KCA Deutag Alpha Limited

Annual Report and Financial Statements

for the year ended 31 December 2013

Registered Number: 06433748

KCA Deutag

Operating **safely**, succeeding **globally**.

KCA Deutag Alpha Limited

Annual Report and Financial Statements

for the year ended 31 December 2013

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KCA Deutag Alpha Limited

Chairman's Statement

I am delighted to present my Chairman's statement for the year ended 31 December 2013. KCA Deutag Alpha Limited continued to make substantial progress during the year delivering further growth in the business and a strong financial performance.

Revenue was up 24.1% to $2,156.6 million (2012: $1,737.5 million). Similarly EBITDA, before exceptional items, increased by 14.4% over the corresponding year to $300.9 million. Adjusting for the impact of a signed sale and purchase agreement for the disposal of the self-erect tender barge business post year end, full year revenue and pre-exceptional EBITDA would have been $2,076.0 million and $307.3 million respectively.

2013 was highlighted by the completion of two major milestones in the year that we celebrated KCA Deutag's 125 year anniversary and our position consolidated as one of the world's leading drilling and engineering contractors.

In June, we announced that our Platform Services operation had won the largest contract in KCA Deutag's history, securing a contract potentially worth in excess of $2.2bn for the Norwegian Continental Shelf with Statoil. This contract is for the management, operation and maintenance of two Category J jack-up rigs and has the potential to run for 20 years. We currently have 39 platforms under management, retaining our position as one of the world's largest platform services operators. Throughout the year this business unit continued to deliver strong performance across all operating locations and has built an excellent contract backlog.

In May of last year we announced that we had successfully entered the high yield bond market for the first time completing the issuance of $500 million of senior secured notes on the Euro MTF Market of the Luxembourg Stock Exchange. The proceeds of the bond issue were used to pay down bank debt. This marked an important step for KCA Deutag, increasing the Group's financial flexibility by providing access to an additional source of funding. The bond issue was well received by investors and we thank them for their continued support.

We saw very strong performance in the majority of our business units as our operational and HSE performance continued to deliver for our clients.

Our Land Drilling operation, which owns and operates a fleet of more than 60 high quality land rigs, maintained its focus on premium drilling and saw high utilisation at the year end, positioning it well for 2014. It had particularly strong results in Russia where three new rigs commenced operations on schedule during the year.

Bentec, our German based manufacturer of drilling rigs and equipment had a successful year completing an order for the manufacture and assembly of four rigs for Algeria and one for a customer in New Zealand, as well as continuing to deliver products from its wider component portfolio and developing a growing after sales support business.

RDS, our drilling rig design and engineering specialist, delivered an exceptional performance in 2013 as it continued to benefit from strong demand for premium engineering design services to the offshore sector. It was involved in a number of high profile projects including the Hebron project in Canada. Reflecting the high activity levels, RDS saw total staffing levels exceed 1,000 for the first time during the year.

This performance was underpinned by robust activity in our core markets and the continued strength of international oilfield services activity. During the year we continued to broaden our client offering through increased service provision built around our core drilling operational activities. This strategy will continue into the coming year.

Chairman's Statement (continued)

Our MODUs business unit performed below our expectations in 2013 and in the second quarter the contract for the Glen Esk rig was cancelled by our client. Subsequent to the year end, following a strategic review of this business unit, a decision was made to sell the three self-erect tender barges. A sale and purchase agreement to sell two of the Group's subsidiaries which own and operate the three self-erect tender barges was signed on 4 March 2014 for gross consideration of $60 million. A charge to the Income Statement of $117.4 million has been taken in these financial statements to reflect the fair value less costs to sell of the assets and liabilities being disposed.

Throughout 2013, we continued to focus on providing safe and effective trouble free operations whilst streamlining our processes across the Group and continuing to focus on the business efficiency initiatives started in 2012. This initiative has delivered the anticipated savings in 2013 and we remain on track to achieve the full benefits of this project.

The financial results of the Group for the year ending 31 December 2013 are as follows:

	2013 $m	2012 $m
Revenue	**2,156.6**	1,737.5
EBITDA*	**300.9**	263.0
Operating loss	**(37.7)**	(94.5)
Loss after tax	**(210.6)**	(252.1)

* before exceptional items

A reconciliation of EBITDA to operating profit is provided in Note 4 to the financial statements. Unless otherwise stated, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is presented before exceptional items.

2014 Outlook

Trading in the current year has started well with the announcement of two major contract wins.

In January, Bentec announced the largest contract in its 20 year history with a multi-million dollar contract awarded by Algerian state owned drilling contractor, Enafor, which will see Bentec deliver seven desert drilling rigs within the next 17 months.

Our Land business unit subsequently announced it had been awarded a 5 year plus options contract worth up to approximately $340 million by BP, for the construction and operation of 3 new build fast moving land rigs in Oman. KCA Deutag currently operates seven rigs in Oman ranging from 750 to 3,000 HP.

In February 2014 we also finalised a successful amend and extend transaction with our banking syndicate further strengthening the Group's financing structure. The expiry date for $119 million of our $180 million term loans were extended by a year to March 2017 and an additional $205 million of working capital and guarantee facilities were extended from March 2015/16 to June 2016.

Over the coming year we plan to continue to grow, consolidating our position in those key markets where we have a market leading position and seeking to expand into new markets and territories where the right opportunities exist.

Activity levels are buoyant and our visibility of earnings for 2014 is strong. We are confident of the outlook for the coming year.

R Ellis
Chairman, KCA Deutag Alpha Limited
18 March 2014

KCA Deutag Alpha Limited

Strategic and Operating Review

Market Dynamics and Positioning

In 2013 KCA Deutag Alpha Limited delivered robust operational and Health, Safety and Environmental (HSE) performance. Utilisation of our land rig fleet was maintained at a high level and was enhanced by the delivery of new rigs into Russia and Algeria. Our backlog has continued to grow reflecting our ability to execute on key projects and contracts with reliable services and high quality personnel. Stability of energy prices has led to a generally improving oilfield services market, particularly in the eastern hemisphere, evidenced by the increasing capital expenditure of our customers, high utilisation of our rigs and increased tendering activity.

In summary the Group performed well in a changing and improving market environment with:

- high Land Drilling rig utilisation level and a strong backlog going into 2014;
- a strengthening of the contract backlog for Platform Services;
- significant growth in our RDS business unit, continuing the trend of the last three years, with the successful award and execution of a number of large projects for our clients; and
- continued progression of Bentec’s component led strategy, with strong sales of its innovative top drive and completion of its production facility expansion plans. Successful completion of a four rig order for desert drilling for a customer in Algeria.

The only downside on our performance was in the MODUs business unit which suffered significantly when one of the self-erect tender barges was unable to rig up and complete a contract for a customer in West Africa. As a result we incurred significant costs for a period of several months and earned no revenue from this rig in 2013. Following a strategic review a decision was made to exit the self-erect tender barge business and to seek a buyer for the business. As a result an impairment charge of $117.4 million has been made in our year end results to write down the carrying value to net realisable value.

During 2013 KCA Deutag Alpha Limited continued to develop and grow the land drilling fleet. Three new owned rigs were successfully delivered into Russia with a further two rigs, leased from a fellow Group company, starting up operations in Algeria. Each of these rigs was manufactured by Bentec. Towards the end of 2013 we were successfully awarded a contract for three new land rigs for a customer in Oman and one rig for a customer in Russia. These will also be manufactured by Bentec.

Looking forward, we remain confident about the future prospects for our business as we see a high level of demand for our products and services and have a growing level of backlog. The longer term industry fundamentals remain strong and we are well placed to continue to grow our business over the coming years.

Strategy

The KCA Deutag Group continues to be active in its five core Business Units; Land Drilling, Platform Services, RDS, ownership and management of MODUs, and Bentec which designs, engineers and manufactures land rigs and drilling equipment components.

During the year we carried out a strategic review of the MODU business unit as a result of which a decision was made to put the self-erect tender barge business up for sale. This was based on our assessment of the market, the future costs to run and operate the rigs and other opportunities within the Group which offer better capital returns. At 31 December 2013 this divestment was still in process with the assets classified as being a disposal group held for sale.

KCA Deutag Alpha Limited

Strategic and Operating Review (continued)

During Q1 2013 an opportunity arose to divest of the Ben Avon jack up rig for a favourable price. A decision was made to take advantage of this opportunistic approach and the rig was sold for proceeds of $55 million. We continue to operate the two remaining jack up rigs, Ben Rinnes and Ben Loyal.

The growth potential in our target markets, underpinned by strong customer relationships and sound operational and HSE performance, provides substantial growth opportunities for the Group. We will maintain a balance and focus on our "asset lite" opportunities in our platform, engineering and manufacturing businesses while also capitalising on opportunities for our Land Drilling business to invest in new assets that meet the Group's investment thresholds. No further investment in new assets will be made to grow our MODUs business.

Land Drilling

Europe

The utilisation in 2013 was slightly down from that of 2012. Lack of success of our clients in the Poland shale gas market resulted in those rigs returning to the core markets of Western Europe. In 2013 we continued to target geothermal opportunities in what is seen as an expanding market sector.

Russia

High utilisation, above 95%, was maintained in Russia. Growth was delivered with the mobilisation of T-320, T-321 and T-322, 3 Bentec new build rigs, for a contract in the Orenburg region of Russia. A contract for a further Bentec rig was awarded at the end of the year for a new build arctic class rig which is expected to commence operations in the Komi region during Q4 2014.

We expanded Combined Drilling Services (CDS) operations where we manage and procure all the specialist drilling and completion services required to execute the project on a lump sum basis. The first successful project that was completed in 2012 resulted in the same client awarding an additional pad in 2013 where the 21 wells were drilled 68 days ahead of plan. The same client has now awarded a 3 year CDS project on the back of this performance. In addition a second client contracted KCA Deutag for CDS services and has extended that project into 2014.

Middle East/Far East

The three rigs in Brunei and Pakistan performed at consistently high levels throughout the year. All rigs received contract extensions into 2014 and carry further options.

Oman enjoyed full utilisation in 2013. In late 2013 KCA Deutag was awarded a substantial contract for three Bentec new build fast moving desert rigs that will be mobilised in late 2014.

The four rigs in Iraq delivered full utilisation with all clients extending contract terms into 2014.

Demand for rigs remains high and we are confident of the future growth prospects for this market.

Africa

In Algeria our operations were impacted by the terrorist attack in the In Amenas area in January 2013, with rigs being kept in warm stack mode. Despite that two new build Bentec fast moving desert rigs (T-222 and T-223) were delivered in Q2 2013 on long term contracts. These rigs were on standby rates for the remainder of 2013. Drilling operations under that contract are planned to start in early 2014.

In Gabon our one land rig continued to operate successfully during the year.

Nigeria had near full utilisation in 2013 but with some contracts expiring in early 2014. There is an observed change with local ‘marginal field’ operators driving activity rather than the International Oil Companies as was previously the case. The market is challenging but client demand for rigs remains good.

In early 2013 we restarted operations in Libya, having left the country during the uprising in 2011. All of the rigs were found to be secure and the T-19 and Rig 206 commenced new contracts. The other rigs were successfully moved to stacking locations. Security remains challenging and poor market conditions make contracting difficult. As a result we intend to export two drilling rigs from Libya for deployment in other markets.

Platform Services

North Sea

Throughout 2013 we continued to operate our customers’ platforms in the UK North Sea delivering strong financial results above expectations through excellent operational performance, efficiency and incentive earnings. During the year we successfully reactivated one drilling rig and up-manned from 550 to 720 personnel. In addition 4 of our 6 contracts were renegotiated or extended.

In Norway we continued to manage drilling operations on a number of Platforms for Statoil and generated good returns from the rental of equipment such as drill pipe to our clients. In addition we successfully secured the construction support and operating contract for 2 ‘Cat J’ jack-up rigs which Statoil are constructing in South Korea. Drilling operations are planned to commence in 2016.

Caspian

Operations for BP/AIOC have continued under the contract in Azerbaijan with a high level of activity and strong performance. The Chirag Oil Platform was successfully installed offshore in 2013 and fully crewed.

Sakhalin

Operations for Sakhalin Energy Investment Company (SEIC) have continued with activity levels exceeding expectations.

Angola

We continued to successfully operate the Benguela Belize platform rig for Cabinda Gulf Oil Company (CABGOC) at a high level of performance in 2013 and expect this to continue for 2014 and beyond. During 2013 we successfully tendered and won an additional contract in Angola and were up-manning this at the end of 2013.

Myanmar

We successfully negotiated a contract for the management of the newly built Daewoo Shwe platform rig offshore Myanmar. This rig was fully up-manned during 2013 and is presently drilling.

Strategic and Operating Review (continued)

RDS

RDS delivered outstanding performance in 2013 exceeding expectations in both Greenfield and Brownfield operations. This was in part due to new contract wins and associated personnel increases, and partly due to increases in work scope on existing projects. In October RDS passed the milestone of having 1,000 personnel employed in the business unit for the first time in its history. On the Greenfield side of the business a number of projects went through the peak manning of detailed design leading to a large increase in activity in London, Houston and St John's in Canada. Importantly a number of early stage projects were identified and successfully converted into contract wins helping to sustain a pipeline of activity into 2014.

The Aberdeen operations saw extensions to both the Enquest Heather project and Total Dunbar projects which created high workload for the office and offshore personnel. New contracts achieved during the year included a mud treatment skid for TAQA's Cormorant Alpha platform. The contract for work in Sakhalin was extended and a number of new projects commenced for our client there.

From our two offices in North America, in Houston and St John's, we saw high activity throughout 2013. A new project for provision of the detailed design of drill ships for the Brazilian market was awarded at the start of the year. The Hebron project reached peak manning in October in both St John's and Houston with conclusion of the detailed design phase. This strong activity was slightly offset by lower than expected returns on a lump sum project for the design of a semi-submersible rig being built in Singapore. Early stage studies included rig designs for projects in Angola, the Falklands and the Arctic.

The Baku office completed the large Chirag upgrade project and resumed working on the modification and upgrade projects on the ACG and Shah Deniz rigs. Workload across all rigs was strong and utilisation of personnel was higher than expected.

In London the Clair Ridge and COP projects for BP continued through the year, with COP concluding at the year end as the platform was installed and began producing. The Clair Ridge project completed detailed design. The Mariner contract with Statoil, won at the end of 2012, continued at high activity through the year.

MODUs

Jack-ups

Following an opportunistic offer for the sale of Ben Avon received in the first quarter this rig was sold for $55 million in March 2013.

The two remaining jack up rigs have seen strong performance in 2013 with high levels of utilisation. The Ben Loyal has continued to work for Pemex in the Gulf of Mexico all year. Ben Rinnes has also been fully utilised in West Africa, working on a multi-well contract for Vaalco in Gabon and Tullow, also in Gabon.

Self-Erect Tender Barges

The Glen Tanar continues to work on a long term contract with Petronas in Malaysia. The Glen Affric secured a contract with PTTEP in the Far East towards the end of 2012 and has either been operating or on standby for this contract throughout 2013. Unfortunately performance was negatively impacted by the tragic fatality of a third party contractor and non-productive time during the third quarter.

The performance of the self-erect tender barges was significantly adversely impacted by the Glen Esk rig. Following a number of months of unsuccessfully trying to rig up in West Africa our contract with the customer was cancelled and under the contract we were unable to recover either day rate or other costs. As a result we incurred significant losses and have now moved the rig to be warm stacked in Ghana.

Following a strategic review we placed the self-erect tender barge business up for sale. At the Balance Sheet date this was still in process and the assets and liabilities have been classified as assets held for sale. An impairment charge of $117.4 million was made to write down the assets to net realisable value less costs of disposal.

Bentec

The main focus of Bentec during 2013 was on the further progression of Bentec's component led growth strategy as well as continuing to redirect the Company to be much more externally focused for its future growth. Bentec continued to market its top drive and the total capacity has now been extended to more than 50 units per year. Bentec has also continued the development of its wider component portfolio, including draw works, mud pumps and power control rooms. The after sales service side of the business continues to grow and develop assisted by an increasing number and range of operating rigs and products originally sold and manufactured by Bentec that now require after sales support.

In terms of rig sales Bentec was able to complete orders for four rigs for a customer in Algeria as well as a rig for a customer in New Zealand requiring best in class noise reduction capability. Building on the success of the 4 rig order for Algeria, Bentec was successful in securing an order for a further 7 rigs towards the end of 2013. This was the largest order in the history of this Business Unit.

Principal Risks and Uncertainties

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

During 2013 KCA Deutag continued to place significant focus on the enhancement of its corporate governance activities – especially around the management of risk and internal audit.

Driven by the Board of Directors down to line management, we further developed the internal audit function during 2013. Working with the Board, the Audit Committee, and using our existing risk management and risk awareness and assessment processes, the internal audit function has conducted a wide ranging review of the Group's principal operations and key functions and processes. Staffing of the Internal Audit group has been strengthened during the year and is to be supplemented by the creation of an internal controls function and enhanced corporate governance procedures in 2014.

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

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

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

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

Impairment charge

As a result of its annual review of the carrying values of its assets, the Group has recognised a $117.4 million exceptional impairment charge during 2013 in respect of the carrying value of the MODU fleet. This impairment charge has arisen on the self-erect tender barges which were put up for sale towards the end of 2013. The assets and liabilities have been written down to net realisable value less costs to sell based on a sales transaction which was in process at year end, with a sale and purchase agreement signed on 4 March 2014.

N McKay
Chief Executive Officer, KCA Deutag Alpha Limited
18 March 2014

KCA Deutag Alpha Limited

Financial Review

Overview

The financial statements of the Group for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in US dollars, which is the principal functional and presentational currency of the Group's income streams and cash flows.

Trading Performance

Note 4 to the financial statements sets out the segmental analysis of the business analysed between Platform Services, RDS, Land Drilling, MODUs 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 2013 figures:

	Revenue	**EBITDA***	**Operating profit (loss)**	**EBITDA Margin**
	2013	**2013**	**2013**	**2013**
	$m	**$m**	**$m**	**%**
Platform Services	755.5	96.5	83.5	12.8
RDS	359.5	56.0	55.8	15.6
Land Drilling	684.8	160.6	29.2	23.5
MODUs	156.8	12.5	(158.2)	8.0
Bentec	199.1	28.3	22.1	14.2
Central overheads	0.9	(53.0)	(70.1)	-
	2,156.6	**300.9**	**(37.7)**	**14.0**

* before exceptional items

The above table has been extracted from Note 4 to the financial statements, which also includes the comparative information for 2012.

Group revenue has risen overall by 24.1% with growth coming from all Business Units except MODUs. The EBITDA margin has decreased to 14.0% in 2013 from 15.1% in 2012, mainly due to an increased level of pass-through revenues at low or nil margin in our Platform Services segment. See Note 4.

Platform Services EBITDA was higher in 2013 due to continued high levels of activity, excellent operational performance and efficiency which drove incentive earnings.

RDS delivered outstanding performance through a number of significant contract awards globally and extensions to existing project work scopes.

In Land Drilling, the Group experienced an increase in EBITDA due to continued high utilisation and activity levels and delivery of new rigs. The EBITDA margin decreased due to mix, combined drilling services activities in Russia and Libya re-entry related costs.

In MODUs, the Group saw a reduction in EBITDA margin from 2013 mainly as a result of a lower level of utilisation on the self erect tender barges. An exceptional impairment charge of $117.4 million has resulted in an operating loss for the year of $158.2 million.

2013 saw continued increased demand for Bentec drilling products as well as the manufacture and sale of a number of drilling rigs and rig related components.

KCA Deutag Alpha Limited

Financial Review (continued)

Depreciation and Amortisation

Depreciation of the Group's tangible assets totalled $179.1 million (2012: $185.5 million) of which $175.8 million (2012: $177.1 million) related to depreciation of drilling rigs and related equipment. Amortisation of intangible assets, which consist of the value of customer relationships, trade name and Group technology, amounted to $20.8 million (2012: $26.1 million).

Exceptional Items

During 2013 the Group incurred the following exceptional, non-recurring expenditure which is separately disclosed within Notes 9 and 10 of the financial statements:

- Credit arising from insurance recovery net of costs incurred in Libya as a result of the previous business interruption caused by political unrest ($0.6 million);
- Reorganisation costs ($11.6 million);
- Refinancing and other costs ($1.6 million);
- Impairment of fixed assets in relation to Tender Barges ($105.9 million);
- Write down of inventory balances related to the sale of the Self-Erect Tender Barges ($9.0 million);
- Costs to sell relating to anticipated disposal of Tender Barges ($2.5 million); and
- Claims in respect of pre-acquisition Tender Barges items ($4.3 million).

Finance Costs

Net finance costs for KCA Deutag Alpha Limited in the year amounted to $156.8 million (2012: $119.1 million) and the analysis is shown in Note 6 to the financial statements.

During the year the Group amortised $37.9 million (2012: $18.4 million) of debt arrangement fees and $2.1 million (2012: $nil) of the original issue discount relating to the Group's senior secured notes.

The net exchange loss of $8.7 million (2012: net gain $9.3 million) relates to accounting losses arising on non-functional currency debt, mainly US Dollar debt held in the Balance Sheets of group companies whose functional currency is denominated in Sterling or Norwegian Krone, and also to accounting losses arising on non-functional currency pension liabilities.

The Group had not hedged any of its senior bank facility debt as at 31 December 2013. The $500 million senior secured notes are at a fixed interest rate of 9.625%.

The weighted average interest rate applicable to the Group's finance leases at 31 December 2013 was 11.4%.

Taxation

Notes 8 and 21 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 current year tax charge has decreased mainly as a result of the recognition of deferred tax assets in certain jurisdictions as the Group suffers overseas tax in a number of different countries. As a result, there is a deferred tax credit for the year of $33.8 million (2012: credit $0.1 million) which has arisen due to recognition of certain tax losses in the Group based on anticipated future performance and the amortisation of fair value adjustments.

KCA Deutag Alpha Limited

Financial Review (continued)

Capital Investment

During the year a total of $164.6 million (2012: $232.2 million) was invested in fixed assets, of which $154.6 million related to drilling rigs and equipment (2012: $159.6 million).

Group Cash flow and Debt

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

	2013	2012
	$m	$m
Net debt at start of year	**(1,130)**	(987)
Net cash generated from operations	**180**	212
Capital expenditure and investments	**(79)**	(192)
Tax paid	**(36)**	(41)
Interest paid - net	**(93)**	(94)
Exchange rate effects	**(14)**	(7)
Capitalised arrangement fees amortised	**(40)**	(18)
Capitalisation of arrangement fees and original issue discount asset	**45**	-
Movement in parent debt	**59**	(3)
Repayment of debt	**450**	-
New senior secured funding	**(500)**	-
Net debt at 31 December	**(1,158)**	(1,130)

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 2013 the Group held unrestricted cash balances of $29.1 million plus unutilised available credit facilities of $202.6 million.

Borrowings

At 31 December 2013 the Group's total bank borrowings were $1,265.0 million (2012: $1,207.1 million), 100% (2012: 99%) of which is due to mature in more than one year and approximately 39% (2012: 49%) of the borrowings were at secured rates. The Group completed a sale and leaseback financing for two land rigs during the year. The balance of the finance leases outstanding at 31 December 2013 was $27.6 million.

Pensions

At 31 December 2013, the Group had a total of $132.3 million (2012: $131.4 million) of liabilities relating to various defined benefit pension schemes. The largest element thereof was $128.5 million (2012: $121.6 million) relating to unfunded liabilities in Germany where it is standard practice that annual employee contributions are charged to the Income Statement and recorded in the Balance Sheet as a liability. Thereafter 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 $3.4 million (2012: $8.6 million) which is being funded by the Group over the medium term.

Going concern

During the year the Balance Sheet of the Company was strengthened via a capital contribution of $250 million through the conversion to equity of certain intercompany loans payable to KCA Deutag Alpha II Limited.

The Directors, having reviewed the capital structure of the Group, and the revenue, EBITDA and cash flow projections, are confident that the Group will have adequate resources to meet all its liabilities as they fall due for the foreseeable future. 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 1.

N Gilchrist
Chief Financial Officer, KCA Deutag
18 March 2014

KCA Deutag Alpha Limited

Corporate Information

Board of Directors
R Ellis
N McKay
A DeFelice
J Halsted
P Hickey
A Knaster
D Merritt

Company Secretary
L Andrew

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3 Colmore Circus
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Principal Bankers
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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
32 Albyn Place
Aberdeen
AB10 1YL

KCA Deutag Alpha Limited

Directors' report for the year ended 31 December 2013

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 and auditors' report, for the year ended 31 December 2013.

Strategic and Operating Review and Principal Activities

The Company's principal activity 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.

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 and Operating Review on pages 1 to 8. The information that fulfils the requirements of the Strategic and Operating Review (as required the Companies Act 2006), which is incorporated in this Directors' Report by reference, can be found on the following pages of this Annual Report:

Information	Location	Pages
Development and performance during the financial year	Chairman's Statement; Strategic and Operating Review	1 3
Position at the year end including analysis and key performance indicators	Strategic and Operating Review; Financial Review	3 9
Other performance including environmental and employee matters	Strategic and Operating Review	3
Principal risks and uncertainties facing the business	Strategic and Operating Review	3
Explanation of amounts included in the financial statements	Financial Review and Notes to the Financial Statements	9, 24
Explanation of financial risk management	Note 19	49-54

Results and Dividends

The Group made a loss after taxation of $210.6 million (2012: loss $252.1 million) which has been added to the retained earnings deficit. The audited financial statements for the year ended 31 December 2013 are set out on pages 19 to 67. 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:

N McKay

A DeFelice

J Halsted

P Hickey

A Knaster

T Lodge (resigned 21 May 2013)

R Ellis

D Merritt (appointed 21 May 2013)

KCA Deutag Alpha Limited

Directors' report (continued)

Substantial Shareholdings

The Company's ultimate controlling company is PHM Holdco 14 S.a.r.l. which is registered in Luxembourg. PHM Holdco 14 S.a.r.l. is in turn controlled by Pamplona Capital Partners II L.P. At 31 December 2013, the Company's ordinary shares were wholly owned by KCA Deutag Alpha II Limited, a company incorporated in England and Wales.

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.

Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year.

Directors' report (continued)

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Statement as to Disclosure of Information to Auditors

a) So far as each Director is aware, there is no relevant audit information of which the auditors are unaware; and

b) Each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

Subsequent events

The Group signed a sale and purchase agreement for the sale of the shares in two of its subsidiaries which own and operate the three self-erect tender barges on 4 March 2014 for a gross consideration of $60 million. Further information on subsequent events are detailed on Note 34 to the financial statements.

On behalf of the Board of Directors

N McKay
Director
18 March 2014

Independent Auditors' Report to the Members of KCA Deutag Alpha Limited

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by KCA Deutag Alpha Limited, comprise:

- the group and parent company balance sheets as at 31 December 2013;
- the group income statement and statement of comprehensive income for the year then ended;
- the group statement of cash flows for the year then ended;
- the group and parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

What an audit of financial statements involves

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

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

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of KCA Deutag Alpha Limited (continued)

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

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

KCA Deutag Alpha Limited

Consolidated Income Statement

for the year ended 31 December 2013

	Note	**2013**	2012
		$m	$m
Revenue	4	**2,156.6**	1,737.5
Cost of sales		**(1,974.6)**	(1,603.7)
Gross profit		**182.0**	133.8
Administrative expenses		**(64.6)**	(61.9)
Amortisation of intangible assets	12	**(20.8)**	(26.1)
Operating profit before exceptional items		**96.6**	45.8
Exceptional items, net	9	**(28.4)**	(20.3)
Exceptional items, impairment of other non-current assets	10	**(105.9)**	(120.0)
Operating loss		**(37.7)**	(94.5)
Finance costs	6	**(160.4)**	(131.6)
Finance income	6	**3.6**	12.5
Share of results of associates	13c	**0.3**	(1.0)
Loss before taxation	7	**(194.2)**	(214.6)
Taxation	8	**(16.4)**	(37.5)
Loss for the year		**(210.6)**	(252.1)

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. The loss for the Company for the year was $61.2 million (2012: loss $47.2 million).

The Notes on pages 24 to 67 form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	**2013**	2012
		$m	$m
Loss for the year		**(210.6)**	(252.1)
Other comprehensive income:			
Fair value movement on cash flow hedges		**6.8**	31.4
Exchange differences on foreign operations		**(4.4)**	(11.1)
Remeasurements on defined benefit pension schemes	26	**3.0**	(21.9)
Deferred tax on retirement benefit obligations		**0.2**	5.2
Total other comprehensive income for year		**5.6**	3.6
Total comprehensive expense for the year		**(205.0)**	(248.5)

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

KCA Deutag Alpha Limited

Balance Sheets as at 31 December 2013

	Note	2013 Group $m	2012 Group $m	2013 Company $m	2012 Company $m
Assets					
Non-current assets					
Property, plant and equipment	10	**1,048.4**	1,304.5	**-**	-
Goodwill	11	**550.9**	550.9	**-**	-
Other intangible assets	12	**146.2**	161.7	**-**	-
Investments	13a,c	**2.2**	1.9	**2,170.9**	2,170.9
Deferred tax assets	21	**32.9**	3.2	**-**	-
		1,780.6	2,022.2	**2,170.9**	2,170.9
Current assets					
Inventories and work in progress	14	**137.6**	135.8	**-**	-
Trade and other receivables	15	**481.1**	389.4	**0.1**	0.5
Amounts owed by parent company	32	**2.3**	4.9	**1.9**	1.9
Amounts owed by subsidiaries	13b	**-**	-	**243.1**	389.7
Financial assets - derivative financial instruments	19	**-**	1.3	**-**	-
Cash, cash equivalents and other deposits	16	**128.8**	139.0	**100.4**	100.1
		749.8	670.4	**345.5**	492.2
Assets of disposal group classified as held for sale	28	**53.6**	-	**-**	**-**
Total assets		**2,584.0**	2,692.6	**2,516.4**	2,663.1
Liabilities					
Current liabilities					
Trade and other payables	17	**(383.5)**	(396.8)	**(4.2)**	(5.6)
Bank overdraft	16	**(21.6)**	(62.3)	**-**	-
Tax liabilities	8	**(49.9)**	(35.9)	**-**	-
Financial liabilities – derivative financial instruments	19	**-**	(8.3)	**-**	(2.4)
Financial liabilities – borrowings	18	**(5.2)**	(15.0)	**-**	-
Provisions and other payables	20	**(3.4)**	(3.5)	**-**	-
		(463.6)	(521.8)	**(4.2)**	(8.0)
Non-current liabilities					
Financial liabilities – borrowings	18	**(1,259.8)**	(1,192.1)	**(327.8)**	(391.4)
Amounts owed to parent company	32	**(478.9)**	(652.9)	**(417.0)**	(652.9)
Amounts owed to subsidiaries	32	**-**	-	**(0.3)**	(34.9)
Deferred tax liabilities	21	**(66.4)**	(71.6)	-	-
Retirement benefit obligations	26	**(132.3)**	(131.4)	-	-
Provisions and other payables	20	**(4.8)**	(1.3)	-	-
		(1,942.2)	(2,049.3)	**(745.1)**	(1,079.2)
Liabilities of disposal group classified as held for sale	28	**(11.7)**	-	**-**	**-**
Total liabilities		**(2,417.5)**	(2,571.1)	**(749.3)**	(1,087.2)
Net assets		**166.5**	121.5	**1,767.1**	1,575.9
Capital and reserves					
Share capital	22	**-**	-	**-**	-
Share premium reserve	23	**14.2**	14.2	**14.2**	14.2
Other reserves		**1,799.3**	1,546.9	**1,657.4**	1,405.0
Retained earnings (deficit) surplus	24	**(1,647.0)**	(1,439.6)	**95.5**	156.7
Total shareholder's surplus		**166.5**	121.5	**1,767.1**	1,575.9

The financial statements on pages 19 to 67 were approved by the Board of Directors on 18 March 2014 and signed on its behalf by

N McKay
Director

J Halsted
Director

Registered Number: 06433748

KCA Deutag Alpha Limited

Consolidated Statement of Changes in Shareholder's Equity

for the year ended 31 December 2013

Attributable to owners of the parent company

	Share capital	Share premium	Retained earnings	Other reserves: Capital contribution reserve	Other reserves: Merger reserve	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total equity
	$m (Note 22)	$m (Note 23)	$m (Note 24)	$m	$m	$m	$m	$m
At 1 January 2013	-	14.2	(1,439.6)	1,407.4	104.4	6.3	28.8	121.5
Comprehensive income								
Loss for the year	-	-	(210.6)	-	-	-	-	(210.6)
Other comprehensive income (expense)								
Fair value movement on cash flow hedges	-	-	-	-	-	6.8	-	6.8
Exchange differences on foreign operations	-	-	-	-	-	-	(4.4)	(4.4)
Actuarial gains on defined benefit plans	-	-	3.0	-	-	-	-	3.0
Deferred tax on retirement benefit obligation	-	-	0.2	-	-	-	-	0.2
Total other comprehensive (expense) income	-	-	3.2	-	-	6.8	(4.4)	5.6
Total comprehensive (expense) income	-	-	(207.4)	-	-	6.8	(4.4)	(205.0)
Transactions with owners								
Capital contribution	-	-	-	250.0	-	-	-	250.0
At 31 December 2013	**-**	**14.2**	**(1,647.0)**	**1,657.4**	**104.4**	**13.1**	**24.4**	**166.5**

	Share capital	Share premium	Retained earnings	Other reserves: Capital contribution reserve	Other reserves: Merger reserve	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total equity
	$m (Note 22)	$m (Note 23)	$m (Note 24)	$m	$m	$m	$m	$m
At 1 January 2012	-	14.2	(1,170.8)	1,407.4	104.4	(25.1)	39.9	370.0
Comprehensive income								
Loss for the year	-	-	(252.1)	-	-	-	-	(252.1)
Other comprehensive income (expense)								
Fair value movement on cash flow hedges	-	-	-	-	-	31.4	-	31.4
Exchange differences on foreign operations	-	-	-	-	-	-	(11.1)	(11.1)
Actuarial losses on defined benefit plans	-	-	(21.9)	-	-	-	-	(21.9)
Deferred tax on retirement benefit obligation	-	-	5.2	-	-	-	-	5.2
Total other comprehensive (expense) income	-	-	(16.7)	-	-	31.4	(11.1)	3.6
Total comprehensive (expense) income	-	-	(268.8)	-	-	31.4	(11.1)	(248.5)
At 31 December 2012	-	14.2	(1,439.6)	1,407.4	104.4	6.3	28.8	121.5

Other reserves in the Balance Sheet consist of the hedging reserve, capital contribution reserve, merger reserve and currency translation reserve. The merger reserve of $104.4 million relates to the acquisition of Global Tender Barges which was accounted for under predecessor accounting (see Note 5). The capital contribution reserve of $1,657.4 million relates to the conversion to equity of intercompany loans payable to KCA Deutag Alpha II Limited.

KCA Deutag Alpha Limited

Company Statement of Changes in Shareholder's Equity

for the year ended 31 December 2013

				Other reserves		
	Share capital $m (Note 22)	**Share premium $m (Note 23)**	**Retained earnings $m (Note 24)**	**Capital contribution reserve $m**	**Hedging reserves $m**	**Total equity $m**
At 1 January 2013	-	14.2	156.7	1,407.4	(2.4)	1,575.9
Comprehensive income						
Loss for the year	-	-	(61.2)	-	-	(61.2)
Other comprehensive income						
Fair value movement on cash flow hedges	-	-	-	-	2.4	2.4
Total other comprehensive income	-	-	-	-	2.4	2.4
Total comprehensive (expense) income	-	-	(61.2)	-	2.4	(58.8)
Transactions with owners						
Capital contribution	-	-	-	250.0	-	250.0
At 31 December 2013	**-**	**14.2**	**95.5**	**1,657.4**	**-**	**1,767.1**

				Other reserves		
	Share capital $m (Note 22)	**Share premium $m (Note 23)**	**Retained earnings $m (Note 24)**	**Capital contribution reserve $m**	**Hedging reserves $m**	**Total equity $m**
At 1 January 2012	-	14.2	203.9	1,407.4	(11.5)	1,614.0
Comprehensive income						
Loss for the year	-	-	(47.2)	-	-	(47.2)
Other comprehensive income						
Fair value movement on cash flow hedges	-	-	-	-	9.1	9.1
Total other comprehensive income	-	-	-	-	9.1	9.1
Total comprehensive (expense) income	-	-	(47.2)	-	9.1	(38.1)
At 31 December 2012	-	14.2	156.7	1,407.4	(2.4)	1,575.9

Other reserves in the Balance Sheet consist of the capital contribution reserve and hedging reserve. The capital contribution reserve of $1,657.4 million relates to the conversion to equity of an intercompany loan payable to KCA Deutag Alpha II Limited.

KCA Deutag Alpha Limited

Cash Flow Statements

for year ended 31 December 2013

	Note	**2013 Group $m**	2012 Group $m	**2013 Company $m**	2012 Company $m
Cash generated from operating activities	27	**179.9**	212.2	**116.5**	235.2
Tax paid		**(36.4)**	(40.9)	**-**	-
Net cash generated from operating activities		**143.5**	171.3	**116.5**	235.2
Cash flows from investing activities					
Purchase of property, plant and equipment		**(127.1)**	(223.5)	**-**	-
Proceeds from sale of property, plant and equipment		**53.0**	35.7	**-**	-
Purchase of intangible assets	12	**(5.3)**	(4.6)	**-**	-
Investment in subsidiary company		**-**	-	**-**	(260.0)
Interest paid, including capitalised interest		**(93.8)**	(94.6)	**(123.9)**	(31.3)
Interest received		**0.7**	0.4	**7.7**	14.7
Net cash used in investing activities		**(172.5)**	(286.6)	**(116.2)**	(276.6)
Cash flows from financing activities					
New senior secured notes (net of original issue discount)		**480.0**	-	**-**	-
Bank loan drawdowns (repayments)		**(465.0)**	8.6	**-**	-
Arrangement fees paid		**(24.7)**	-	**-**	-
New finance leases – sale and leaseback		**35.4**	-	**-**	-
Finance lease payments		**(7.8)**	-	**-**	-
Net drawdown of borrowings		**17.9**	8.6	**-**	-
Proceeds from (repayments of) long term borrowings from parent company		**59.0**	(3.0)	**-**	-
Net cash generated from financing activities		**76.9**	5.6	**-**	-
Effect of exchange rate changes		**(17.1)**	(0.8)	**-**	-
Net increase (decrease) in cash and cash equivalents		**30.8**	(110.5)	**0.3**	(41.4)
Cash and cash equivalents at beginning of year		**(23.3)**	87.2	**0.1**	41.5
Cash and cash equivalents at end of year	16	**7.5**	(23.3)	**0.4**	0.1

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 2013

1 Basis of preparation

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

Given the revenue, EBITDA and cash flow projections, the Directors are confident that the Group will have adequate resources to meet all its liabilities as they fall due for the foreseeable future. For these reasons, the Directors consider it appropriate to continue to prepare the Group's financial statements on a going concern basis. These financial statements do not contain any adjustments that would result from the going concern basis not being appropriate.

2 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 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. 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.

(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 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. 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.

2 Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

(ii) Associates and joint ventures (continued)

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	0.6391	0.6051
NOK	5.9066	6.0780
EUR	0.7516	0.7239

(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

2 Summary of significant accounting policies (continued)

b) Foreign currency translation (continued)

(iii) Group companies (continued)

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 executive board that make all strategic decisions. Key performance measures include EBITDA and rig utilisation.

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.

(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.

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 in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

When it is probable that 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.

2 Summary of significant accounting policies (continued)

e) Other intangible assets

Intangible assets are recognised at cost less accumulated amortisation. 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	up to 13 years
Contracts	up to 10 years
Technology	up to 10 years

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 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 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.

Drilling barges

The Group's three drilling barges are being depreciated by the straight line method over their remaining useful lives, currently between 11 and 23 years.

Special periodic survey costs

All costs specifically incurred in relation to special periodic surveys serve to extend the life of the asset and are therefore capitalised. These costs are depreciated over a 5 year period.

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 brought into use.

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

Asset lives and residual values are assessed at each Balance Sheet date.

g) Impairment

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, which is the higher of the asset's fair value less costs to sell and its value in use, is less than its carrying amount.

2 Summary of significant accounting policies (continued)

g) Impairment (continued)

Any impairment loss is firstly allocated to goodwill then intangible assets followed by property, plant and equipment.

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 value in use.

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 shown 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 by amortised cost. Investments are considered for impairment at least annually. In respect of the accounting treatment for investments in associates for Group purposes please see Note 2a) 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.

Other deposits are funds held as security by HSBC Bank Plc for the Group's working capital facility, with a maturity in excess of three months.

l) Trade receivables

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

m) Taxation

The tax charge represents the sum of tax currently payable, deferred tax and managements 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.

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.

2 Summary of significant accounting policies (continued)

m) Taxation (continued)

The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base.

Tax rates enacted, or 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.

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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

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

Past-service costs are recognised immediately in income.

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

2 Summary of significant accounting policies (continued)

o) Financial assets and liabilities (continued)

(i) Derivative financial instruments and hedge accounting (continued)

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently 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.

2 Summary of significant accounting policies (continued)

p) 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.

q) 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 drilling operations is recognised in the accounting period in which the services are rendered.

Recognition of revenue from engineering contracts is described in r) below.

The Group recognises flow through revenue, which relates to reimbursable cost, based on the gross amount received or receivable in respect of its performance under the sales contract with the customer.

Incentive income is recognised when earned. Incentive income is earned in respect of contract Key Performance Indicators (KPIs).

Mobilisation income on significant contracts is recognised over the period of the contract to which it relates.

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

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

r) 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. This is normally 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. Revenue variations in contract work, claims and incentive payments are included to the extent that they have been agreed in writing by the customer.

Where the outcome of an engineering contract cannot be estimated reliably, contract revenue is recognised on the percentage of completion basis as costs are incurred. Under this method, revenue is recognised according to the stage of completion reached in the contract by reference to the value of work done. No profit is recognised before the outcome of the contract can be measured reliably. Contract costs are recognised as expenses in the year in which they are incurred. 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.

s) Leases

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

2 Summary of significant accounting policies (continued)

s) Leases (continued)

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

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

t) 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.

u) Exceptional items

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

v) Share capital

Ordinary shares and share premiums are classified as equity.

w) 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.

x) Disclosure of impact of accounting standards

(a) New standards and interpretations relevant to the Group

- Amendments to IAS 19 on Defined Benefit Plans: Employee Contributions. The Group has considered the impact of potentially restating the 2012 Income Statement and Remeasurement figures in the Statement of Other Comprehensive Income in relation to this standard. The value of such a restatement adjustment has been found to be immaterial and does not fundamentally alter the financial statements for 2012.
- Amendments to IAS 1 on Financial statement presentation regarding Other Comprehensive Income ('OCI'). The main change resulting from these amendments is a requirement for entities to Group items presented in OCI on the basis of whether they are potentially subsequently reclassifiable to the Income Statement. The amendments do not address which items are presented in OCI.
- IFRS 13 on Fair Value Measurement: IFRS 13 measurement and disclosure requirements are applicable for periods commencing 1 January 2013. IFRS 13 does not have a material impact on the financial statements.

2 Summary of significant accounting policies (continued)

x) Disclosure of impact of accounting standards (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant standards and amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting year beginning on or after 1 January 2014 or later years, but the Group has not early adopted them:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'

The Group does not anticipate any material impact on the financial statements on the adoption of IFRS 10. The Group currently accounts for its interests in Joint Ventures using the equity accounting method. As such the Group does not anticipate any impact of the Group's reported figures from adopting IFRS 11. The adoption of IFRS 12 may result in additional disclosures in the financial statements.

y) Non-current assets (or disposal groups) classified as assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

3 Significant accounting judgements and estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where significant estimates or assumptions have been applied in estimating balances in the financial statements, these have been disclosed in the relevant Notes to those balances. Significant judgements and estimates in these financial statements have been made with regard to deferred consideration (Note 5), goodwill and tangible fixed asset depreciation and impairment testing (Note 10 and 11), provisions (Note 20), current tax balances and recoverability of deferred tax balances (Note 8 and Note 21), other intangible asset values (Note 12), retirement benefit liabilities (Note 26) and contingent liabilities (Note 29). An explanation of key uncertainties or assumptions used by management in accounting for these items is explained, where material, in the respective Notes.

4 Segmental reporting

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

Operating Segment	Principal Activities
Platform Services	the provision of offshore platform drilling
RDS	the provision of engineering services
Land Drilling	the provision of land rig drilling services
MODUs	the provision of mobile offshore drilling services
Bentec	the provision of drilling rig design, construction and components

Reportable operating segments are identified as those that 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.

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 2013.

Year ended 31 December 2013	Platform Services $m	RDS $m	Land Drilling $m	MODUs $m	Bentec $m	Central Overheads $m	Eliminations $m	Total $m
Revenue								
External revenue	755.5	359.5	684.8	156.8	199.1	0.9	-	**2,156.6**
Inter segment revenue	-	-	-	-	26.6	-	(26.6)	**-**
Total revenue	**755.5**	**359.5**	**684.8**	**156.8**	**225.7**	**0.9**	**(26.6)**	**2,156.6**
Results								
EBITDA	96.5	56.0	160.6	12.5	28.3	(53.0)	-	**300.9**
Exceptional items, net	-	-	0.5	(16.5)	-	(12.4)	-	**(28.4)**
Depreciation	(4.4)	(0.2)	(127.4)	(43.9)	(2.2)	(1.0)	-	**(179.1)**
Intangible asset amortisation	(8.6)	-	(4.5)	-	(4.0)	(3.7)	-	**(20.8)**
Impairment of tangible assets	-	-	-	(105.9)	-	-	-	**(105.9)**
Deferred cost amortisation	-	-	-	(4.4)	-	-	-	**(4.4)**
Operating profit (loss)	**83.5**	**55.8**	**29.2**	**(158.2)**	**22.1**	**(70.1)**	**-**	**(37.7)**
Net finance costs	-	-	-	-	-	(156.8)	-	**(156.8)**
Share of results of associates	(0.3)	-	-	-	0.6	-	-	**0.3**
Profit (loss) before taxation	**83.2**	**55.8**	**29.2**	**(158.2)**	**22.7**	**(226.9)**	**-**	**(194.2)**
Taxation								**(16.4)**
Loss for the year								**(210.6)**
Assets and liabilities								
Segment assets	428.4	197.5	1,242.0	213.3	329.4	6.7	-	**2,417.3**
Unallocated assets								**166.7**
Total assets								**2,584.0**
Segment liabilities	(117.5)	(37.7)	(237.7)	(38.9)	(67.8)	(36.1)	-	**(535.7)**
Unallocated liabilities								**(1,881.8)**
Total liabilities								**(2,417.5)**
Other segment information								
Capital expenditure								
Property, plant and equipment	6.9	-	121.0	20.8	11.7	4.2	-	**164.6**
Intangible assets	-	-	-	-	0.7	4.6	-	**5.3**

4 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 2012.

Year ended 31 December 2012	Platform Services $m	RDS $m	Land Drilling $m	MODUs $m	Bentec $m	Central Overheads $m	Eliminations $m	Total $m
Revenue								
External revenue	617.0	280.1	567.2	160.0	110.7	2.5	-	1,737.5
Inter segment revenue	-		-	-	67.5	-	(67.5)	-
Total revenue	617.0	280.1	567.2	160.0	178.2	2.5	(67.5)	1,737.5
Results								
EBITDA	88.3	39.5	141.9	22.6	22.2	(51.5)	-	263.0
Exceptional items, net	-	-	(3.8)	5.7	-	(22.2)	-	(20.3)
Depreciation	(6.2)	(0.1)	(122.2)	(53.7)	(1.9)	(1.4)	-	(185.5)
Intangible asset amortisation	(14.5)	-	(4.5)	-	(3.9)	(3.2)	-	(26.1)
Deferred cost amortisation	-	-	-	(5.6)	-	-	-	(5.6)
Impairment of tangible assets	-	-	-	(120.0)	-	-	-	(120.0)
Operating profit (loss)	67.6	39.4	11.4	(151.0)	16.4	(78.3)	-	(94.5)
Net finance costs	-	-	-	-	-	(119.1)	-	(119.1)
Share of results of associates	(0.7)	-	-	-	(0.3)	-	-	(1.0)
Profit (loss) before taxation	66.9	39.4	11.4	(151.0)	16.1	(197.4)	-	(214.6)
Taxation								(37.5)
Loss for the year								(252.1)
Assets and liabilities								
Segment assets	419.3	174.4	1,291.0	412.4	236.6	8.6	-	2,542.3
Unallocated assets								150.3
Total assets								2,692.6
Segment liabilities	(129.4)	(28.5)	(236.7)	(33.7)	(73.6)	(31.1)	-	(533.0)
Unallocated liabilities								(2,038.1)
Total liabilities								(2,571.1)
Other segment information								
Capital expenditure								
Property, plant and equipment	4.3	-	165.1	61.4	1.4	-	-	232.2
Intangible assets	-	-	-	-	0.8	3.8	-	4.6

Included in the above revenue figures are the following amounts of flow through turnover:	**2013 $m**	2012 $m
Platform Services	**175.9**	123.2
RDS	**60.1**	73.2
Land Drilling	**43.4**	44.8
MODUs	**6.0**	14.2

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. Seasonality has no effect on the financial results of the Group.

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.

KCA Deutag Alpha Limited

4 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 2012 and 2013.

Year ended 31 December 2013	North Sea and Europe $m	Caspian and Russia $m	Middle East $m	Africa $m	Other $m	Total $m
Revenue						
Segment revenue	957.4	491.0	144.2	302.4	261.6	**2,156.6**
Other segment information						
Segment assets	942.4	494.7	233.8	476.2	270.2	**2,417.3**
Unallocated assets						**166.7**
Total assets						**2,584.0**
Capital expenditure of continuing operations						
Property, plant & equipment	10.7	96.3	11.0	38.6	8.0	**164.6**
Intangible assets	-	0.7	-	-	4.6	**5.3**

Year ended 31 December 2012	North Sea and Europe $m	Caspian and Russia $m	Middle East $m	Africa $m	Other $m	Total $m
Revenue						
Segment revenue	713.0	461.7	135.6	263.4	163.8	1,737.5
Other segment information						
Segment assets	893.2	424.8	265.0	665.0	294.3	2,542.3
Unallocated assets						150.3
Total assets						2,692.6
Capital expenditure of continuing operations						
Property, plant & equipment	21.1	67.3	67.3	65.7	10.8	232.2
Intangible assets	-	0.8	-	-	3.8	4.6

5 Business combinations

On 2 August 2011, the Group acquired Global Tender Barges Pte Limited ("GTB") by increasing its shareholding from 10% to 100%. GTB owns three self-erect tender barges, the Glen Esk, Glen Affric and Glen Tanar.

On acquisition the Group recognised contingent consideration of $8.0 million pending the settlement of certain pre-acquisition contractual commitments. The Group released $5.7 million of this balance in 2012. During 2013 there was no movement on the provision, see Note 9d for more details.

6 Finance (costs) income

	2013 **$m**	2012 $m
Interest payable to immediate parent company	**(14.1)**	(12.3)
Interest payable on bank borrowings	**(94.1)**	(104.7)
Interest payable on finance leases	**(1.4)**	-
Less amounts included in the cost of property, plant and equipment	**2.1**	8.7
Commitment fees	**(0.6)**	(0.7)
Amortisation of arrangement fees	**(37.9)**	(18.4)
Amortisation of discount asset	**(2.1)**	-
Other finance costs	**(0.9)**	(1.9)
Exchange losses	**(11.4)**	(2.3)
Finance costs	**(160.4)**	(131.6)
Bank interest receivable	**0.5**	0.6
Other finance income	**0.4**	0.3
Exchange gains	**2.7**	11.6
Finance income	**3.6**	12.5
Finance costs – net	**(156.8)**	(119.1)

Exchange gains and losses represent the exchange movements during the year on non-functional currency debt, which arise mainly on the revaluation of US dollar debt held by subsidiary companies whose functional currency is denominated in Sterling or Norwegian Krone, and also the exchange movements during the year on non-functional currency pension liabilities.

The amortisation of arrangement fees in 2013 includes $21.4 million relating to the write off of the residual net arrangement fees associated with bank loans of $450 million which were repaid early in May 2013 (see Note 18).

The amortisation of the discount asset is applied on the original issue discount of $20 million which was deducted from the proceeds of $500 million generated by a bond issue completed in May 2013 (see Note 18). The net proceeds were used to repay the bank loans of $450 million as noted above.

7 Loss before taxation

The following items have been included in arriving at the Group's loss before taxation:	**2013 $m**	2012 $m
Included within cost of sales:		
- Cost of inventories recognised as an expense	**50.1**	45.1
- Depreciation of property, plant and equipment (Note 10)	**179.1**	185.5
- Net loss (gain) on disposal of property, plant and equipment	**1.4**	(5.1)
- Net foreign exchange loss	**2.2**	0.1
Included within both cost of sales and administration expenses:		
- Employee benefit expense (Note 25)	**714.6**	618.8
Operating lease rentals payable:		
- Properties	**21.4**	16.0
- Vehicles, plant and equipment	**6.0**	3.2
Impairment of trade receivables	**3.9**	4.1
Amortisation of other intangible assets	**20.8**	26.1

Auditor remuneration / services provided by the Group's auditor and its associates

	2013 $m	2012 $m
Audit of the financial statements	**0.5**	0.5
Audit of subsidiaries	**1.0**	0.9
Total audit	**1.5**	1.4
Fees payable to the Group's auditor and its associates for other services		
Taxation compliance services	**0.3**	0.5
All taxation advisory services	**0.2**	0.1
Corporate finance services – diligence related	**0.5**	-
Other non-audit services not covered above	**0.3**	0.1
Total non-audit services	**1.3**	0.7
Total fees	**2.8**	2.1

8 Taxation

	2013 **$m**	2012 $m
Current tax	**51.9**	41.2
Adjustments in respect of previous years	**(1.7)**	(3.6)
	50.2	37.6
Deferred tax	**(15.3)**	(4.0)
Adjustments in respect of previous years	**(18.5)**	3.9
	(33.8)	(0.1)
Total tax charge	**16.4**	37.5

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.

The tax charge for the year varied from the standard rate effective rate of corporation tax in the UK for 2013 of 23.25% (2012: 24.5%) due to the following factors:

	2013 **$m**	2012 $m
Loss before taxation	**(194.2)**	(214.6)
Share of results of associates	**(0.3)**	1.0
	(194.5)	(213.6)
Loss before taxation at standard rate of corporation tax in the UK 23.25% (2012: 24.5%)	**(45.2)**	(52.3)
Effects of:		
Adjustments in respect of previous years	**(1.7)**	0.3
Recognition of prior year tax losses	**(18.5)**	-
Impairment in the fair value of the Group's Mobile Offshore Drilling assets	-	29.4
Non-recognition of current year losses	**3.3**	4.1
Different effective tax rates on overseas profits including the impact of taxes not computed in US dollars	**78.5**	56.0
Total tax charge	**16.4**	37.5

Factors affecting current and future tax charges

The Finance Act 2012 reduced the UK Corporation tax rate from 24% to 23% with effect from 1 April 2013.

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

Summary of current tax liabilities:

	2013 **$m**	2012 $m
At 1 January	**35.9**	37.0
Charge to Income Statement	**50.2**	37.6
Tax paid	**(36.4)**	(40.9)
Exchange movement	**0.2**	2.2
At 31 December	**49.9**	35.9

9 Exceptional items, net

		2013 **$m**	2012 $m
Libya unrest	(a)	**0.6**	(3.8)
Reorganisation costs	(b)	**(11.6)**	(13.2)
Compliance fine	(c)	-	(9.0)
Release of provision for contingent consideration	(d)	**-**	5.7
Impairment of MODUs – Inventory write down	(e)	**(9.0)**	-
Impairment of MODUs – disposal costs	(f)	**(2.5)**	-
Refinancing & other	(g)	**(1.6)**	-
Claims in respect of pre-acquisition Tender Barges items	(h)	**(4.3)**	-
Net charge to Income Statement		**(28.4)**	(20.3)

a) During 2012 the situation in Libya stabilised and plans put in place to re-enter the country with exceptional costs of $3.8 million incurred relating to standby and security costs as well as a warehouse fire. During 2013, fire insurance proceeds of $3.3 million were received and were partly offset by a $2.7 million loss on the disposal of a Libyan subsidiary.

b) Reorganisation costs primarily relate to the Group's business efficiency project announced in 2012 and include rationalisation, redundancy expenditure and various other non-recurring project items.

c) During 2011 concerns were raised to management about potentially improper payments to an overseas agent in 2007. With the assistance of external legal advisors and forensic accountants, an internal investigation was conducted. Following completion of that investigation full disclosure was made to the Crown Office and Procurator Fiscal Service in July 2012 under the self-reporting initiative. The Company subsequently entered into a civil settlement under which the Civil Recovery Unit is to recover £5.6 million ($9.0 million) under the Proceeds of Crime legislation.

d) During 2012 the contingent consideration in relation to the acquisition of the Tender Barges business on 2 August 2011 of $8.0 million was re-evaluated and resulted in a release of $5.7 million which was no longer required.

e) Arising from the anticipated disposal of the Tender Barges business, exceptional cost of $9.0 million has been recorded to write down the carrying value of the inventory to its realisable value.

f) Also arising from the anticipated disposal of the Tender Barges business, a provision of $2.5 million has been recognised for the costs of disposal of the Barges.

g) Other non-recurring costs in 2013 related to legal and related expenses for business refinancing and the disposal of the Ben Avon rig.

h) Provision was made during 2013 for a customer claim relating to pre-acquisition items associated with the Tender Barges business acquired in 2011.

10 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 2013	18.9	2,147.2	130.8	2,296.9
Additions at cost	8.4	154.6	1.6	164.6
Disposals	-	(292.9)	(4.3)	(297.2)
Exchange adjustments	0.1	(1.3)	(5.9)	(7.1)
Transferred to disposal group held for sale (Note 28)	-	(304.6)	-	(304.6)
At 31 December 2013	**27.4**	**1,703.0**	**122.2**	**1,852.6**
Accumulated depreciation				
At 1 January 2013	2.4	958.7	31.3	992.4
Charge for year	1.1	175.8	2.2	179.1
Impairment charge	-	105.9	-	105.9
Disposals	-	(203.8)	(3.7)	(207.5)
Exchange adjustments	-	(0.6)	(5.5)	(6.1)
Transferred to disposal group held for sale (Note 28)	-	(259.6)	-	(259.6)
At 31 December 2013	**3.5**	**776.4**	**24.3**	**804.2**
Net carrying amount				
At 31 December 2013	**23.9**	**926.6**	**97.9**	**1,048.4**

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 2012	15.5	2,062.0	61.6	2,139.1
Additions at cost	3.3	159.6	69.3	232.2
Disposals	-	(80.4)	(6.1)	(86.5)
Exchange adjustments	0.1	6.0	6.0	12.1
At 31 December 2012	18.9	2,147.2	130.8	2,296.9
Accumulated depreciation				
At 1 January 2012	1.2	708.6	24.1	733.9
Charge for the year	1.2	177.1	7.2	185.5
Impairment charge	-	120.0	-	120.0
Disposals	-	(50.3)	(5.6)	(55.9)
Exchange adjustments	-	3.3	5.6	8.9
At 31 December 2012	2.4	958.7	31.3	992.4
Net carrying amount				
At 31 December 2012	16.5	1,188.5	99.5	1,304.5

The net book value of fixed assets held under finance leases at 31 December 2013 was $35.3 million (2012: $nil).

10 Property, plant and equipment (continued)

During our annual assessment of the Group's asset carrying values in respect of the MODUs cash generating unit (CGU), we have obtained independent third party valuation for each of the jack-ups and have received and accepted an offer for the self erecting tender barges within this CGU. The fair value less costs to sell the assets in the CGU was less than the carrying value of the assets at the Balance Sheet date by $105.9 million. As a result an impairment charge in relation to the Mobile Offshore Drilling CGU has been taken in the 2013 financial statements against property, plant and equipment.

As at 31 December 2013 cumulative capitalised interest of $13.9 million (2012: $11.7 million) is included in the carrying value of drilling rigs and equipment. For the year ended 31 December 2013 interest was capitalised at rates between 5.7% and 5.8% (2012: between 5.5% and 6.0%).

Included in drilling, rigs and equipment at 31 December 2013 is an amount of $27.0 million (2012: $51.3 million), plant, machinery and vehicles an amount of $10.5 million (2012: $2.1 million) and in land and buildings – long leasehold improvements and freehold an amount of $nil (2012: $0.1 million) in relation to assets in the course of construction.

The Company held no property, plant or equipment as at 31 December 2013.

11 Goodwill

Group	**2013** **$m**	2012 $m
Cost and carrying amount		
As at 1 January and 31 December	**550.9**	550.9

The Group acquired 100% of the share capital of Abbot Group Limited 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 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 of each CGU is compared to the carrying value to identify any impairment.

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

The Group prepared revised financial forecasts in 2013, and extrapolated cash flows for five years based on expected growth rates for each CGU. These revised forecasts took into account current market conditions combined with management’s view of future market conditions including rig dayrates and rig utilisations, and capital investment. A terminal value has been applied to take account of the expected growth of each CGU in to perpetuity.

11 Goodwill (continued)

Key assumptions used in the impairment test are:

		Platform Services	RDS	Land Drilling	Bentec
Growth rate	**2013**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
	2012	2.5%	2.5%	2.5%	2.5%
Discount rate (post tax)	**2013**	**11%**	**11%**	**12%**	**12%**
	2012	11%	11%	10%	12%

The carrying value of goodwill, as allocated to each CGU, is equal to or in excess of its recoverable amount. Therefore, any unfavourable change in the value assigned to the key assumptions above will result in a further goodwill impairment charge. Reasonable possible changes to the growth rate and discount rate are considered to have the most significant unfavourable impact on the value in use calculation and therefore could result in further impairments as follows:

- A decrease in the revenue growth rate to 1% could result in a reduction in asset values of $265.3 million and no impairment in the above CGUs; and

- A 1% increase in each CGU's discount rate would result in a reduction in asset values of $237.7 and no impairment in the above CGUs.

The percentages used above are based upon management's estimate of reasonable possible changes in these assumptions.

The carrying amounts of goodwill by business segment are Platform Services $205.2 million (2012: $205.2 million), RDS $116.5 million (2012: $116.5 million), Land Drilling $123.9 million (2012: $123.9 million), and Bentec $105.3 million (2012: $105.3 million).

Based on fair value less costs to sell of the MODUs assets, we have determined that the impairment charge in respect of the tangible fixed assets is $105.9 million (see Note 10). The Directors will continue to keep the carrying value of goodwill, intangible and tangible assets under review in the coming year.

12 Other intangible assets

Group	Customer relationships and contracts $m	Trade name $m	Technology $m	Total $m
Cost				
At 1 January 2013	196.0	176.3	24.5	396.8
Additions	-	-	5.3	5.3
At 31 December 2013	**196.0**	**176.3**	**29.8**	**402.1**
Accumulated amortisation				
At 1 January 2013	167.0	56.1	12.0	235.1
Charge for the year	8.3	7.9	4.6	20.8
At 31 December 2013	**175.3**	**64.0**	**16.6**	**255.9**
Net carrying amount				
At 31 December 2013	**20.7**	**112.3**	**13.2**	**146.2**
Remaining useful life	**4-7 years**	**15 years**	**5 years**	

Group	Customer relationships and contracts $m	Trade name $m	Technology $m	Total $m
Cost				
At 1 January 2012	196.0	176.3	19.9	392.2
Additions	-	-	4.6	4.6
At 31 December 2012	196.0	176.3	24.5	396.8
Accumulated amortisation				
At 1 January 2012	152.7	48.2	8.1	209.0
Charge for the year	14.3	7.9	3.9	26.1
At 31 December 2012	167.0	56.1	12.0	235.1
Net carrying amount				
At 31 December 2012	29.0	120.2	12.5	161.7
Remaining useful life	5-8 years	16 years	6 years	

The Company has no other intangible assets.

13 Investments

	2013 Company $m	2012 Company $m
a) Shares in subsidiaries		
At 1 January	**2,170.9**	1,910.9
Additions	**-**	260.0
At 31 December	**2,170.9**	2,170.9
b) Loans to subsidiaries		
At 1 January	**389.7**	589.6
Decrease in loans to subsidiaries	**(146.6)**	(199.9)
At 31 December	**243.1**	389.7

Investments in subsidiaries are stated at cost. A list of principal subsidiary undertakings is given in Note 33.

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 included within trade and other receivables and trade and other payables.

Loans to subsidiaries are not interest bearing and are repayable on demand.

	2013 Group $m	2012 Group $m
c) Other investments – associates		
At 1 January	**1.9**	2.8
Share of results of associates	**0.3**	(1.0)
Exchange adjustments	**-**	0.1
At 31 December	**2.2**	1.9

14 Inventories

	2013 Group $m	2012 Group $m
Materials and consumables	**120.9**	116.9
Work in progress - engineering contracts	**20.9**	18.9
Transferred to disposal group held for sale (Note 28)	**(4.2)**	-
	137.6	135.8

The value of provisions against inventory was $31.2 million (2012: $25.1 million).

Engineering contracts

Accrued contract revenue of $0.5 million (2012: $30.3 million) has been recognised as an asset on the Balance Sheet at the year end.

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

	2013 Group $m	2012 Group $m
Contract costs incurred and recognised profits (less recognised losses) to date	**0.5**	29.1
Gross amount due from customers for contract work presented as an asset	**-**	6.1
Gross amount due to customers for contract work presented as a liability	**(8.7)**	(13.9)

The Company has no inventories.

15 Trade and other receivables

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Trade receivables	**431.5**	329.4	**-**	-
Other receivables	**34.7**	31.5	**0.1**	0.5
Prepayments and accrued income	**19.0**	28.5	**-**	-
Transferred to disposal group held for sale (Note 28)	**(4.1)**	-	**-**	-
	481.1	389.4	**0.1**	0.5

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. In respect of unprovided debts more than 180 days overdue, these largely represent sums due in respect of annual contract negotiations and management do not anticipate problems with the recovery of amounts due.

The following table details the age of the Group's trade receivables:	**2013 $m**	2012 $m
Total	**439.0**	335.5
Less provision for doubtful trade receivables	**(7.5)**	(6.1)
Total trade receivables, net	**431.5**	329.4

	2013 Gross receivables $m	**2013 Provision for impairment $m**	**2013 Net receivables $m**	2012 Net receivables $m
Current	**351.9**	**-**	**351.9**	285.6
Past due less than 90 days	**70.0**	**-**	**70.0**	34.3
Past due more than 90 days less than 180 days	**8.0**	**-**	**8.0**	5.8
Past due more than 180 days	**9.1**	**(7.5)**	**1.6**	3.7
Total trade receivables, net	**439.0**	**(7.5)**	**431.5**	329.4

The movement on the provision of impairment for trade receivables is as follows:	**2013 $m**	2012 $m
At 1 January	**(6.1)**	(10.1)
Provided	**(3.9)**	(4.1)
Released	**2.5**	8.1
At 31 December	**(7.5)**	(6.1)

16 Cash, cash equivalents and other deposits

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Cash at bank and in hand	**28.8**	39.0	**0.4**	0.1
Bank overdrafts	**(21.6)**	(62.3)	**-**	-
Transferred to disposal group held for sale (Note 28)	**0.3**	**-**	-	**-**
Cash and cash equivalents	**7.5**	(23.3)	**0.4**	0.1
Other deposits	**100.0**	100.0	**100.0**	100.0
	107.5	76.7	**100.4**	100.1

The other deposits wholly represent funds held on a blocked deposit account with HSBC Bank Plc and act as security for the working capital facilities provided by HSBC Bank Plc. They therefore have restricted availability. At the year end, the Group's effective interest rate on other deposits was 0.3% (2012: 0.3%).

All bank overdrafts bear interest at floating rates. The average interest rate of the Group's overdrafts at 31 December 2013 was 0.5% (2012: 0.3%).

Analysis of net debt	**At 1 January 2013 $m**	**Cash flow $m**	**Non-cash movements $m**	**Exchange movements $m**	**At 31 December 2013 $m**
Cash, cash equivalents and other deposits	76.7	34.5	-	(3.7)	**107.5**
Financial liabilities - borrowings short term	(15.0)	9.9	-	(0.1)	**(5.2)**
Financial liabilities - borrowings long term	(1,192.1)	(27.5)	(40.0)	(0.2)	**(1,259.8)**
	(1,130.4)	**16.9**	**(40.0)**	**(4.0)**	**(1,157.5)**

Non cash movements relate to amortisation of capitalised arrangement fees and discount asset (see Note 6).

17 Trade and other payables

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Trade payables	**97.5**	102.0	**-**	-
Other tax and social security payable	**28.1**	41.5	**-**	-
Other payables	**30.0**	32.9	**-**	-
Accruals	**195.0**	177.5	**4.2**	5.6
Payments received on account	**18.5**	23.9	**-**	-
Deferred income	**26.1**	19.0	**-**	-
Transferred to disposal group held for sale (Note 28)	**(11.7)**	-	**-**	-
	383.5	396.8	**4.2**	5.6

18 Financial liabilities - borrowings

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Current borrowings				
Bank loans - secured	**-**	15.0	**-**	-
Finance lease liabilities	**5.2**	-	**-**	-
	5.2	15.0	-	-
Non-current borrowings				
Bank loans - secured	**776.7**	1,192.1	**327.8**	391.4
Senior secured notes	**460.7**	-	**-**	-
Finance lease liabilities	**22.4**	-	**-**	-
	1,259.8	1,192.1	**327.8**	391.4
	1,265.0	1,207.1	**327.8**	391.4

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:	**2013 Group $m**	2012 Group $m	**2013 Company $m**	2012 Company $m
In more than one year, but not more than five years:				
Bank loans - secured	**810.0**	1,260.0	**361.1**	459.3
Senior secured notes	**500.0**	-	**-**	-
Finance lease liabilities	**22.4**	-	**-**	-
	1,332.4	1,260.0	**361.1**	459.3
Less: net capitalised arrangement fees (bank loans)	**(33.3)**	(67.9)	**(33.3)**	(67.9)
Less: net capitalised arrangement fees (senior secured notes)	**(21.4)**	-	**-**	-
Less: net discount asset (senior secured notes)	**(17.9)**	-	**-**	-
	1,259.8	(1,192.1)	**327.8**	391.4

The average interest rate of the Group's borrowings at the Balance Sheet date including interest rate swaps was 7.2% (2012: 8.2%).

As at 31 December 2013, bank loans are wholly denominated in US dollars and bear interest based on LIBOR. All bank loans bear interest at floating rates. As at 31 December 2013, the next contractual re-pricing date of the floating rates on all bank loans is in April 2014.

The secured loans are subject to bank covenants. Interest cover, the ratio of net debt to EBITDA, the ratio of cash flow to debt service and compliance with capital expenditure limits represent the primary covenants.

The liabilities of $500 million in relation to the senior secured notes arose on completion of a bond issue in May 2013. An original issue discount of $20 million was deducted from the proceeds of $500 million and this discount asset is being amortised over the term of the senior secured notes. The net proceeds of $480 million were partially used to repay secured bank loans of $450 million. The senior secured notes are wholly denominated in US dollars and bear interest at a fixed rate of 9.625% payable every 6 months. The maturity date of the senior secured notes is in May 2018.

18 Financial liabilities – borrowings (continued)

The Group's finance lease liabilities are denominated in the following currencies:

	2013 Group $m	2012 Group $m
Russian rouble (August 2018 maturity)	**26.4**	-
Euro (February 2016 maturity)	**0.9**	-
Pound sterling (April 2015 maturity)	**0.3**	-
	27.6	-

The finance lease liabilities are effectively secured as the rights to the leased assets would ultimately revert to the lessor in the event of default.

19 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 Russian Rouble. The Company is exposed to minor foreign exchange risks with respect to Sterling, Euro and Norwegian Krone.

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 2013, the Group had no 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 profits and net assets.

If the US dollar became 10% stronger against all other main currencies of the Group, then revaluation of the Balance Sheet position (excluding non-functional currency borrowings and pension liabilities), as at 31 December 2013 would give rise to exchange gains of $0.8 million (2012: losses of $0.9 million). The impact for the Company would be a loss of less than $0.1 million (2012: gain of $0.1 million).

If the US dollar became 10% weaker against all other main currencies of the Group, then revaluation of the Balance Sheet position (excluding non-functional currency borrowings and pension liabilities), as at 31 December 2013 would give rise to exchange losses of $0.9 million (2012: gains of $0.9 million). The impact for the Company would be a gain of less than $0.1 million (2012: loss of $0.1 million).

If the US dollar became 10% stronger against all other main currencies of the Group, then the revaluation of non-functional currency borrowings and pension liabilities as at 31 December 2013 would give rise to an increase in net finance costs of $6.6 million (2012: $9.7 million). There would be no impact for the Company.

19 Financial instruments (continued)

a) Market risk (continued)

(i) Foreign exchange risk (continued)

If the US dollar became 10% weaker against all other main currencies of the Group, then the revaluation of non-functional currency borrowings and pension liabilities as at 31 December 2013 would give rise to an increase in net finance income of $7.2 million (2012: $10.7 million). There would be no impact for the Company.

(ii) Interest rate risk

The Group is exposed to interest rate risk on its interest-bearing borrowings. The Group's policy is to maintain a significant percentage of its borrowings at fixed interest rates to generate the desired interest profile. At 31 December 2013, approximately 39% (2012: 49%) of current and non-current borrowings were at secured rates. For the Company none (2012: 41%) of current and non-current bank loans were at secured rates after taking account of interest rate swaps.

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

If the average interest rate had been 1% higher during 2013, then the gain before taxation for the Group would have been $8.0 million lower (2012: $5.3 million lower). The impact for the Company would be that the gain before taxation would have been $0.3 million lower (2012: $1.2 million higher).

If the average interest rate had been 1% lower during 2013, assuming a floor rate of 0%, then the gain before taxation for the Group would have been $4.1 million higher (2012: $5.7 million higher). The impact for the Company would be that the gain before taxation would have been $1.0 million higher (2012: $0.8 million higher).

(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.

The Group has a history of a minimal amount of bad debts.

A table showing the ageing of trade receivables is provided in Note 15.

The Group's policy is to deposit cash at institutions with an 'A' rating or better where possible. The cash held on deposit at 31 December 2013 was held with such an institution.

c) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations and planned expansions. At 31 December 2013, 100% (2012: 99%) of the Group's borrowing facilities were due to mature in more than one year. 100% of the Company's borrowings were due to mature in more than one year (2012: 100%).

d) Capital risk

The Group monitors its share equity and long-term funding structure on the basis of its interest cover and the ratio of net debt to EBITDA.

19 Financial instruments (continued)

d) Capital risk (continued)

The Group has complied with all Bank imposed covenant requirements during the year. There is no covenant requirement in relation to the Company alone.

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 **At 31 December 2013**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Borrowings – bank loans	**-**	**1,654.3**
Borrowings – finance lease liabilities	**8.4**	**28.7**
Trade and other payables	**367.1**	**-**

Group **At 31 December 2012**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Borrowings	15.0	1,514.6
Derivative financial instruments	8.3	-
Trade and other payables	355.3	-

Company **At 31 December 2013**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Borrowings – bank loans	**-**	**416.5**
Trade and other payables	**4.2**	**-**

Company **At 31 December 2012**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Borrowings	-	548.5
Derivative financial instruments	2.4	-
Trade and other payables	5.6	-

19 Financial instruments (continued)

d) Capital risk (continued)

The table below analyses both the Group's and Company'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 **At 31 December 2013**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Forward foreign exchange contracts		
Outflow - settlement	**-**	**-**
Interest rate swaps		
Outflow - settlement	**-**	**-**

Group **At 31 December 2012**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Forward foreign exchange contracts		
Outflow - settlement	0.3	-
Interest rate Swaps		
Outflow - settlement	8.0	-

Company **At 31 December 2013**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Interest rate swaps		
Outflow - settlement	**-**	**-**

Company **At 31 December 2012**	**Less than 1 year $m**	**Between 1 and 5 years $m**
Interest rate swaps		
Outflow - settlement	2.4	-

The Company had no forward foreign exchange contracts at 31 December 2013.

The Group's derivative financial instrument assets are valued at less than $0.1 million as at 31 December 2013 (2012: $1.3 million) and all have contractual maturity dates of less than one year. The Company has no derivative financial instrument assets at 31 December 2013 (2012: $nil).

All of the Group's forward foreign exchange contracts and interest rate swaps are categorised as cash flow hedges. All of the Company's interest rate swaps are categorised as cash flow hedges.

19 Financial instruments (continued)

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. Long-term bank borrowings are generally rolled over for periods of six months or less, and as a result, book value and fair value are considered to be the same while the senior secured notes are publicly traded and as such the fair value is subject to fluctuation.

Group	**2013 Book value $m**	2012 Book value $m	**2013 Fair value $m**	2012 Fair value $m
Fair value of long-term borrowings				
Senior secured notes (Note 18) – level 1	**460.7**	-	**478.8**	-
Bank borrowings (Note 18) – level 2	**776.7**	1,192.1	**776.7**	1,192.1
Finance leases (Note 18) – level 2	**22.4**	-	**22.4**	-
Amounts owed to parent company (Note 32) – level 3	**478.9**	652.9	**478.9**	652.9

Group	**2013 Book value $m**	2012 Book value $m	**2013 Fair value $m**	2012 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 receivables (Note 15) – level 2	**481.1**	389.4	**481.1**	389.4
Cash and cash equivalents (Note 16) – level 2	**28.8**	39.0	**28.8**	39.0
Other deposits (Note 16) – level 2	**100.0**	100.0	**100.0**	100.0
Bank overdrafts (Note 16) – level 2	**21.6**	62.3	**21.6**	62.3
Trade and other payables (Note 17) – level 2	**355.4**	355.3	**355.4**	355.3
Short-term borrowings (Note 18) – level 2	**5.2**	15.0	**5.2**	15.0

Company	**2013 Book value $m**	2012 Book value $m	**2013 Fair value $m**	2012 Fair value $m
Fair value of long term borrowings				
Long-term borrowings (Note 18) – level 2	**327.8**	391.4	**327.8**	391.4
Amounts owed to parent company (Note 32) – level 3	**417.0**	652.9	**417.0**	652.9

Company	**2013 Book value $m**	2012 Book value $m	**2013 Fair value $m**	2012 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 receivables (Note 15) – level 2	**0.1**	0.5	**0.1**	0.5
Cash and cash equivalents (Note 16) – level 2	**0.4**	0.1	**0.4**	0.1
Other deposits (Note 16) – level 2	**100.0**	100.0	**100.0**	100.0
Trade and other payables (Note 17) – level 2	**4.2**	5.6	**4.2**	5.6

19 Financial instruments (continued)

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

The levels referred to in the table on page 53 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	**2013 Assets $m**	2012 Assets $m	**2013 Liabilities $m**	2012 Liabilities $m
Forward foreign exchange contracts – cash flow hedges – current (level 2)	**-**	1.3	**-**	0.3
Interest rate swaps – cash flow hedges – current (level 2)	**-**	-	**-**	8.0

Company	**2013 Assets $m**	2012 Assets $m	**2013 Liabilities $m**	2012 Liabilities $m
Interest rate swaps – cash flow hedges – current (level 2)	**-**	-	**-**	2.4

For the Group and Company 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.

Both the Group’s and Company'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 Group had no forward foreign exchange contracts at 31 December 2013. The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2012 was $29.5 million.

(ii) Interest rate swaps

The Group had no outstanding interest rate swaps at 31 December 2013. The notional principal amount of the Group's outstanding interest rate swaps at 31 December 2012 was $628 million. The notional principal amount of the Company's outstanding interest rate swaps at 31 December 2012 was $189 million.

For both the Group and Company at 31 December 2012, the fixed interest rates excluding margin were between 2.17% and 5.43% and the floating rates were between 0.21% and 0.31%.

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

20 Provisions and other payables

Group	2013 $m	2012 $m
At 1 January	**4.8**	10.8
Provided during the year	**4.7**	0.4
Utilised	**(1.0)**	(0.2)
Released	**(0.2)**	(0.5)
Exchange adjustments	**(0.1)**	-
Contingent consideration – Tender barges acquisition (Note 9)	**-**	(5.7)
At 31 December	**8.2**	4.8

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

	2013 $m	2012 $m
Current	**3.4**	3.5
Non-current	**4.8**	1.3
	8.2	4.8

Provisions of $3.4 million (2012: $2.5 million) relate 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. No discount has been applied as its effect is immaterial. The 2012 contingent consideration release of $5.7 million related to the acquisition of the Tender Barges business which took place on 2 August 2011. There has been no movement on this provision during the year, leaving a balance of $2.3 million at the end of 2013. During 2013, the Group provided for $2.5 million of anticipated costs in relation to asset retirement obligations for leasehold properties.

21 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 years.

	Fair market value $m	Plant, property & Equipment $m	Retirement benefit obligations $m	Other including tax losses $m	Total $m
1 January 2012	(76.2)	(33.6)	8.7	27.8	(73.3)
Credit (charge) to Income Statement	9.5	(6.3)	0.1	(3.2)	0.1
Credit to equity	-	-	5.2	-	5.2
Exchange adjustments	(0.1)	(0.6)	0.5	(0.2)	(0.4)
At 31 December 2012	(66.8)	(40.5)	14.5	24.4	(68.4)
Credit (charge) to Income Statement	9.2	1.6	(0.1)	23.1	33.8
Credit to equity	-	-	0.2	0.1	0.3
Exchange adjustments	0.1	(1.9)	0.5	2.1	0.8
At 31 December 2013	**(57.5)**	**(40.8)**	**15.1**	**49.7**	**(33.5)**

There are no deferred tax liabilities or assets within the Company.

At 31 December 2013 the Group had deferred tax assets of $42.1 million arising from tax losses (2012: $10.3 million).

Fair market value relates to the unwinding of deferred tax liabilities arising on the acquisition of assets from Abbot Group plc in 2008.

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

21 Deferred tax (continued)

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

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Deferred tax assets	**32.9**	3.2	-	-
Deferred tax liabilities	**(66.4)**	(71.6)	-	-
	(33.5)	(68.4)	-	-

Deferred tax is not recognised on the unremitted earnings of overseas subsidiaries. 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 $1.0 million would be payable (2012: $1.0 million).

A deferred tax asset has not been recognised on $52.0 million of taxation losses (2012: $87.0 million) due to uncertainty of future taxable income arising in the countries concerned

22 Share capital

Authorised	**No of shares**
At 31 December 2012 and 2013	**10,000**

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.

Issued shares	**Number of shares**	**Group and Company $m**
At 31 December 2012 and 2013	**6,956**	**-**

At the Balance Sheet date 6,956 ordinary £1 shares had been issued ($14,214).

23 Share premium

	Group and Company $m
At 31 December 2012 and 2013	**14.2**

24 Retained earnings – (deficit) surplus

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
At 1 January	**(1,439.6)**	(1,170.8)	**156.7**	203.9
Loss for the year	**(210.6)**	(252.1)	**(61.2)**	(47.2)
Actuarial gains (losses) on defined benefit plans	**3.0**	(21.9)	**-**	-
Deferred tax on pension retirement benefit obligations	**0.2**	5.2	**-**	-
At 31 December	**(1,647.0)**	(1,439.6)	**95.5**	156.7

25 Employees and Directors

Employee benefit expense for the Group during the year:	**2013 Group $m**	2012 Group $m	**2013 Company $m**	2012 Company $m
Wages and salaries	**604.5**	525.4	**-**	-
Social security costs	**85.8**	71.3	**-**	-
Other pension costs	**24.3**	22.1	**-**	-
	714.6	618.8	**-**	-

The other pension costs shown above of $24.3 million relate to contributions to defined contribution schemes and current service costs relating to the defined benefit schemes.

Average monthly number of people (including executive Directors) employed:	**2013 Group Number**	2012 Group Number	**2013 Company Number**	2012 Company Number
Drilling and engineering	**6,392**	6,140	**-**	-
Support and administration	**1,085**	835	**-**	-
	7,477	6,975	**-**	-

Key management compensation:	**2013 $m**	2012 $m
Salaries and short-term employee benefits	**8.0**	8.8
Post-employment benefits	**0.3**	0.3
	8.3	9.1

The key management compensation figures include remuneration of two executive Directors:	**2013 $m**	2012 $m
Aggregate emoluments, including retirement benefits	**1.5**	1.1

Included above are the emoluments of two Directors of the Company. The emoluments of the highest paid director, including retirement benefit contributions, were $1.4 million (2012: $1.0 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.

26 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 and Norway the particular schemes are unfunded in line with local practice in those countries. The presentation below reflects the Group's adoption of IAS 19R from 1 January 2013.

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. At 31 December 2013 there were 10 active members, 58 deferred members and 25 pensioners.

26 Retirement benefit obligations (continued)

a) UK schemes (continued)

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

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

The life expectancy of a male member currently aged 45, retiring at age 65, is 89 years (2012: 89 years). The life expectancy of a female member currently aged 45, retiring at age 65, is 91 years (2012: 93 years).

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

	2013	2012
	$m	$m
Present value of funded obligations	**(54.1)**	(53.3)
Fair value of scheme assets	**50.4**	45.6
Net liability	**(3.7)**	(7.7)

98% (2012: 95%) of the UK schemes assets are quoted and traded on recognised stock exchanges. The remainder of the assets are cash balances held by the schemes.

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

	2013	2012
	$m	$m
Current service cost	**0.5**	0.5
Interest cost	**2.2**	2.2
Interest income	**(1.0)**	(1.0)
Total included within administrative expenses	**1.7**	1.7

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

	2013	2012
	$m	$m
Present value of obligations at 1 January	**53.3**	46.6
Service cost	**0.5**	0.5
Interest cost	**2.2**	2.2
Remeasurement (gain)/loss from change in financial assumptions	**(0.5)**	3.6
Members contribution	**0.1**	0.1
Benefits paid	**(2.7)**	(2.1)
Exchange difference	**1.2**	2.4
Present value of obligations, 31 December	**54.1**	53.3

26 Retirement benefit obligations (continued)

a) UK schemes (continued)

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

	2013 $m	2012 $m
Fair value of plan assets at 1 January	**45.6**	38.1
Interest income	**1.0**	1.0
Remeasurement: return on plan assets, excluding amounts included in interest expense/income	**2.2**	2.2
Employer contributions	**2.2**	3.7
Benefits paid	**(2.7)**	(2.1)
Member contributions	**0.1**	0.1
Exchange difference	**2.0**	2.6
Fair value of plan assets, 31 December	**50.4**	45.6

Analysis of the movement in the Balance Sheet liability:

	2013 $m	2012 $m
At 1 January	**7.7**	8.5
Total expense as above	**1.7**	1.7
Contributions	**(2.1)**	(3.6)
Remeasurements	**(2.7)**	1.4
Exchange difference	**(0.9)**	(0.3)
At 31 December	**3.7**	7.7

Contributions expected to be paid to the plan during the year beginning after the Balance Sheet date is $2.2 million (2012: $2.2 million).

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

At 31 December 2013 there were 9 deferred members and 12 pensioners.

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

	2013 %	2012 %
Rate of increase in pensions in payment and deferred pensions	**3.4**	3.0
Discount rate	**4.6**	4.3
Inflation assumption	**3.4**	3.0

The life expectancy of a male member currently aged 45, retiring at age 65, is 87 years (2012: 87 years). There are no female plan members.

26 Retirement benefit obligations (continued)

a) UK schemes (continued)

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

	2013 $m	2012 $m
Present value of funded obligations	**(11.3)**	(10.6)
Fair value of plan assets	**11.6**	9.7
Net asset (liability)	**0.3**	(0.9)

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

	2013 $m	2012 $m
Interest cost	**0.4**	0.4
Interest income	**(0.4)**	(0.4)
Total included within administrative expenses	**-**	-

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

	2013 $m	2012 $m
Present value of obligations at 1 January	**10.6**	8.3
Interest cost	**0.4**	0.4
Remeasurements:		
- loss from change in financial assumptions	**0.2**	1.1
- loss from change in demographic assumptions	**-**	0.2
- experience losses	**-**	0.3
Benefits paid	**(0.2)**	(0.2)
Exchange difference	**0.3**	0.5
Present value of obligations, 31 December	**11.3**	10.6

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

	2013 $m	2012 $m
Fair value of plan assets at 1 January	**9.7**	7.8
Interest income	**0.4**	0.4
Contributions	**0.8**	0.8
Benefits paid	**(0.2)**	(0.2)
Remeasurement: return on plan assets, excluding amounts included in interest expense/income	**0.6**	0.5
Exchange difference	**0.3**	0.4
Fair value of plan assets, 31 December	**11.6**	9.7

26 Retirement benefit obligations (continued)

a) UK schemes (continued)

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

	2013 $m	2012 $m
At 1 January	**0.9**	0.5
Total expense as above	**-**	-
Contributions	**(0.8)**	(0.8)
Remeasurements	**(0.4)**	1.1
Exchange difference	**-**	0.1
At 31 December	**(0.3)**	0.9

Contributions expected to be paid during the annual year after the Balance Sheet date are $0.8 million (2012: $0.8 million)

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.

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.

At 31 December 2013, there were a total of 309 active members and 1,305 deferred members and pensioners.

The life expectancy of a male member currently aged 45, retiring at age 65, is 86 years (2012: 86 years). The life expectancy of a female member currently aged 45, retiring at age 65, is 86 years (2012: 90 years).

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

	2013 %	2012 %
Rate of increase in pensionable salaries	**2.5**	2.5
Rate of increase in pensions in payment and deferred pensions	**2.0**	2.0
Discount rate	**3.7**	3.6
Inflation assumption	**2.0**	2.0

The amount recognised in the Balance Sheet is:

	2013 $m	2012 $m
Present value of unfunded obligations	**128.5**	121.6

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

	2013 $m	2012 $m
Current service cost	**1.3**	1.0
Interest cost	**4.4**	4.7
Total included within administration expenses	**5.7**	5.7

26 Retirement benefit obligations (continued)

b) Germany schemes (continued)

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

	2013 $m	2012 $m
Present value of obligations at 1 January	**121.6**	97.3
Service cost	**1.3**	1.0
Interest cost	**4.4**	4.7
Remeasurements:		
- (gain)/loss from change in financial assumptions	**(1.7)**	19.9
- experience loss/(gain)	**1.4**	(0.2)
Benefits paid	**(4.1)**	(3.7)
Exchange differences	**5.6**	2.6
Present value of obligations, 31 December	**128.5**	121.6

c) Norway schemes

The Group operates three unfunded benefit schemes relating to early retirement of employees between the ages of 62 and 67 and disability benefits to eligible employees.

During 2010 legislative changes to early retirement plans in Norway were finalised. For two of the schemes in Norway the Group is no longer required to hold a liability for future early retirement pensions in respect of employees who were younger than 62 at 1 January 2011. In addition, employees are included in the early retirement scheme (AFP) with the right to retire at the age of 62. The AFP is a multi-employer plan, where the Norwegian government finances 1/3 of the contribution plans. The AFP pension plan is a defined benefit plan administered by a separate legal entity. The plan is temporarily accounted for as a defined contribution plan, as the plans administrators have not been able to calculate the pension obligation for each entity participating in the plan.

The life expectancy of a male member currently aged 40, retiring at age 67, is 88 years (2012: 80 years). The life expectancy of a female member currently aged 40, retiring at age 67, is 92 years (2012: 84 years).

In relation to the early retirement schemes an actuarial valuation of the schemes was carried out at 31 December 2013 by the Group's advisers and the principal assumptions made by the actuaries were:

	2013 %	2012 %
Rate of increase in salaries	**-**	3.0
Rate of increase in pensions in payment	**3.5**	3.0
Discount rate	**3.0**	2.1

The amount recognised in the Balance Sheet is:

	2013 $m	2012 $m
Present value of unfunded obligations	**0.4**	1.2

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

	2013 $m	2012 $m
Current service cost	**-**	-
Interest cost	**-**	-
Total included within administration expenses	**-**	-

26 Retirement benefit obligations (continued)

c) Norway schemes (continued)

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

	2013 $m	2012 $m
Present value of obligations at 1 January	**1.2**	1.7
Remeasurement experience losses	**0.2**	0.1
Benefits paid	**(0.5)**	(0.6)
Exchange differences	**(0.5)**	-
Present value of obligations, 31 December	**0.4**	1.2

d) Total

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

	2013 $m	2012 $m
UK schemes		
- KCA	**3.7**	7.7
- OIS	**(0.3)**	0.9
Germany schemes	**128.5**	121.6
Norway schemes	**0.4**	1.2
At 31 December	**132.3**	131.4

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

	2013 $m	2012 $m
At 1 January	**24.4**	2.1
Net remeasurements recognised in the year	**(3.0)**	21.9
Exchange differences	**-**	0.4
At 31 December	**21.4**	24.4

The Group also made contributions to defined contribution plans of $22.5 million (2012: $20.6 million).

27 Cash generated from operating activities

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Cash generated from operating activities				
Loss before taxation	**(194.2)**	(214.6)	**(61.2)**	(47.2)
Adjustments for:				
- depreciation	**179.1**	185.5	**-**	-
- impairment of fixed assets	**105.9**	120.0	**-**	-
- amortisation of intangible assets – customer relationships	**8.3**	14.3	**-**	-
- amortisation of intangible assets - other	**12.5**	11.8	**-**	-
- gain on sale of investment	**-**	-	**-**	-
- gain on impairment of financial liabilities	-	-		
- amortisation of deferred costs	**4.4**	5.6	**-**	-
- loss (gain) on sale of property, plant and equipment	**1.4**	(5.1)	**-**	-
Net movement in provisions and other liabilities and retirement benefit obligations	**6.6**	(0.4)	**-**	-
Net finance costs	**156.8**	119.1	**59.4**	45.7
Share of results of associates	**(0.3)**	1.0	**-**	-
Changes in working capital:				
- (increase) in inventories and work in progress	**(2.3)**	(12.7)	**-**	-
- (increase) decrease in trade and other receivables	**(101.7)**	(61.2)	**153.3**	206.0
- increase (decrease) in trade and other payables	**3.4**	48.9	**(35.0)**	30.7
Cash generated from operating activities	**179.9**	212.2	**116.5**	235.2

28 Assets and liabilities of disposal group held for sale

	2013 Group $m	2012 Group $m	**2013 Company $m**	2012 Company $m
Assets of disposal group held for sale				
Property, plant and equipment (Note 10)	**45.0**	-	**-**	-
Inventories (Note 14)	**4.2**	-	**-**	-
Trade and other receivables (Note 15)	**4.1**	-	**-**	-
Cash and cash equivalents (Note 16)	**0.3**	-	**-**	-
Total assets	**53.6**	-	**-**	-
Liabilities of disposal group held for sale				
Trade and other payables (Note 17)	**(11.7)**	-	**-**	-
Total liabilities	**(11.7)**	-	**-**	-

The above table represents the anticipated realisable value of certain assets and liabilities within the MODUs business which are held for resale. A sale and purchase agreement to sell two of the Group's subsidiaries which own and operate the three self-erect tender barges was signed on 4 March 2014 for a gross consideration of $60 million. See Note 34.

29 Contingent liabilities

The Company is a guarantor for Group senior debt facilities. Security is given by a fixed and floating charge over the net assets of the Company.

30 Operating lease commitments – minimum lease payments

	Property 2013 $m	**Other 2013 $m**	Property 2012 $m	Other 2012 $m
Commitments due under non-cancellable operating leases:				
Within one year	**16.9**	**2.9**	13.2	1.4
Later than one year and less than five years	**22.5**	**0.7**	17.8	1.1
After five years	**7.7**	**-**	7.9	-
	47.1	**3.6**	38.9	2.5

The Group leases various properties and yards under non-cancellable operating lease agreements. The terms of each lease agreement are specific to each particular property and yard. The material lease agreements range from within one year to ten years.

The Group also leases plant and equipment and vehicles under non-cancellable operating lease agreements included under 'Other' above.

31 Capital and other financial commitments

	2013 $m	2012 $m
Contracts placed for future capital not provided in the financial statements	**21.6**	55.1

32 Related party transactions

The following balances relate to transactions carried out with the Group's associates and its Parent Company:

Group	**2013 $m**	2012 $m
Amounts owed by associates	**0.3**	0.1
Amounts owed by parent company	**2.3**	4.9
Amounts owed to parent company	**(478.9)**	(652.9)

Company	**2013 $m**	2012 $m
Amounts owed to subsidiaries	**(0.3)**	(34.9)
Amounts owed by subsidiaries	**243.1**	389.7
Amounts owed by parent company	**1.9**	1.9
Amounts owed to parent company	**(417.0)**	(652.9)

32 Related party transactions (continued)

Amounts owed by the Company to its parent Company comprise: $300.0 million loan which is an interest free loan, $75.0 million loan which is interest bearing at 14.5% and also repayable on demand but not before 1 January 2018 and $23.8 million interest added to this loan, $7.8 million loan which is interest free and repayable on demand, $10.9 million loan interest accrual less $0.5 million of inter-company charges.

During the year the Balance Sheet of the Company was strengthened via a capital contribution of $250 million through the conversion to equity of certain intercompany loans payable to KCA Deutag Alpha II Limited. This contributes to the movement seen year on year.

Key management compensation is disclosed in Note 25.

The following balances relate to transactions carried out with Group's ultimate parent company and its subsidiaries:

	2013	2012
	$m	$m
Sales	**-**	27.1
Purchases	**(3.8)**	(0.1)
Finance costs	**(14.1)**	(12.3)

The terms of loans made to subsidiaries are disclosed in Note 13.

33 Principal subsidiary undertakings and ultimate controlling party

KCA Deutag Alpha Limited is a company incorporated in England and Wales and domiciled in Scotland.

The Group's principal subsidiaries are as follows:

			% of ordinary shares or equity interest held by:	
Principal subsidiary undertakings	**Country of incorporation**	**Principal activity**	**Group**	**Company**
Abbot Group Limited	Great Britain	Holding Company	100	-
Globe Luxembourg SCA	Luxembourg	Financing Company	-*	-
KCA Deutag Caspian Limited	Great Britain	Drilling services	100	-
KCA Deutag Drilling Limited	Great Britain	Drilling services	100	-
KCA Deutag Tiefbohrgesellschaft mbH	Germany	Drilling services	100	-
KCA Deutag Drilling GmbH	Germany	Drilling services	100	-
Bentec GmbH Drilling & Oilfield Systems	Germany	Drilling rig design, construction and components	100	-
Oman KCA Deutag Drilling Company LLC	Oman	Drilling services	60*	-
KCA Deutag Drilling (Ben Rinnes) AS	Norway	Drilling services	100	-
KCA Deutag Drilling Norge AS	Norway	Drilling services	100	-
KCA Deutag Offshore AS	Norway	Drilling services	100	-
KCA Deutag Tender Barges Pte Ltd	Singapore	Drilling services	100	-
KCA Deutag PTE Limited	Singapore	Drilling services	100	-

* By virtue of the shareholder agreement, 100% of the results of this entity are included in the Group's results.

A full list of subsidiaries can be obtained from the Group's registered office.

The Company's ultimate controlling company is PHM Holdco 14 S.a.r.l., which is registered in Luxembourg. PHM Holdco 14 S.a.r.l is in turn controlled by Pamplona Capital Partners II L.P. The Company's immediate parent company is KCA Deutag Alpha II Limited., a company incorporated in England and Wales.

34 Subsequent events

A sale and purchase agreement to sell two of the Group's subsidiaries which own and operate the three self-erect tender barges was signed on 4 March 2014 for a gross consideration of $60 million. A charge to the Income Statement of $117.4 million has been taken in these financial statements to reflect the fair value less costs to sell of the assets and liabilities being disposed.

Subsequent to the year end a claim was received and paid out under a standby letter of credit arrangement for $4.7 million relating to a customer contractual performance bond. The Directors believe that the Company has a strong legal and commercial defence to this claim and accordingly no adjustment has been made in these financial statements.