.2	12.5
	2020	2019
	\$m	\$m
Contract liabilities		
Balance at 1 January	59.0	46.6
Advance payments received from customers	2.2	3.7
Mobilisation and demobilisation income deferred	13.9	12.7
Amounts released to income statement	(38.2)	(4.0)
Balance at 31 December	36.9	59.0

a) Significant changes in contract assets and contract liabilities

- Contract assets mainly represent deferred costs incurred in relation to the mobilisation of land rigs.
- Contract liabilities mainly represent amounts paid in advance by customers for drilling rigs and components being built by the Group's Bentec business unit as well as deferred income arising from mobilisation income in our Land Drilling and Offshore Services Business Units.

b) Revenue recognised in relation to contract liabilities

- A \$38.2 million reduction in contract liabilities since 31 December 2019 has been recognised entirely as revenue in 2020, (2019: \$4.0 million) with further deferred mobilisation and demobilisation income of \$13.9 million (2019: \$12.7 million) being recognised as a liability in 2020.

c) Unsatisfied Performance Obligations

- The aggregate amount of the transaction price allocated to partially or fully unsatisfied performance obligations as at the year-end on confirmed purchase orders received prior to the year-end is \$39.9 million (2019: \$59.0 million). It is expected that 83% (2019: 87%) of this amount will be recognised as revenue in the 2021 financial year.

d) Demobilisation revenues

- Accrued revenues and costs related to demobilisation of land rigs are accounted for within trade receivables and accruals respectively.



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18 Cash, cash equivalents and other deposits

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Cash at bank and in hand	160.5	145.6	-	64.2
Cash held on money market funds	41.0	31.0	-	-
Cash and cash equivalents	201.5	176.6	-	64.2
Bank overdrafts	-	(98.0)	(13.4)	-
Cash and cash equivalents - net	201.5	78.6	(13.4)	64.2

The Group did not hold a bank overdraft balance on its net facility as at 31 December 2020. The average interest rate of the Group's overdrafts at 31 December 2019 was 5.70%. The Group has a cash pooling working capital facility in which individual entities such as the Company can hold overdraft balances provided that the overall cash value held by all companies within the facility is in net credit. As at 31 December 2020, the Company held bank overdrafts of \$13.4 million, with the Group's overall net facility being in credit by \$3.1 million. At consolidated Group level, the net credit value of \$3.1 million is included within the cash at bank and in hand value of \$160.5 million.

At 31 December 2020, the Group held cash on a money market fund account of \$41.0 million (2019: \$31.0 million). The fund has a "AAA" credit rating. The funds are immediately accessible, and the yield on the account as at 31 December 2020 was 0.01%.

	At 1 January 2020 \$m	Cash flow \$m	Non-cash movements \$m	Exchange movements \$m	At 31 December 2020 \$m
Analysis of net debt					
Cash and cash equivalents	78.6	124.0	-	(1.1)	201.5
Financial liabilities - borrowings short term	(115.8)	18.0	96.9	-	(0.9)
Financial liabilities - borrowings long term	(1,687.1)	7.2	1,187.1	-	(492.8)
	(1,724.3)	149.2	1,284.0	(1.1)	(292.2)

The net total of non-cash movements of \$1,284.0 million comprises:

	2020 \$m
Extinguishment of Senior Secured Notes	1,310.0
Extinguishment of Secured Bank Loans	502.3
Extinguishment of embedded derivative	1.9
Issue of new Senior Secured Notes	(500.0)
Amortisation of capitalised arrangement fees and discount assets	(10.7)
Write off of capitalised arrangement fees and discount assets relating to extinguished debt	(19.5)
	1,284.0

The cash flow movement of \$124.0 million shown against cash, cash equivalents and other deposits includes \$115.0 million cash received relating to the financial restructuring, being the write off of an overdraft facility.

19 Trade and other payables

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Trade payables	44.9	80.0	-	0.4
Other tax and social security payable	17.0	14.5	-	-
Other payables	22.8	26.9	-	-
Accruals	115.4	143.2	3.0	1.9
Payments received on account	2.2	37.1	-	-
Deferred income	26.2	15.0	-	-
	228.5	316.7	3.0	2.3

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20 Financial liabilities - borrowings

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Current borrowings				
Bank loans - secured	0.9	115.8	-	-
	0.9	115.8	-	-
Non-current borrowings				
Bank loans - secured	-	400.1	-	(1.1)
Bank loans - derivative liability	-	2.8	-	-
Senior Secured Notes	492.8	1,284.2	-	-
	492.8	1,687.1	-	(1.1)
	493.7	1,802.9	-	(1.1)

Maturity of financial liabilities

The maturity profile of the carrying amount of the non-current financial liabilities at the Balance Sheet date was as follows:	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
In more than one year, but not more than five years:				
Bank loans - secured	-	404.2	-	-
Bank loans - derivative liability	-	2.8	-	-
Senior Secured Notes	500.0	1,310.0	-	-
	500.0	1,717.0	-	-
Less: net capitalised arrangement fees (bank loans)	-	(2.6)	-	(1.1)
Less: net capitalised arrangement fees (Senior Secured Notes)	(7.2)	(21.9)	-	-
Less: net discount asset (bank loans)	-	(1.5)	-	-
Less: net discount asset (Senior Secured Notes)	-	(3.9)	-	-
	492.8	1,687.1	-	(1.1)

The average interest rate of the Group's borrowings at the Balance Sheet date including interest rate swaps was 9.9% (2019:8.5%).

The liabilities of \$500 million in relation to the Senior Secured Notes arose on completion of a \$500 million bond issuance in December 2020. The Senior Secured Notes of \$500 million are wholly denominated in US Dollars and bear interest at a fixed rate of 9.9% payable every 6 months. The maturity date of the Senior Secured Notes of \$500 million is in December 2025. The Senior Secured Notes are listed on The International Stock Exchange (TISE).

The Group successfully completed a financial restructuring of its debt in December 2020. This restructuring exercise culminated in the extinguishment of several financial liability items, involving the write off of \$1,310.0 million in relation to Senior Secured Notes, and the extinguishment of secured bank loans of \$502.3 million, as well as extinguishment of bank overdraft debt of \$115.0 million and related accrued interest liabilities. At the same time in December 2020, the Group also secured new long term debt, namely the Senior Secured Notes of \$500.0 million as noted above.

As at 31 December 2020, the Group has a bank term loan of \$0.9 million (2019: \$2.0 million) which is denominated in Omani Rials, bears fixed rate interest at 5.5% and is repayable within one year. As a result of the financial restructuring noted above, as at 31 December 2020, the Group has no non-current secured bank loans.

As at 31 December 2019, bank loans were wholly denominated in US Dollars or in currencies pegged to the US Dollar, and bear interest payable based on LIBOR although a term loan debt of \$408.4 million as at 31 December 2019 had a contractual floor rate of 1.0% applied to the definition of LIBOR.

Repayments of \$16.0 million were made during 2020 (2019:\$16.0 million) in relation to borrowings of \$80 million which were secured in 2016 for the financing of a project in Oman. As at 31 December 2020, this debt had been fully repaid as scheduled.



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21 Financial instruments

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates and interest rates. The Group has in place a risk management policy that seeks to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments and other instruments to fix interest rates.

a) Market risk

(i) Foreign exchange risk

The Group has a number of subsidiary companies whose revenue and expenses are denominated in currencies other than the US Dollar. The Group is exposed to foreign exchange risks primarily with respect to the US Dollar, Sterling, Euro, Norwegian Krone and particularly the Russian Rouble, Canadian Dollar, Angolan Kwanza and Azeri Manat. The Company is exposed to foreign exchange risks primarily with respect to Sterling.

In order to protect the Group's Balance Sheet from movements in exchange rates, whenever practical, the Group seeks to achieve natural hedging by ensuring that expenses are borne in the same currency as related income. Where this is not possible, the Group has entered, to an extent, into forward exchange contracts to hedge the foreign currency exposure of its subsidiary companies. Changes in the forward contract fair values are booked through the Income Statement. At 31 December 2020, the Group had 11 foreign exchange forward contracts.

A movement of 10% is considered to represent a material fluctuation of exchange rates. Movements in all of the Group's major exchange rate pairings against the US Dollar have been considered as each has the potential to impact on the reported US Dollar consolidated profit/loss and net assets/liabilities.

If the US Dollar became 10% stronger against all other main currencies of the Group, as at 31 December 2020 this would give rise to exchange gains of \$0.2 million impacting on operating profit (2019: losses of \$0.9 million). If the US Dollar became 10% stronger against all other main currencies of the Company, as at 31 December 2020 this would give rise to exchange gains of \$1.0 million impacting on operating profit (2019: negligible impact).

If the US Dollar became 10% weaker against all other main currencies of the Group, as at 31 December 2020 this would give rise to exchange losses of \$0.2 million impacting on operating profit (2019: gains of \$1.0 million). If the US Dollar became 10% weaker against all other main currencies of the Company, as at 31 December 2020 this would give rise to exchange losses of \$1.1 million impacting on operating profit (2019: negligible impact).

If the US Dollar became 10% stronger against all other main currencies of the Group, as at 31 December 2020 this would give rise to a decrease in net finance costs of \$2.9 million (2019: increase in costs of \$0.2 million). There would be no impact for the Company (2019: nil).

If the US Dollar became 10% weaker against all other main currencies of the Group, as at 31 December 2020 this would give rise to an increase in net finance costs of \$3.2million (2019: decrease in costs of \$0.2 million). There would be no impact for the Company (2019: nil).

(ii) Interest rate risk

At 31 December 2020, the Group has very limited exposure to interest rate risk as its long term borrowings are at a fixed interest rate. At 31 December 2019, approximately 72% of current and non-current borrowings were at fixed rates. The Company had no external borrowings at 31 December 2020 (2019: nil).

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

If the average interest rate had been 1% higher during 2020, then the loss before taxation for the Group would have been \$4.5 million higher (2019: \$5.1 million higher). The impact for the Company would be that the loss before taxation would have been \$1.1 million lower (2019: \$0.9 million lower).

If the average interest rate had been 1% lower during 2020, assuming a floor rate of 0%, then the loss before taxation for the Group would have been \$1.8 million lower (2019: \$4.8 million lower). The impact for the Company would be that the loss before taxation would have been \$0.4 million higher (2019: \$0.9 million higher).



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21 Financial instruments (continued)

a) Market risk (continued)

(iii) Price risk

Neither the Group nor the Company is exposed to any significant price risk in relation to financial instruments.

b) Credit risk

The Group's credit risk relates primarily to its trade receivables. The Group has a small number of customers who are primarily either well established international or national companies, or joint ventures thereof. An evaluation is carried out of the credit risk of each new customer, and when appropriate, suitable protections put in place through the use of trade finance instruments.

Each month, management review an aged debtor analysis and focus on debts which are overdue for payment. In addition, there is always a level of unbilled receivables which arise through certain contractual mechanisms and attention is also focused on getting these amounts billed to customers as quickly as possible.

A table showing the ageing of trade receivables is provided in Note 16.

The Group's policy is to deposit cash at institutions with an 'A' rating or better where possible. The Group held \$41.0 million on a money market fund account with a 'AAA' rating at 31 December 2020 (2019: \$31.0 million).

c) Liquidity risk

At 31 December 2020, the Group is financed with \$500.0 million of other Senior Secured Notes and a positive cash balance of over \$200.0 million. The Company had no external borrowings at 31 December 2020 (2019: nil).

d) Capital risk

The Group monitors its capital risk with reference to its long-term funding structure and leverage ratios such as gross debt to EBITDA and net debt to EBITDA.

Subsequent to the Group's financial restructuring, neither the Group nor Company have any leverage covenant obligations under their financing documents, which cause an event of default through non-compliance.

The table below analyses both the Group's and Company's derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 1 year \$m	Between 1 and 5 years \$m	Greater than 5 years \$m
At 31 December 2020			
Borrowings – bank loans and Senior Secured Notes	1.0	742.8	-
Lease liabilities	31.3	61.1	35.9
Trade and other payables	211.5	-	-
	Less than 1 year \$m	Between 1 and 5 years \$m	Greater than 5 years \$m
At 31 December 2019			
Borrowings - bank loans and Senior Secured Notes	119.5	2,106.6	-
Lease liabilities	23.4	36.0	36.5
Trade and other payables	302.2	-	-
Company		Less than 1 year \$m	Between 1 and 5 years \$m
At 31 December 2020			
Trade and other payables		3.0	-
		Less than 1 year \$m	Between 1 and 5 years \$m
31 December 2019			
Trade and other payables		2.3	-



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21 Financial instruments (continued)

The table below analyses the Group's derivative financial instrument liabilities into relevant maturity groupings based on the remaining period from the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Group	Less than 1 year \$m	Between 1 and 5 years \$m
At 31 December 2020		
Forward foreign exchange contracts		
Outflow - settlement	0.7	-
At 31 December 2019		
Forward foreign exchange contracts		
Outflow - settlement	-	-

The Group had 11 forward foreign exchange contracts at 31 December 2020. The maturity dates of these contracts range from January 2021 to May 2021.

The Group's derivative financial instrument assets were valued at nil as at 31 December 2020 (2019: \$0.9 million). The Company has no derivative financial instrument assets or liabilities at 31 December 2020 (2019: \$nil).

All of the Group's forward exchange contracts are categorised as cash flow hedges.

e) Fair value of non-derivative financial assets and financial liabilities

The fair value of short-term borrowings, trade and other payables, trade and other receivables, short-term deposits and cash at bank and in hand approximates to the carrying amount because of the short maturity of interest rates in respect of these instruments. Senior Secured Notes are publicly traded and as such the fair value is subject to fluctuation.

Group	2020 Book value \$m	2019 Book value \$m	2020 Fair value \$m	2019 Fair value \$m
Fair value of long-term borrowings				
Senior Secured Notes (Note 20) – level 1	492.8	1,284.2	511.3	865.0
Bank borrowings (Note 20) – level 2	-	400.1	-	267.6
Bank borrowings - derivative liability (Note 20) – level 2	-	2.8	-	2.8
Amounts owed to parent company (Note 33) – level 2	-	289.9	-	289.9
Fair value of other financial assets and financial liabilities				
Primary financial instruments held or issued to finance the Group's operations:				
Trade and other receivables (Note 16) – level 2	248.0	299.3	248.0	299.3
Cash and cash equivalents (Note 18) – level 2	160.5	145.6	160.5	145.6
Cash held on money market funds (Note 18) - level 2	41.0	31.0	41.0	31.0
Bank overdrafts (Note 18) – level 2	-	98.0	-	98.0
Trade and other payables (Note 19) – level 2	211.5	302.2	211.5	302.2
Bank borrowings (Note 20) – level 2	0.9	115.8	0.9	114.3



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21 Financial instruments (continued)

Company	2020 Book value \$m	2019 Book value \$m	2020 Fair value \$m	2019 Fair value \$m
Fair value of long term borrowings				
Amounts owed to parent company (Note 33) – level 2	-	289.6	-	289.6
Company	2020 Book value \$m	2019 Book value \$m	2020 Fair value \$m	2019 Fair value \$m
Fair value of other financial assets and financial liabilities				
Primary financial instruments held or issued to finance the Group's operations:				
Trade and other payables (Note 19) – level 2	3.0	2.3	3.0	2.3

The levels 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.

f) Derivative financial instruments

The fair value of derivative financial instruments at the Balance Sheet date was as follows:

Group	2020 Assets \$m	2019 Assets \$m	2020 Liabilities \$m	2019 Liabilities \$m
Forward foreign exchange contracts – cash flow hedges – current (level 2)	-	0.9	0.7	-

The Company had no derivative financial instruments at either 31 December 2020 or 31 December 2019.

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 in the fair value accounting policy. The level in the fair value hierarchy that each instrument is categorised in is detailed in the table above.

There was no ineffectiveness recognised in the Income Statement from cash flow hedges in the year.

(i) Forward foreign exchange contracts

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2020 was \$7.7 million (2019: \$22.3 million).

(ii) Interest rate swaps

The Group had no outstanding interest rate swaps at either 31 December 2020 or 2019. The Group only uses cash flow hedges and did not enter into any fair value or net investment hedges during the reporting year.



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22 Provisions and other payables

Group	2020 \$m	2019 \$m
At 1 January	5.1	4.8
Provided during the year	1.0	2.2
Utilised	(2.5)	(2.0)
Released	(0.1)	-
Exchange adjustments	(0.2)	0.1
At 31 December	3.3	5.1

Provisions and other payables have been analysed between current and non-current as follows:

	2020 \$m	2019 \$m
Current	1.1	1.7
Non-current	2.2	3.4
	3.3	5.1

Provisions of \$2.9 million (2019: \$2.4 million) relate mainly to warranty obligations in respect of guarantees provided in the normal course of business relating to equipment supplied. These are normally for a period of not more than two years. Dilapidation provisions of \$0.2 million (2019: \$2.2 million) are provided on leased premises for which the majority of leases expire in 2036.

23 Deferred tax

Deferred tax is calculated on temporary differences at the tax rate applicable to the country in which the liability or asset has arisen. The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	Fair market value \$m	Plant, property & Equipment \$m	Retirement benefit obligations \$m	Other including tax losses \$m	Total \$m
At 1 January 2019	(38.5)	9.6	15.4	8.7	(4.8)
Credit (charge) to Income Statement	6.6	(8.2)	(0.6)	4.5	2.3
Credit (charge) to equity	-	-	4.5	(4.5)	-
Change in rate	-	(0.1)	0.1	-	-
Exchange adjustments	-	(1.1)	-	-	(1.1)
At 31 December 2019	(31.9)	0.2	19.4	8.7	(3.6)
Credit (charge) to Income Statement	30.7	7.9	-	(5.0)	33.6
Credit (charge) to equity	-	-	0.7	(1.0)	(0.3)
Exchange adjustments	-	1.6	-	(0.6)	1.0
At 31 December 2020	(1.2)	9.7	20.1	2.1	30.7

There are no deferred tax liabilities or assets within the Company as at 31 December 2020 (2019: nil).

At 31 December 2020 the Group had deferred tax assets of \$9.5 million arising from tax losses (2019: \$3.1 million).

Fair market value relates to the unwinding of deferred tax liabilities arising on the acquisition of assets from Abbot Group plc in 2008 and Dalma Group in 2018. Included within the \$30.7 million credit to the income statement is \$18.0 million relating to the impairment of intangible assets and \$12.7 million relating to the impairment of tangible assets.

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the table above.



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23 Deferred tax (continued)

The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Deferred tax assets	49.0	48.5	-	-
Deferred tax liabilities	(18.3)	(52.1)	-	-
	30.7	(3.6)	-	-

Deferred tax has been recognised on unremitted earnings from overseas subsidiaries where payment is imminent. Where no payment is expected deferred tax is not recognised. As these earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. If the earnings were remitted tax of \$5.6 million would be payable (2019: \$3.8 million).

During the year ended 31 December 2020, the Group continued to recognise a UK deferred tax asset of \$28.5 million (2019: \$28.4 million) which includes a revaluation of \$3.0 million due to the increase in the main UK corporation tax rate from 17% to 19%, announced in the Budget on 11 March 2020 and substantively enacted on 17 March 2020. On 3rd March 2021, the UK Government announced a further increase in the corporation tax rate to apply from 1 April 2023 to 25%. The expected impact on the current balance would be an increase to the asset of \$5.9 million in 2021. It is anticipated that taxable profits will arise in the foreseeable future in the UK against which the deferred tax asset will be offset.

A deferred tax asset has not been recognised on \$155.5 million of taxation losses (2019: \$498.0 million) due to the uncertainty of future taxable income arising in the countries concerned.

24 Share capital

The nominal share capital of the Company is in Sterling and is translated at the ruling exchange rate at the date of the transaction. The nominal value of each share is £1.

	Number of shares	Group and Company \$m
Issued shares		
At 31 December 2019	6,957	-
Share issue arising on refinancing	3	-
At 31 December 2020	6,960	-

During the year ended 31 December 2020 3 ordinary £1 shares were issued as part of the refinancing process. At the Balance Sheet date 6,960 ordinary £1 shares had been issued.

25 Share premium

	2020 Group and Company \$m	2019 Group and Company \$m
At 1 January	227.8	227.8
Share premium arising on refinancing	3,201.5	-
At 31 December	3,429.3	227.8

The increase in share premium in the year to 31 December 2020 arose due to the Company undertaking a bonus issue of shares where the subscription was paid up using the entire value of its capital contribution reserve and intercompany payables to the previous and existing parent company were capitalised as part of the restructuring.



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26 Accumulated losses

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
At 1 January	(2,748.2)	(2,484.2)	(2,014.4)	(1,516.9)
Profit (loss) for the year	0.6	(243.4)	(390.2)	(497.5)
Remeasurements on defined benefit pension schemes	(4.1)	(20.4)	-	-
Remeasurements on end of service gratuity provision	-	0.3	-	-
Dividend to minority shareholder	(0.5)	(0.5)	-	-
At 31 December	(2,752.2)	(2,748.2)	(2,404.6)	(2,014.4)

27 Employees and Directors

	2020 Group \$m	2019 Group \$m
Employee benefit expense for the Group during the year:		
Wages and salaries	426.8	446.8
Social security costs	80.3	67.9
Other pension costs	18.9	19.6
	526.0	534.3

The other pension costs shown above of \$18.9 million (2019: \$19.6 million) relate to contributions to defined contribution schemes and current service costs relating to the defined benefit schemes.

	2020 Group Number	2019 Group Number
Average monthly number of people (including Executive Directors) employed:		
Drilling and engineering	6,868	6,990
Support and administration	1,403	1,465
	8,271	8,455

	2020 \$m	2019 \$m
Key management compensation:		
Salaries and short-term employee benefits	6.8	10.0
Post-employment benefits	0.5	0.3
	7.3	10.3

	2020 \$m	2019 \$m
The key management compensation figures include remuneration of three executive Directors:		
Aggregate emoluments, including retirement benefits	3.5	4.7

Included above are the emoluments of three Directors of the Company. The emoluments of the highest paid director, including retirement benefit contributions, were \$1.2 million (2019: \$2.7 million). The Directors have no retirement benefits accruing under a defined benefit scheme. The other Directors who served during the year received no emoluments from other Group companies in respect of their services.

The Company has no employees.

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28 Retirement benefit obligations

The Group operates a number of pension schemes in various countries. In respect of defined benefit schemes, the Group operates two funded schemes in the UK, whilst in Germany the particular schemes are unfunded in line with local practice in those countries.

a) UK schemes

The Group operates two funded defined benefit schemes in the UK as follows:

(i) 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 Group.

The most recent actuarial valuation of the scheme was carried out at 31 December 2019 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2020	2019
	%	%
Rate of increases in pensionable salaries	3.2	3.2
Rate of increase in pensions in payment and deferred pensions	2.3	2.2
Discount rate	1.2	2.1
Inflation assumption	3.2	3.2

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 90 years (2019: 90 years). The life expectancy of a female member currently aged 40, retiring at age 65, is 92 years (2019: 92 years).

The amounts recognised in the Balance Sheet are determined as follows:	2020	2019
	\$m	\$m
Present value of funded obligations	(64.5)	(56.6)
Fair value of scheme assets	53.2	45.8
Net liability	(11.3)	(10.8)

The amounts recognised in the consolidated Income Statement are as follows:

	2020	2019
	\$m	\$m
Interest cost	1.1	1.3
Interest income	(0.7)	(1.0)
Total included within the Income Statement	0.4	0.3

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

	2020	2019
	\$m	\$m
Present value of obligations at 1 January	56.6	46.3
Interest cost	1.1	1.3
Remeasurements:		
Loss from change in financial assumptions	8.3	6.4
(Gain) loss from change in demographic assumptions	(0.5)	2.2
Gain from effect of experience adjustments	(1.7)	-
Benefits paid	(1.6)	(1.5)
Exchange difference	2.3	1.9
Present value of obligations, 31 December	64.5	56.6



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28 Retirement benefit obligations (continued)

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

	2020	2019
	\$m	\$m
Fair value of plan assets at 1 January	45.8	39.6
Interest income	0.7	1.0
Remeasurement: return on plan assets, excluding amounts included in interest expense/income	6.1	4.3
Employer contributions	0.3	0.8
Benefits paid	(1.6)	(1.5)
Exchange difference	1.9	1.6
Fair value of plan assets, 31 December	53.2	45.8

Analysis of the movement in the Balance Sheet liability:

	2020	2019
	\$m	\$m
At 1 January	10.8	6.7
Total expense as above	0.4	0.3
Contributions	(0.3)	(0.8)
Remeasurements	-	4.3
Exchange difference	0.4	0.3
At 31 December	11.3	10.8

Contributions expected to be paid to the plan during the year beginning after the Balance Sheet date are \$0.3 million (2019: \$0.8 million).

Average life expectancy:

	2020	2019
Longevity at age 65 for current pensioners		
- Men	23	23
- Women	25	25
Longevity at age 65 for future pensioners		
- Men	25	26
- Women	27	28

The sensitivity of the defined obligation to changes in the weighted principle assumption is:

	Impact on obligations		
	Change in assumption	Increase in assumption \$m	Decrease in assumption \$m
Discount rate	0.25%	2.8	3.0
Inflation rate	0.25%	1.5	1.6

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous year.



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28 Retirement benefit obligations (continued)

The fair value of the plan assets was:

	2020	2019
	\$m	\$m
Cash	0.3	0.6
Equity	13.1	26.3
Debt	39.8	18.9
	53.2	45.8

(ii) The OIS Teesside Limited defined benefit scheme is closed and the Group is responsible for the ongoing funding of the scheme.

The most recent actuarial valuation of the scheme was carried out at 31 December 2018 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2020	2019
	%	%
Rate of increase in pensions in payment and deferred pensions	3.1	3.1
Discount rate	1.2	2.1
Inflation assumption	3.2	3.2

The life expectancy of a male member currently aged 40, retiring at age 65, is 89 years (2019: 89 years). There are no female plan members.

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

	2020	2019
	\$m	\$m
Present value of funded obligations	(13.7)	(12.2)
Fair value of plan assets	13.0	12.7
Net (liability) asset	(0.7)	0.5

The amounts recognised in the consolidated Income Statement are as follows:

	2020	2019
	\$m	\$m
Service cost	0.1	-
Interest cost	0.2	0.3
Interest income	(0.2)	(0.3)
Total included within the Income Statement	0.1	-

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

	2020	2019
	\$m	\$m
Present value of obligations at 1 January	12.2	10.3
Service cost	0.1	-
Interest cost	0.2	0.3
Remeasurements:		
Loss from change in demographic assumptions	-	0.4
Loss from change in financial assumptions	1.7	1.2
Benefits paid	(0.9)	(0.4)
Exchange difference	0.4	0.4
Present value of obligations, 31 December	13.7	12.2



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28 Retirement benefit obligations (continued)

	2020	2019
	\$m	\$m
Fair value of plan assets at 1 January	12.7	11.2
Interest income	0.2	0.3
Benefits paid	(0.9)	(0.4)
Remeasurement: return on plan assets, excluding amounts included in interest expense/income	0.6	1.2
Exchange difference	0.4	0.4
Fair value of plan assets, 31 December	13.0	12.7

Analysis of the movement in the Balance Sheet (asset) liability:

	2020	2019
	\$m	\$m
At 1 January	(0.5)	(0.9)
Total expense as above	0.1	-
Remeasurements	1.1	0.4
At 31 December	0.7	(0.5)

Contributions expected to be paid during the annual year after the Balance Sheet date are nil (2019: nil).

Average life expectancy:

	2020	2019
Longevity at age 65 for current pensioners		
- Men	22	22
- Women	n/a	n/a
Longevity at age 65 for future pensioners		
- Men	24	24
- Women	26	26

The sensitivity of the defined obligation to changes in the weighted principle assumption is:

	Change in assumption	Impact on obligations	
		Increase in assumption	Decrease in assumption
		\$m	\$m
Discount rate	0.25%	0.7	0.7
Inflation rate	0.25%	0.6	0.7

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous year.

The fair value of the plan assets was:

	2020	2019
	\$m	\$m
Cash	0.1	0.1
Equity	4.3	6.6
Debt	8.6	6.0
	13.0	12.7

b) Germany schemes

The Group operates four defined benefit schemes in Germany. The schemes are unfunded in common with local practice and the total liabilities of the schemes are included as a Balance Sheet provision.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

28 Retirement benefit obligations (continued)

b) Germany schemes (continued)

The schemes have been closed to new members for a number of years with existing members continuing to accrue benefits based on their current salary levels and number of years' service with the Group.

The life expectancy of a male member currently aged 40, retiring at age 65, is 88 years (2019: 88 years). The life expectancy of a female member currently aged 40, retiring at age 65, is 91 years (2019: 91 years).

The most recent actuarial valuation of the schemes was carried out at 31 December 2020 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2020	2019
	%	%
Rate of increase in pensionable salaries	2.0	2.0
Rate of increase in pensions in payment and deferred pensions	1.0	1.0
Discount rate	1.1	1.1
Inflation assumption	1.5	1.5

The amount recognised in the Balance Sheet is:

	2020	2019
	\$m	\$m
Present value of unfunded obligations	139.8	128.3

The amounts recognised in the consolidated Income Statement are as follows:

	2020	2019
	\$m	\$m
Current service cost	0.7	0.6
Interest cost	1.4	2.2
Total included within the Income Statement	2.1	2.8

Changes in the present value of the defined benefit obligations as included in the Balance Sheet are as follows:

	2020	2019
	\$m	\$m
Present value of obligations at 1 January	128.3	116.7
Service cost	0.7	0.6
Interest cost	1.4	2.2
Remeasurements:		
- loss from change in financial assumptions	2.1	15.1
- experience loss	0.1	0.6
Benefits paid	(5.0)	(4.6)
Exchange difference	12.2	(2.3)
Present value of obligations, 31 December	139.8	128.3

Average life expectancy:

	2020	2019
Longevity at age 65 for current pensioners		
- Men	20	20
- Women	24	24
Longevity at age 65 for future pensioners		
- Men	23	23
- Women	26	26

**KCA Deutag Alpha Limited****Notes to the consolidated financial statements**

for the year ended 31 December 2020

28 Retirement benefit obligations (continued)

The sensitivity of the defined obligation to changes in the weighted principle assumption is:

	Impact on obligations		
	Change in assumption	Increase in assumption \$m	Decrease in assumption \$m
Discount rate	0.25%	0.1	0.1
Inflation rate	0.25%	0.1	0.1

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous year.

c) Total

The total provision in the consolidated Balance Sheet relating to pension liabilities is analysed as follows:

	2020 \$m	2019 \$m
UK schemes		
- KCA	11.3	10.8
- OIS	0.7	(0.5)
Germany schemes	139.8	128.3
At 31 December	151.8	138.6

Cumulative remeasurement losses (gains) recognised in equity are as follows:

	2020 \$m	2019 \$m
At 1 January	57.7	38.9
Net remeasurements recognised in the year	(3.3)	20.4
Exchange differences	3.3	(1.6)
At 31 December	57.7	57.7

Included within the net remeasurements recognised in the period are exchange differences of \$2.1 million (2019: \$0.6 million).

The Group also made contributions to defined contribution plans of \$18.2 million (2019: \$18.1 million).



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

29 Cash generated from (used in) operating activities

	2020 Group \$m	2019 Group \$m	2020 Company \$m	2019 Company \$m
Cash generated from (used in) operating activities				
Profit (loss) before taxation	11.7	(220.4)	(390.2)	(497.5)
Adjustments for:				
- depreciation of property plant and equipment	169.0	179.6	-	-
- depreciation of right of use assets	27.6	18.8	-	-
- amortisation of intangible assets – customer relationships	4.1	4.1	-	-
- impairment of non current assets	510.6	79.8	-	-
- amortisation of intangible assets - other	10.5	11.3	-	-
- gain on sale of property, plant and equipment	(1.2)	(0.4)	-	-
- exceptional (gain) loss on refinancing and extinguishment of debt	(694.6)	-	370.9	-
- impairment of investments in subsidiaries	-	-	-	470.2
Net movement in provisions and other liabilities and retirement benefit obligations	1.1	(5.0)	-	-
Net finance costs	206.9	218.2	21.4	26.5
Changes in working capital:				
- decrease in inventories and work in progress	5.4	20.9	-	-
- decrease (increase) in trade and other receivables	46.6	(36.9)	(58.4)	42.3
- (decrease) increase in trade and other payables	(61.4)	23.7	12.0	23.7
Net exchange differences from operating activities	(15.6)	10.2	-	-
Cash generated from (used in) operating activities	220.7	303.9	(44.3)	65.2

30 Contingent liabilities

The Company is a guarantor for Group senior secured debt facilities comprising of Senior Secured Notes and guarantee facilities. Security is given by a fixed and floating charge over the net assets of the Company.

31 Leases

This note provides information for leases where the group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 Group \$m	2019 Group \$m
Right of Use Assets:		
Properties	39.7	37.5
Drilling rigs and equipment	35.4	-
Vehicles, Plant & Equipment	12.9	19.2
	88.0	56.7
Lease Liabilities:		
Current	30.8	20.7
Non-Current	64.4	42.4
	95.2	63.1

Additions to the right-of-use assets during the year were \$58.1 million (2019: \$14.4 million).



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

31 Leases (continued)

ii) Amounts recognised in the statement of profit or loss

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

	2020	2019
	\$m	\$m
Depreciation charge of right-of-use assets		
Properties	12.3	9.1
Drilling rigs & Equipment	3.2	-
Vehicles, Plant & Equipment	12.1	9.7
	<u>27.6</u>	<u>18.8</u>
Interest expense (included in finance cost)	7.2	4.9
Expense relating to short- term leases	1.3	1.6
Expense relating to leases of low value assets	-	0.2

The total cash outflow for leases in 2020 was \$32.6 million (2019: \$21.2 million).

32 Capital and other financial commitments

	2020	2019
	\$m	\$m
Contracts placed for future capital not provided in the financial statements	<u>15.7</u>	<u>25.4</u>

33 Related party transactions

The following balances relate to transactions carried out with the Group and its parent company:

	2020	2019
	\$m	\$m
Group		
Amounts owed by parent company	-	7.6
Amounts owed to parent company	-	(289.9)
	<u>2020</u>	<u>2019</u>
Company	<u>\$m</u>	<u>\$m</u>
Amounts owed to subsidiaries	-	(0.7)
Amounts owed by subsidiaries	240.3	74.8
Amounts owed by parent company	-	6.8
Amounts owed to parent company	-	(289.6)

For year ended 31 December 2019 the immediate parent company was KCA Deutag Alpha II Limited, the ultimate parent undertaking was KCAD Holdings I Limited. As at 31 December 2019 amounts owed by the Company to its parent company comprised \$75.0 million loan which was interest bearing at 14.5%, repayable on demand but not before 1 January 2018 with \$150.2 million interest added to this loan, \$24.7 million loan interest accrual plus \$4.7 million of intercompany charges. Also included are additional loans of \$35 million owed by the Company to its parent company. These loans were interest bearing at USD LIBOR plus 4% and were also repayable on demand. These loans were capitalised prior to the completion of the restructuring transaction.

For year ended 31 December 2020 the Company is a wholly owned subsidiary undertaking of KCA Deutag International 3 Limited, the Company's ultimate parent undertaking and ultimate controlling company is KCA Deutag International Limited. As part of the Group restructuring the balances with the former parent were extinguished. The new parent company made an investment in the Alpha Group with no debt outstanding as at 31 December 2020.

Key management compensation is disclosed in Note 27.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

33 Related party transactions (continued)

The following balances relate to transactions carried out with Group and its parent company:

	2020	2019
	\$m	\$m
Sales	-	0.2
Purchases	-	(25.1)
Finance costs	-	(33.8)

Costs recharged in relation to the Dalma transaction comprise fees incurred in the issue of shares by the Company's ultimate parent undertaking, which formed part of the consideration to acquire the Dalma business.

The following balances relate to transactions carried out by the Company and its associated parent companies:

	2020	2019
	\$m	\$m
Finance costs	-	(33.8)

The terms of loans made to subsidiaries are disclosed in Note 14.

For year ended 31 December 2019 the immediate parent company was KCA Deutag Alpha II Limited, the ultimate parent undertaking was KCAD Holdings I limited.

For year ended 31 December 2020 the Company is a wholly owned subsidiary undertaking of KCA Deutag International 3 Limited, the Company's ultimate parent undertaking and ultimate controlling company is KCA Deutag International Limited.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party

The Company is a wholly owned subsidiary undertaking of KCA Deutag International 3 Limited, a company incorporated in England and Wales. The Company's ultimate parent undertaking and ultimate controlling company is KCA Deutag International Limited, which is registered in Jersey. The shareholders of KCA Deutag International Limited are comprised of holders of the pre-restructuring secured debt which was partially swapped for equity in KCA Deutag International Limited as part of the restructuring transaction.

At 31 December 2020, the smallest and largest group in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited. A full list of subsidiaries and joint ventures is shown below.

The Group's subsidiaries registered at 1 Park Row, Leeds, LS1 5AB are as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Abbot Group Limited	Direct subsidiary	England and Wales	100%
KCA DEUTAG Rig Co. Limited	Indirect subsidiary	England and Wales	100%
KCA DEUTAG (Land Rig) Limited	Indirect subsidiary	England and Wales	100%
KCA DEUTAG UK Finance Plc	Indirect subsidiary	England and Wales	100%
KCA DEUTAG Enterprises Limited	Indirect subsidiary	England and Wales	100%
Rig Design Services Holdings Limited	Indirect subsidiary	England and Wales	100%
RDS Energy Solutions Limited (Formerly RDS Technical Services Limited)	Indirect subsidiary	England and Wales	100%
Abbot Investments (North Africa) Limited	Indirect subsidiary	England and Wales	100%
Abbot Holdings Limited	Indirect subsidiary	England and Wales	100%
KCA DEUTAG Drilling Group Limited	Indirect subsidiary	England and Wales	100%
KCA European Holdings Limited	Indirect subsidiary	England and Wales	100%
KCA DEUTAG Caspian Limited	Indirect subsidiary	England and Wales	100%

The Group'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	Percentage of ordinary shares held
KCA DEUTAG Europe BV	Indirect subsidiary	Scotland	100%
SET Drilling Company Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Drilling Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Drilling Services (UK) Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Offshore UK Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Technical Support Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Rig Design Services Limited	Indirect subsidiary	Scotland	100%
KCA DEUTAG Limited	Indirect subsidiary	Scotland	100%
ProRig Limited	Indirect subsidiary	Scotland	100%
Abbot Keystone Limited	Indirect subsidiary	Scotland	100%



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

The Group's subsidiary registered at 10 Anson Road, #32-15 International Plaza, Singapore 079903 is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Drilling PTE Limited (in liquidation)	Indirect subsidiary	Singapore	100%

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

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG LLC	Indirect subsidiary	USA	100%
KCA DEUTAG US Finance LLC	Indirect subsidiary	USA	100%

The Group's subsidiaries registered at Elenion Building, 2nd Floor, 5 Themistocles Dervis Street, Nicosia 1066, Cyprus are as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Overseas Limited	Indirect subsidiary	Cyprus	100%
KCA DEUTAG Holdings Limited	Indirect subsidiary	Cyprus	100%
KCA DEUTAG (Cyprus) Limited	Indirect subsidiary	Cyprus	100%

The Group's subsidiaries registered at Deilmannstrasse 1, 48455 Bad Bentheim, Germany are as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Abbot Verwaltungsgesellschaft mbH	Indirect subsidiary	Germany	100%
KCA DEUTAG GmbH	Indirect subsidiary	Germany	100%
KCA DEUTAG Tiefbohrergesellschaft mbH	Indirect subsidiary	Germany	100%
KCA DEUTAG Drilling GmbH	Indirect subsidiary	Germany	100%
Bentec GmbH Drilling and Oilfield Systems	Indirect subsidiary	Germany	100%
Bentec Personalservice GmbH	Indirect subsidiary	Germany	100%

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

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Holdings Norge AS	Indirect subsidiary	Norway	100%
KCA DEUTAG Drilling Norge AS	Indirect subsidiary	Norway	100%
KCA DEUTAG MODU Operations AS	Indirect subsidiary	Norway	100%
Abbot Holdings Norge AS	Indirect subsidiary	Norway	100%
KCA DEUTAG Offshore AS	Indirect subsidiary	Norway	100%
KCA DEUTAG Drilling Offshore Services AS	Indirect subsidiary	Norway	100%

**KCA Deutag Alpha Limited****Notes to the consolidated financial statements**

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

The Group's subsidiaries registered at Jan Tinbergenstraat 432, 7559, St Hengelo, the Netherlands are as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Nederland BV	Indirect subsidiary	Netherlands	100%
KCA DEUTAG Investments BV	Indirect subsidiary	Netherlands	100%

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

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Tender Barges (Offshore) Pte Ltd	Indirect subsidiary	Singapore	100%
KCA DEUTAG PTE Limited	Indirect subsidiary	Singapore	100%

The Group's associate registered at 23B, Jalan 52/1, 46200 Petaling Jaya, Selangor, Malaysia is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Global Tender Barges Malaysia Sdn Bhd (in liquidation)	Indirect subsidiary	Malaysia	30%

The Group's subsidiary registered at San Blas 2 San Joaquin, Ciudad del Carmen, Campeche 24157 is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Global Tender Barges Mexico, S. de R.L. de C.V.	Indirect subsidiary	Mexico	99%

The Group's subsidiary registered at 5-9 Main Street, Gibraltar, GX11 1AA is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
International Air Drilling Company Limited	Indirect subsidiary	Gibraltar	100%

The Group's subsidiary registered at Erbil, English Village, Villa 357, Kurdistan is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Performance Drilling for Oil Services Limited	Indirect subsidiary	Iraq	100%

**KCA Deutag Alpha Limited****Notes to the consolidated financial statements**

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

The Group's subsidiary registered at Caledonian House, PO Box 1043, George Town, Grand Cayman, KY1-1102 Cayman Islands is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
ILI Corporation Limited	Indirect subsidiary	Cayman Islands	100%

The Group's subsidiary registered at 2/F Palm Grove House, PO Box 3340, Road Town, Tortola, British Virgin Islands is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Investments Limited	Indirect subsidiary	British Virgin Islands	100%

The Group's subsidiary registered at Oman KCA DEUTAG Drilling Company LLC, P.O. Box 74, Postal Code 328, Rumais, Sultanate of Oman is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Oman KCA DEUTAG Drilling Company (LLC)	Indirect subsidiary	Oman	70%

The Group's subsidiary registered P.O Box 12 78, Postal Code 133, Al-Khawai, Sultanate of Oman is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
International Drilling Technology (LLC)	Indirect subsidiary	Oman	51%

The Group's subsidiary registered at Km 16, PH-Aba Expressway, Opposite INTELS, Rumukurusi, Port-Harcourt, Nigeria is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Nigeria Limited	Indirect subsidiary	Nigeria	38%

The Group's subsidiary registered at Lot 5475, Simpang 68, Jalan Kerma Negara, Kuala Belait KA1931, Brunei Darussalam is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Drilling (Brunei) Sdn Bhd	Indirect subsidiary	Brunei	100%

The Group's subsidiary registered at 2km of Stary Tobolsky trakt, 8a, 625014 Tyumen, Russia is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Bentec Drilling and Oilfield Systems LLC	Indirect subsidiary	Russia	100%
KCA DEUTAG Russia LLC	Indirect subsidiary	Russia	100%

**KCA Deutag Alpha Limited****Notes to the consolidated financial statements**

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

The Group's subsidiary registered at Chekhova St. 78, 6th Floor, Yuzhno-Sakhalinsk, 693008, Russia is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Drilling LLC	Indirect subsidiary	Russia	100%

The Group's subsidiary registered at Schottegatweg Oost 44, Willemstad, Curaçao is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Deutag Overseas (Curaçao) NV	Indirect subsidiary	Netherlands Antilles	100%

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

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Drilling Saudi Arabia Limited	Indirect subsidiary	Saudi Arabia	100%

The Group's subsidiary registered at 45 Hebron Way, Suite 201, St. John's NF, A1A 0P9, Canada is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Drilling Canada Inc.	Indirect subsidiary	Canada	100%

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

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Iran Kish Drilling Company (in liquidation)	Indirect subsidiary	Iran	100%

The Group's subsidiary registered at Unit No. 302, Swiss Tower, Plot No. Y3, Jumeirah Lakes Towers, Dubai, UAE is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA DEUTAG Operations Services DMCC	Indirect subsidiary	UAE	100%

The Group's joint venture registered at 15 Chaikovsky Street, Almaty, Republic of Kazakhstan is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Bentec Kazakhstan Limited Liability Partnership	Joint venture	Kazakhstan	50%

The Group's subsidiary registered at 14th Floor ISR Plaza, 69 Nizami Street, Baku, AZ 1000 Azerbaijan is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Turan Drilling & Engineering Company LLC	Indirect subsidiary	Azerbaijan	49%

**KCA Deutag Alpha Limited****Notes to the consolidated financial statements**

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

The Group's subsidiaries registered at Al Qurm, Bawshar, P.O. Box 739, 116 Muscat Governorate, Sultanate of Oman are as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Energy Global LLC	Indirect subsidiary	Oman	99%
KCA Deutag Energy National LLC	Indirect subsidiary	Oman	99%

The Group's subsidiary registered at Ghala, Bawshar, P.O. Box 739, 116, Muscat Governorate, Sultanate of Oman is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Energy LLC	Indirect subsidiary	Oman	70%

The Group's subsidiary registered at Mina Al Fahel, Al Qurm, Bawshar, P.O.Box 739, 116, Muscat Governorate, Sultanate of Oman is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Energy International LLC	Indirect subsidiary	Oman	99%

The Group's subsidiary registered at Jan Tinbergenstraat 432, 7559 St Hengelo, the Netherlands is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Rider Cooperatief U.A.	Indirect subsidiary	Netherlands	100%

The Group's subsidiary registered at Third Floor, Gulf Axis Dana Office Building, Al Dana Al Shamalia, P.O Box: 79707, Dhahran 34258, Kingdom of Saudi Arabia is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Gulf Drilling Limited	Indirect subsidiary	Saudi Arabia	100%

The Group's subsidiary registered at 04050, Ukraine, Kyiv, Mykoly Pymonenka Street 13, build. 1-B, office 31 is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
Bentec TOB	Indirect subsidiary	Ukraine	100%

The Group's joint venture registered at Republic of Kazakhstan, Atyrau Region, Atyrau, Sharipova Street, 26A, Block 1 ground floor is as follows:

Name	Relationship to Company	Country of Incorporation	Percentage of ordinary shares held
KCA Deutag Kazakhstan LLP	Joint venture	Kazakhstan	51%

During the year the company also liquidated its 100% owned subsidiary KCA DEUTAG Drilling (Thailand) Limited.



KCA Deutag Alpha Limited

Notes to the consolidated financial statements

for the year ended 31 December 2020

34 Subsidiary undertakings, other related undertakings and ultimate controlling party (continued)

Statutory audit exemptions

KCA Deutag Alpha Limited has agreed to issue guarantees over the liabilities of the following companies at 31 December 2020 under Section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act:

Company Name	Company number
KCA DEUTAG (Land Rig) Limited	05659113
KCA DEUTAG Drilling Group Limited	01059871
KCA European Holdings Limited	04286946
Abbot Investments (North Africa) Limited	05246036
Abbot Holdings Limited	02682916
Rig Design Services Holdings Limited	04286931
KCA DEUTAG Limited	SC349488
Prorig Limited	SC464570
SET Drilling Company Limited	SC167498



Skattedirektoratet

Inquiries to Torstein Kinden Helleland	Your date 25.04.2007	Our date 08.08.2007
Telephone +47 22 07 81 39	Your reference Petter Pharo	Our reference 2007/177957 /RR-RE/TKH /812.1

Ernst & Young AS
P.O. Box 6163
5892 Bergen

**Application for a permission to keep accounts in Norway in English language,
including the annual report and statement**

Dear Mr Petter Pharo,

With reference to your letter of 25 April 2007, fax of 20 June 2007 and various phone calls with respect to the above matter.

The application in question concerns the following companies:

1. Abbot Holdings Norge AS (reg. no. 989 528 270)
2. KCA DEUTAG Offshore AS (reg. no. 986 709 770)
3. KCA DEUTAG Pte Ltd (reg. no. 990 440 832)
4. KCA DEUTAG (Ben Rinnes) AS (reg. no. 990 397 082)
5. KCA DEUTAG Holdings Norge AS (reg. no. 987 558 741)

The background for the application is that all of the above mentioned companies are part of the Abbot Group. Abbot Group Plc, the head company of the Abbot Group, is listed on the London Stock Exchange (LSE).

The activities of the Abbot Group are centred around its operating subsidiaries, KCA DEUTAG, and Benter Drilling & Oilfield Systems. KCA DEUTAG is the largest offshore platform drilling contractor in the North Sea and the Caspian Region. Further, it is one of the largest international land drilling contractors outside the Americas, and a world leader in engineering, rig design, construction and operation. The company has more than 6.000 employees worldwide and has operations in the North Sea, Europe, Russia, the Middle East, Caspian Region, North and West Africa, and Asia.

KCA DEUTAG's Headquarter is in Aberdeen, Scotland, and it operates through three Global Business Units.

The company's accounts are audited by PWC. Ernst & Young is elected as the company's preferred Tax Advisor worldwide.

The reason for the application is that the group in question is highly international in the sense that it operates throughout the world. The company group has several legal entities and companies in different countries. A number of these companies are taxable or will be

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taxable in other jurisdictions due to inter alia international rig operations. It follows that the accounts for these companies will have to be presented in different jurisdictions.

The company KCA DEUTAG Pte Ltd is inter alia subject to statutory accounting also in Singapore (prepared in English language), which implies that it is a significant disadvantage if the company has to prepare the Norwegian accounts in Norwegian and the Singapore accounts in English.

For this reason alone the company group has a strong interest in using the English language as the accounting language for the above-mentioned companies.

The group headquarter is in Aberdeen, and the working language of the group is English. All the users of the accounts within the company group are also English, as well as the persons signing the accounts. All the above-mentioned companies covered by this application are 100 % owned by an English company. All company loan agreements etc. are entered into with foreign financial institutions (banks). Further, more or less all the contracting parties and customers of these companies are foreign companies. Contracting parties and customers, at a certain level, commonly want to extract information about the company from the accounts in English.

Permission to keep accounts in Norway in English language

It follows from the Norwegian Bookkeeping Act of 19 November 2004 nr 73 § 12 that the specifications of statutory financial reporting shall be in Norwegian, Swedish, Danish or English language. Hence, it is not necessary to apply for permission to keep accounts in Norway in English language.

Permission to make the annual report and statement in Norway in English language

According to the Norwegian Accounting Act § 3-4, third paragraph shall *“the annual report and annual statement ... be in Norwegian. The Ministry can in an individual decision decide that the annual report and/or annual statement may be in another language”*

Ot. prp. nr. 42 (1997-1998) *About Act about annual accounts etc.*, says the following about the purpose of the Accounting Act, refer section 1.1:

“The aim of the Government with respect to the Accounting Act is that it shall contribute towards providing informative accounts for different users of accounts. The users of accounts include investors and creditors which provide capital for the companies. Other groups include those who have an interest in knowing how the companies are operated, for example employees and the local community. The information to the capital market is an important basis for the correct pricing of financial instruments. The correct pricing of stocks is an important factor in securing the best possible allocation of resources in the economy. High quality accounts will also make it more difficult for market participants to obtain speculative gains as a result of non-publicly available information.”



Hence, one of the main aims of the Accounting Act is to contribute to “*informative accounts for different users of accounts*” The users of the accounts will include investors, creditors, employees and the local community. The government (central and local) authorities must also be considered to be an important user of the accounts. For example, the tax authorities and other public authorities who are involved in controlling the activities in the private sector, use accounts as an important tool in their control activity.

Hence, it is the view of the Ministry that it is crucial that the question of dispensation from the general rule that the annual accounts and/or annual statement should be done in Norwegian, not in any significant way deviate from the consideration of users of the accounts. Further, the applicant must have a particular interest in having the opportunity to make the annual statement and/or annual statement in a language other than Norwegian.

The four applying companies are a part of the Abbot Group and are 100 % owned by an English company. Abbot Group Plc, the head company of the Abbot Group, is listed on the London Stock Exchange (LSE). The group headquarter is in Aberdeen, and the working language of the group is English. All the users of the accounts within the company group are also English, as well as the persons signing the accounts. All company loan agreements etc. are entered into with foreign financial institutions (banks). Further, more or less all the contracting parties and customers of these companies are foreign companies. Contracting parties and customers, at a certain level, commonly want to extract information about the company from the accounts in English.

Based on the above, and after a total evaluation, the view of The Directorate of Taxes is that the applying companies mentioned above may make the annual report and statement in English language.

Conclusion

The Directorate of Taxes gives Abbot Holdings Norge AS, KCA DEUTAG Offshore AS, KCA DEUTAG Pte Ltd, KCA DEUTAG (Ben Rinnes), KCA DEUTAG Holdings Norge AS permission to make the annual report and annual statement in English language according to the Norwegian Accounting Act § 3-4 third paragraph.

Yours sincerely,

Nina Hognes
underdirektør
Seksjon for revisjon
Retts- og revisjonsavdelingen

Torstein Kinden Helleland



Vedlegg Regnskapsloven § 3-7

I samsvar med regnskapsloven § 3-7 utarbeider ikke selskapet konsernregnskap. Selskapet inngår i konsernregnskapet til KCA Deutag Alpha Limited; et selskap registrert i England.

Konsernregnskapet til KCA Deutag Alpha Limited er levert inn til UK register of Company Accounts, men leveres også inn av KCA Deutag Holdings Norge AS (org nr 987 558 741) som er det øverste norske selskapet.