# ADNOC DRILLING COMPANY P.J.S.C.

**Reports and financial statements**
**for the year ended 31 December 2021**

**ADNOC DRILLING COMPANY P.J.S.C.**

**Reports and financial statements**
**for the year ended 31 December 2021**

## Directors' report
## for the year ended 31 December 2021

The Directors are pleased in submitting their report, together with the audited financial statements of ADNOC Drilling Company P.J.S.C. ("the Company") for the year ended 31 December 2021.

**Board of Directors:**

Pursuant to the Initial Public Offering (IPO), the first appointment of the Directors was made by the Founder (Abu Dhabi National Oil Company) effective 5 September 2021. The Directors of the Company are:

| | |
|---|---|
| Chairman | H. E. Dr. Sultan Ahmed Al Jaber |
| Vice Chairman | Abdulmunim Saif Hamoud AlKindi |
| Members | Yaser Saeed Ahmed Omran AlMazrouei |
| | Ahmed Jasim Yousif Naser AlZaabi |
| | Mohamed AlAryani |
| | Muna Khalifa Mohamed Hazeem Almheiri |
| | Omar Ahmed Hassan Suwaina Alsuwaidi |

### Principal activity

The Company is engaged in providing drilling services and supporting marine equipment, and the hiring out of onshore and offshore drilling rigs to parties involved in onshore and offshore oil and gas exploration and production.

### Financial highlights

Statement of financial position:

The Company's financial position remains very healthy showing net assets at 31 December 2021 of USD 2,795,424 thousand (2020: USD 3,251,811 thousand) with the decrease in total net assets mainly due to the declaration and payment of dividends of USD 1,060,300 thousand.

Statement of profit or loss and other comprehensive income:

The Company recognised revenue for the year of USD 2,269,470 thousand (2020: USD 2,097,860 thousand). Profit for the year was USD 603,913 thousand (2020: USD 569,034 thousand). The increase in revenue was due to additional drilling services provided to Abu Dhabi National Oil Company (ADNOC), ADNOC Onshore and ADNOC Offshore.

Statement of cash flows:

Net cash generated from operating activities amounted to USD 1,179,132 thousand (2020: USD 1,788,628 thousand), the decrease is mainly due to movement in related party balances. Net cash used in investing activities amounted to USD 582,019 thousand (2020: USD 231,834 thousand) which relates to additions to property and equipment and finance income.

**Directors' report**
**for the year ended 31 December 2021 (continued)**

The appropriation of the results for the year is as follows:

| | USD '000 |
|---|---|
| Retained earnings at 1 January 2021 | 3,142,893 |
| Capitalisation | (326,753) |
| Total comprehensive income for the year | 603,913 |
| Transfer to statutory reserve | (60,391) |
| Dividends | (1,060,300) |
| **Retained earnings at 31 December 2021** | **2,299,362** |

## Future outlook

The Company is proud of its achievements over the past 12 months. The results are particularly impressive within the backdrop of the challenging year marked by ongoing global pandemic. The Company continues to relentlessly pursue its strategic objectives that is focused on delivering sustained business growth through the efforts and commitment of highly skilled and dedicated workforce and its unwavering commitment to industry leading health and safety standards. We remain very enthusiastic about the year ahead as we build out our drilling assets and oilfield services with our strategic partners. We continue to enhance our market share in UAE and explore regional expansion to deliver profitable growth.

## Subsequent events

As of the date of this report, no major events have occurred that may have significant impact on the financial statements for the year ended 31 December 2021.

## Financial reporting framework

The Directors of the Company, to the best of their knowledge, believe that:

- The financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operation, cash flows and changes in equity;
- The Company has maintained proper books of account;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements unless otherwise stated, and accounting estimates are based on reasonable and prudent judgment; and
- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and comply, where appropriate with the local laws.

**For the Board of Directors**

**Chairman**
Abu Dhabi, UAE
10 February 2022

ادنوك للحفر
ادنوك
ADNOC
ADNOC Drilling

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ADNOC DRILLING COMPANY P.J.S.C.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of ADNOC Drilling Company P.J.S.C. ("the Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Company's financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. We have communicated the key audit matter to the Audit Committee, but it is not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. On the following pages, we have described the key audit matter we identified and have included a summary of the audit procedures we performed to address this matter.

The key audit matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Deloitte.

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF ADNOC DRILLING COMPANY P.J.S.C. (continued)**

**Key Audit Matters (continued)**

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Unbilled revenue and related party balances</td><td></td></tr>
<tr><td>The Company has large volume of transactions with related parties in the normal course of business. The Company reported revenue of USD 2,269,470 thousand, of which 95% is attributable to contracts with its related parties, ADNOC Onshore and ADNOC Offshore.<br><br>Revenue of USD 877,575 thousand from these two related parties was unbilled at the reporting date. A portion of this unbilled revenue is secured by advances from a related party of USD 231,154 thousand which are expected to be offset against future billings.<br><br>Considering the materiality of the amounts involved and significant accrued revenue recorded against the related parties, we have identified unbilled revenue as a key audit matter for the current year audit. The large volume of transactions also increases the risk of error.<br><br>Refer to note 14 which contains details about the Company's related party transactions and balances and note 15 which contains details about revenue recognised during the year.</td><td>Our audit procedures included obtaining an understanding of the business processes, an assessment of controls over transactions with related parties and an assessment of the controls implemented by management for estimating revenue and the associated unbilled revenue.<br><br>We tested the design and operating effectiveness of relevant controls over the intergroup sales and collection processes. This included testing controls over the accuracy and completeness of the transactions.<br><br>In addition, we performed the following substantive audit procedures:<br><br>• Evaluated the business rationale of significant transactions including any non- routine transactions;<br>• Analysed relevant agreements and determined that transactions were recorded in accordance with the substance of the relevant agreements;<br>• Obtained direct confirmations of the related party balances and performed the following procedures:<br>- Search for unidentified and undisclosed related party relationships and transactions by inspecting bank and legal confirmations obtained as part of other audit procedures, and minutes of shareholder and management meetings;<br>- Tested the movement of the related party balances bifurcated into revenue recognised, advances received and invoices issued during the year;<br>- Verified the subsequent billing status of the unbilled receivables;<br>- Verified the subsequent collection status of billed/unbilled receivables; and<br>- Assessed the impact of expected credit losses and credit worthiness on the related party balances<br>• Determined that the disclosures in the financial statements relating to related parties and unbilled revenue were in accordance with IFRSs.</td></tr>
</table>

**Other Information**

Management is responsible for the other information. The other information comprises the Directors' report, which we obtained prior to the date of this auditor's report, and the, Chairman's message, CEO's message and the other information in the annual report, which are expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

When we will read the Chairman's message and CEO's message, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the articles of association of the Company and UAE Federal Law No. (2) of 2015 (as amended), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF ADNOC DRILLING COMPANY P.J.S.C. (continued)**

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

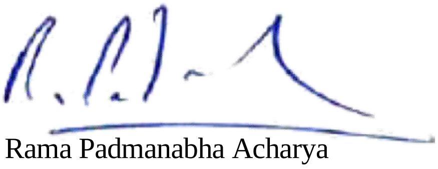
Further, as required by the UAE Federal Law No. (2) of 2015 (as amended), we report for the year ended 31 December 2021 that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- The Company has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account of the Company;
- As disclosed in note 1 to the financial statements, the Company has not purchased or invested in shares during the financial year ended 31 December 2021;
- Note 14 to the financial statements discloses material related party transactions, balances and the terms under which they were conducted; and
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021.

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Company has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars as applicable, which would materially affect its activities or the financial statements as at 31 December 2021:

- Law No. 15 of 2017 concerning the establishment of the Company which would materially affect its activities or its financial position; and
- Relevant provisions of the applicable laws, resolutions and circulars organising the Company's operations.

Deloitte & Touche (M.E.)




Rama Padmanabha Acharya
Registration No. 701
10 February 2022
Abu Dhabi
United Arab Emirates

## Statement of financial position
## as at 31 December 2021

| | Notes | 2021 USD'000 | 2020 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | **5** | **3,363,443** | 3,261,436 |
| Right-of-use assets | **6** | **34,384** | 39,301 |
| Advance to a related party | **14** | **-** | 408 |
| Advance payments | | **7,634** | 4,250 |
| **Total non-current assets** | | **3,405,461** | 3,305,395 |
| **Current assets** | | | |
| Inventories | **7** | **175,025** | 177,053 |
| Trade and other receivables | **8** | **102,454** | 139,296 |
| Due from related parties | **14** | **960,400** | 902,601 |
| Cash and cash equivalents | **9** | **453,101** | 953,465 |
| **Total current assets** | | **1,690,980** | 2,172,415 |
| **Total assets** | | **5,096,441** | 5,477,810 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | **10** | **435,671** | 108,918 |
| Statutory reserve | **10** | **60,391** | - |
| Retained earnings | | **2,299,362** | 3,142,893 |
| **Total equity** | | **2,795,424** | 3,251,811 |
| **Non-current liabilities** | | | |
| Borrowings | **11** | **1,500,000** | 1,500,000 |
| Lease liabilities | **6** | **19,031** | 28,389 |
| Provision for employees' end of service benefits | **12** | **113,360** | 86,460 |
| **Total non-current liabilities** | | **1,632,391** | 1,614,849 |
| **Current liabilities** | | | |
| Trade and other payables | **13** | **314,913** | 413,789 |
| Lease liabilities | **6** | **20,317** | 11,723 |
| Due to related parties | **14** | **333,396** | 185,638 |
| **Total current liabilities** | | **668,626** | 611,150 |
| **Total liabilities** | | **2,301,017** | 2,225,999 |
| **Total equity and liabilities** | | **5,096,441** | 5,477,810 |

To the best of our knowledge, the financial information included in the report fairly present in all material respects the financial condition, result of operations and cash flows of the Company as of 31 December 2021, and for the periods presented in the report.

| | | |
|---|---|---|
| **H. E. Dr. Sultan Ahmed Al Jaber** | **Abdulrahman Abdulla Alseiari** | **Alexander Urquhart** |
| Chairman | Chief Executive Officer | Chief Financial Officer |

The accompanying notes form an integral part of these financial statements.

## Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

| | Notes | 2021 USD'000 | 2020 USD'000 |
|---|---|---|---|
| **Revenue** | **15** | **2,269,470** | 2,097,860 |
| Direct cost | **16** | **(1,385,202)** | (1,291,942) |
| **Gross profit** | | **884,268** | 805,918 |
| General and administrative expenses | **17** | **(273,518)** | (215,305) |
| Other income, net | | **10,135** | 2,895 |
| Finance cost, net | **19** | **(16,972)** | (24,474) |
| **Profit for the year** | | **603,913** | 569,034 |
| Other comprehensive income for the year | | **-** | - |
| **Total comprehensive income for the year** | | **603,913** | 569,034 |
| **Earnings per share:** | | | |
| Basic and diluted | **25** | **0.038** | 0.036 |

The accompanying notes form an integral part of these financial statements.

## Statement of changes in equity
## for the year ended 31 December 2021

| | Share capital USD'000 | Statutory reserve USD'000 | Retained earnings USD'000 | Total equity USD'000 |
|---|---|---|---|---|
| Balance at 1 January 2020 | 108,918 | - | 3,273,859 | 3,382,777 |
| Total comprehensive income for the year | - | - | 569,034 | 569,034 |
| Dividends (note 20) | - | - | (700,000) | (700,000) |
| Balance at 1 January 2021 | 108,918 | - | 3,142,893 | 3,251,811 |
| Capitalisation (notes 1 and 10) | 326,753 | - | (326,753) | - |
| Total comprehensive income for the year | - | - | 603,913 | 603,913 |
| Transfer to statutory reserve | - | 60,391 | (60,391) | - |
| Dividends (note 20) | - | - | (1,060,300) | (1,060,300) |
| **Balance at 31 December 2021** | **435,671** | **60,391** | **2,299,362** | **2,795,424** |

The accompanying notes form an integral part of these financial statements.

## Statement of cash flows
## for the year ended 31 December 2021

| | **2021** **USD'000** | 2020 USD'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **603,913** | 569,034 |
| *Adjustments for:* | | |
| Depreciation of property and equipment | **392,473** | 357,037 |
| Depreciation of right-of-use assets | **23,775** | 9,177 |
| Impairment of property and equipment | **10,321** | - |
| Provision for employees' end of service benefit | **33,180** | 12,691 |
| Reversal of provision for employees end of service benefit | **-** | (2,537) |
| Credit note issued to a related party | **-** | 41,717 |
| Allowance/(reversal) for slow moving and obsolete inventories | **4,781** | (1,939) |
| Loss on disposal property and equipment | **-** | 616 |
| Finance cost | **17,700** | 25,346 |
| Finance income | **(728)** | (872) |
| | **1,085,415** | 1,010,270 |
| **Changes in working capital** | | |
| Increase in inventories | **(2,753)** | (50,934) |
| (Increase)/decrease in advance payments | **(3,384)** | 1,501 |
| Decrease/(increase) in trade and other receivables | **36,842** | (76,163) |
| (Increase)/decrease in due from related parties | **(57,799)** | 744,664 |
| (Decrease)/increase in trade and other payables | **(20,667)** | 22,986 |
| Increase in due to related parties | **147,758** | 147,494 |
| Employees' end of service benefit paid | **(6,280)** | (11,190) |
| **Net cash generated from operating activities** | **1,179,132** | 1,788,628 |
| **Cash flows from investing activities** | | |
| Payments for purchase of property and equipment | **(582,747)** | (146,565) |
| Advance to a related party | **-** | (86,141) |
| Finance income received | **728** | 872 |
| **Net cash used in investing activities** | **(582,019)** | (231,834) |
| **Cash flows from financing activities** | | |
| Lease liabilities paid | **(19,622)** | (11,791) |
| Dividends paid | **(1,060,300)** | (700,000) |
| Finance cost paid | **(17,555)** | (25,346) |
| **Net cash used in financing activities** | **(1,097,477)** | (737,137) |
| **Net (decrease)/increase in cash and cash equivalents** | **(500,364)** | 819,657 |
| Cash and cash equivalents at beginning of the year | **953,465** | 133,808 |
| **Cash and cash equivalents at end of the year (note 9)** | **453,101** | 953,465 |
| **Non-cash transactions:** | | |
| Additions to property and equipment against advances paid to a related party | - | 232,687 |
| Additions and modification to right-of-use assets and lease liabilities | 18,858 | 32,537 |

The accompanying notes form an integral part of these financial statements.

**Notes to the financial statements**
**for the year ended 31 December 2021**

## 1 General information

ADNOC Drilling Company P.J.S.C. ("the Company") is a public joint stock company, incorporated in 1972 by a resolution of the Council of Ministers of the Government of Abu Dhabi. On 29 September 2021, Law No. 9 of 2021 was issued amending Law No. 21 of 2018 that was issued on 6 November 2018, replacing Law No. 4 of 1981 in respect of the incorporation of ADNOC Drilling Company PJSC registered with the commercial register in Abu Dhabi under the commercial license number CN-2688881 issued by the Abu Dhabi Department of Economic Development. The Company is a subsidiary of Abu Dhabi National Oil Company ("ADNOC"), which is wholly owned by the Government of Abu Dhabi. The Company's shares are listed on the Abu Dhabi Securities Exchange.

In September 2021, the Company announced its intention to float a minority stake on Abu Dhabi Securities Exchange through an Initial Public Offering (IPO), pursuant to the resolution of the shareholders of the Company. The shareholders approved the listing and the sale by way of offer to the public of part of the share capital of the Company held by ADNOC. The subscription period commenced on 13 September 2021 and closed on 26 September 2021 and trading of the shares commenced on 3 October 2021.

Prior to the IPO, the shareholders approved the adoption of new articles of association, including the new par value of AED 0.10 (USD: 0.0272294) per share from the previous AED 100 (USD 27.2294) per share thereby increasing the existing number of shares from 4,000 thousand to 4,000,000 thousand. Further, an additional 12,000,000 thousand shares of the Company at the new par value of AED 0.10 (USD: 0.0272294) per share were issued by way of capitalising retained earnings of the Company amounting to USD 326,753 thousand.

On 22 September 2021, ADNOC announced that it had increased the number of ordinary shares offered in the IPO of the Company from 1,200,000,000 ordinary shares to 1,760,000,000 ordinary shares, which equates to 11% of Company's total issued share capital. Upon completion of the IPO, ADNOC continues to own a majority 84% stake in the Company, while Baker Hughes Holding SPV Ltd. ("Baker Hughes"), which entered into a strategic partnership with the Company in October 2018, continues to retain its 5% shareholding. ADNOC and Baker Hughes entered into an agreement to terminate the erstwhile shareholders' agreement ("the SHA") between them effective from date of listing of the Company's shares on Abu Dhabi Securities Exchange.

The registered address of the Company is P.O Box 4017 Abu Dhabi, United Arab Emirates. The principal activities of the Company are providing drilling services and supporting marine equipment, and the hiring out of onshore and offshore drilling rigs on behalf of related parties involved in onshore and offshore oil and gas exploration.

Federal Law No. 32 of 2021 on Commercial Companies was issued on 20 September 2021 and will come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended. The Company is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

The Company has not purchased or invested in any shares during the financial year ended 31 December 2021.

## 2 Application of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- **Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16):**
  The amendments introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the Company manages those risks as well as the Company's progress in transitioning from IBORs to alternative benchmark rates, and how the Company is managing this transition.

- **Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16):**
  The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

### 2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* | 1 January 2023 |
| The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively. | |

## 2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and revised IFRS in issue but not yet effective (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 17 *Insurance Contracts* | 1 January 2023 |
| IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. | |
| The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policy holders' options and guarantees. | |
| In June 2021, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. | |
| Amendments to IFRS 10 *Consolidated Financial Statements* and *IAS 28 Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Effective date not yet decided |
| The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. | |

## 2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and revised IFRS in issue but not yet effective (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 16 *Property, Plant and Equipment* related to proceeds before intended use | 1 January 2022 |
| The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. | |
| Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets related to Onerous Contracts—Cost of Fulfilling a Contract* | 1 January 2022 |
| The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. | |

## 2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and revised IFRS in issue but not yet effective (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IFRS 3 *Business Combinations: Reference to the Conceptual Framework* | 1 January 2022 |
| The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. | |
| The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. | |
| Amendments to IAS 12 - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* | 1 January 2023 |
| The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. | |
| Amendments to IAS 8 – *Definition of Accounting Estimates* | 1 January 2023 |
| The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. | |

## 2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and revised IFRS in issue but not yet effective (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of accounting policies*<br><br>The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. | 1 January 2023 |
| Annual Improvements to IFRS Standards 2018-2020 cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41 | The amendments to IFRS 1, IFRS 9 and IAS 41 are effective from 1 January 2022 and the effective date for amendments to IFRS 16 Leases are not yet decided. |

The above stated new standards and amendments are not expected to have any significant impact on financial statements of the Company.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that would be expected to have a material impact on the financial statements of the Company.

## 3 Summary of significant accounting policies

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

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRSs as issued by the International Accounting Standard Board (IASB).

## 3 Summary of significant accounting policies (continued)

### Basis of preparation

The financial statements have been prepared in United States Dollar (USD), which is the Company's functional and presentation currency and all values are rounded to the nearest thousands (USD'000) except when otherwise stated.

These financial statements have been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### Going concern

The directors have, at the time of approving financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The historical cost consists of expenses related directly to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of profit or loss as incurred.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each statement of financial position date, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | **Years** |
|---|---|
| Building and yards | 10 – 20 |
| Drilling rigs and equipment | 8 – 20 |
| Camps and equipment | 4 – 10 |
| Motor vehicles | 4 |
| Furniture, fixtures and office equipment | 4 |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The repair and maintenance expenses are included in the statement of profit or loss and other comprehensive income when incurred.

## 3 Summary of significant accounting policies (continued)

### Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

### Capital work in progress

Capital work in progress is included in property and equipment at cost on the basis of the percentage completed at the reporting date. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and the asset is commissioned and available for uses.

### Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property and equipment and rights of use to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes invoice value, freight and other expenses incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 3 Summary of significant accounting policies (continued)

### Leases

*The Company as lessee*

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

## 3 Summary of significant accounting policies (continued)

### Leases (continued)

*The Company as lessee (continued)*

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Impairment of tangible and intangible assets' policy.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

### Employee benefits

Provision is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the reporting date. Provision is made for the full amount of end of service benefits due to employees in accordance with the UAE Labour Law, for their period of service up to the end of the reporting date.

The provision relating to annual leave and leave passage is disclosed as a current liability, while that relating to end of service benefit is disclosed as a non-current liability.

### Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 3 Summary of significant accounting policies (continued)

### Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Drilling services

The drilling services represent drilling contracts that includes rig packages, including crews and support equipment, to its customers. Contracts may be for a single well, multiple wells or a fixed term.

The Company's drilling services provided under each drilling rig contract is a single performance obligation satisfied over time and is comprised of a series of distinct time service periods in which the Company provides drilling services.

Variable consideration is assessed to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognised, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue.

Revenue from reimbursable goods and services

Revenue from reimbursable goods and services represents mark-ups on certain equipment, materials and supplies, third party services and other expenses acquired at the request of the customer.

### Foreign currencies

For the purpose of these financial statements United States Dollar (USD) is the functional and the presentation currency of the Company.

Transactions in currencies other than USD (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

### Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

**3 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

**Financial assets**

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. The Company does not currently have any financial assets that are measured at fair value.

<u>Financial assets designated at amortised cost</u>

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

<u>Amortised cost and effective interest rate method</u>

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in the statement of profit or loss and other comprehensive income.

## 3 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

**Financial assets (continued)**

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on trade receivables and due from related parties. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables and due from related parties. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*(i) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

**Financial assets (continued)**

Impairment of financial assets (continued)

*(i) Significant increase in credit risk (continued)*

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

*(ii) Definition of default*

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 365 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*(iii) Write-off policy*

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## 3 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

**Financial liabilities and equity instruments**

<u>Classification as debt or equity</u>

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

<u>Equity instruments</u>

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Dividend distribution to the Company’s shareholders is recognised as a liability in the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

<u>Financial liabilities measured subsequently at amortised cost</u>

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

<u>Derecognition of financial liabilities</u>

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

<u>Offsetting of financial instruments</u>

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Employees’ pension**

The Company makes pension contributions on behalf of UAE citizens in accordance with the Emirate of Abu Dhabi Law No. 2 of 2000. The contributions are treated as payments to a defined contribution pension plan. A defined contribution plan is a pension plan under which fixed contributions are paid into a separate pension entity fund.

## 3 Summary of significant accounting policies (continued)

### Employees' pension (continued)

The Company has no legal or constructive obligations to pay further contributions if the Abu Dhabi Retirement Pensions & Benefits Fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### Value added tax

Value added tax ('VAT') represents a standard rate of 5% that shall be imposed on any supply or import pursuant to Article (2) of the Federal Decree Law No. (8) of 2017 on the value of the supply or import as specified in the provisions of this Decree Law, effective from 1 January 2018.

- VAT payable, is payable to the Tax Federal Authority upon collection of receivables from customers. VAT on purchases, which have been settled at the date of the statement of financial position, are deducted from the amount payable.
- VAT receivable, relates to purchases which have not been settled at the date of the statement of financial position, VAT receivable is reclaimable against sales VAT upon payment of the purchases.

## 4 Key judgement and source of estimation and uncertainty

The preparation of the financial statements in compliance with IFRSs requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

### Critical accounting judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

<u>Revenue presentation</u>

Third party rig rental contracts are those which are entered into with third parties for the benefit of related parties. In such contracts, the Company neither has control over the rigs or services provided by the third party nor takes delivery of the rigs prior to its deployment by the related parties. In addition, the Company enters into back-to-back arrangements with related parties on the same term as it does with the third parties (which is contractually acknowledged by the third parties). Consequently, management has concluded that it is acting as an agent in these arrangements. Accordingly, revenue and cost relating to these services are presented on a net basis. Had management concluded that they were acting as principal in these transactions, revenue and direct costs would have been higher by USD 178,120 thousand in the current year (2020: USD 306,355 thousand).

## 4 Key judgement and source of estimation and uncertainty (continued)

**Critical accounting judgments (continued)**

Contract modifications

The Company, from time to time and in the normal course of business, amends its revenue contracts with related parties. Significant judgment is required to determine whether, based on the status of ongoing negotiations, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur at the conclusion of such negotiations.

In the previous year, the contract with ADNOC Offshore was concluded which resulted in the issuance of a credit note amounting to USD 41,717 thousand.

Determining the lease term

Certain leases are entered into with a related party which contain clauses for automatic annual renewal of the lease term unless either party provides a notice to not extend the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to not exercise a termination option. Periods after termination options are only included in the lease term if the lease is reasonably certain to be not terminated. Management consider all facts and circumstances that create an economic incentive to not terminate the lease to determine the appropriate lease terms.

During the year ended 31 December 2021, no significant events or significant change in circumstances occurred that caused the management to reassess the lease term of such contracts.

**Key sources of estimation uncertainty**

Impairment of property and equipment

Property and equipment are assessed for impairment based on assessment of cash flows on individual cash generating units when there is indication of impairment. Management identified impairment indicators in the current year for property and equipment and recognised impairment losses to bring the asset value to its recoverable which amounted to USD 10,321 thousand (2020: USD Nil).

Provision for slow moving or obsolete inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their aging and accordingly for each category are recognised as a provision for obsolete and slow moving inventories. Provision for obsolete and slow moving inventories at 31 December 2021 amounted to USD 25,158 thousand (2020: USD 20,377 thousand).

## 4 Key judgement and source of estimation and uncertainty (continued)

### Key sources of estimation uncertainty (continued)

COVID-19

In January 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak"). Subsequently (March 2020), the WHO classified COVID-19 outbreak as a pandemic based on the rapid increase in exposure and infections across the world. COVID-19 has significantly impacted the world economy and may continue to do so in the years to come. Many countries-imposed travel bans, lockdowns and quarantine measures. While most countries have now eased the previously imposed lockdowns, the relaxations have been gradual and, in some cases, stricter measures have been re-imposed to deal with renewed outbreaks.

Covid-19 has also resulted in significant volatility in the financial and commodities markets worldwide. Various governments have provided both financial and non-financial assistance to disrupted industry sectors and the affected businesses. There remains significant divergence in the speed at which vaccines are being deployed globally. In addition, the emergence of new variants of the virus emphasises the on-going challenges and uncertainty surrounding economic activity, which continues to be significantly impacted by Covid-19. The timing and degree of recovery will depend on how quickly countries are able to roll out vaccines, the level of infections and the nature and level of continuing support to mitigate the impact of the pandemic particularly on vulnerable economic sectors.

Owing to this, macro-economic uncertainty continuous to exist with regards to prices and demand for oil, gas and products. From the outset of the pandemic, the Company undertook measures to minimise the impact of Covid-19 pandemic, in line with the recommendations of WHO and National Health Ministries, to preserve the health of its employees and support the prevention of contagion in administrative and operational areas, by implementing work from home, wherever possible, rigorous cleaning of workplaces, distribution of personal protective equipment, frequent testing of workforce to identify suspected cases. The Company continues to regularly assess the impact of COVID-19 on its business and although the financial year 2021 is the second annual reporting period impacted by the Covid 19 pandemic, the economic and financial impacts are still evolving.

The Company continues to incur additional direct and indirect costs of ongoing pandemic; however, the management believes that the Company is gearing up to ramping up operations to emerge stronger after the pandemic by considering fundamental changes to the ways business is conducted, including developing cost containment strategies, diversifying supply chains, and making other operational modifications such as dynamic manpower optimizations to minimise impact on its operations.

The impact of this outbreak has had no material impact on the loss allowance on trade receivables and due from related parties.

## Notes to the financial statements
## for the year ended 31 December 2021 (continued)

## 5 Property and equipment

| | Building and yards USD'000 | Drilling rigs and equipment USD'000 | Camps and equipment USD'000 | Motor vehicles USD'000 | Furniture fixtures and office equipment USD'000 | Construction work- in progress USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2020 | 89,167 | 5,200,422 | 264,241 | 42,978 | 51,655 | 150,503 | 5,798,966 |
| Additions during the year | 273 | 119,370 | - | 145 | 1,528 | 254,691 | 376,007 |
| Disposals | (743) | (1,871) | - | - | (16) | - | (2,630) |
| Transfers | - | 93,879 | - | 78 | 9,804 | (103,761) | - |
| Reclassification | (249) | 264,323 | (264,241) | (14,751) | 13,157 | 1,761 | - |
| At 1 January 2021 | 88,448 | 5,676,123 | - | 28,450 | 76,128 | 303,194 | 6,172,343 |
| Additions during the year | - | 81,421 | - | - | 23 | 423,357 | 504,801 |
| Transfers | 16 | 327,708 | - | 299 | 9,466 | (337,489) | - |
| **At 31 December 2021** | **88,464** | **6,085,252** | **-** | **28,749** | **85,617** | **389,062** | **6,677,144** |
| **Depreciation and impairment** | | | | | | | |
| At 1 January 2020 | 55,673 | 2,281,781 | 132,190 | 41,975 | 44,265 | - | 2,555,884 |
| Charge for the year | 2,760 | 347,166 | - | 770 | 6,341 | - | 357,037 |
| Eliminated on disposals | (297) | (1,701) | - | - | (16) | - | (2,014) |
| Reclassification | - | 133,794 | (132,190) | (14,550) | 12,946 | - | - |
| At 1 January 2021 | 58,136 | 2,761,040 | - | 28,195 | 63,536 | - | 2,910,907 |
| Charge for the year | 2,735 | 383,264 | - | 157 | 6,317 | - | 392,473 |
| Impairment | 36 | 9,117 | - | 59 | 1,109 | - | 10,321 |
| **At 31 December 2021** | **60,907** | **3,153,421** | **-** | **28,411** | **70,962** | **-** | **3,313,701** |
| **Carrying amount** | | | | | | | |
| **At 31 December 2021** | **27,557** | **2,931,831** | **-** | **338** | **14,655** | **389,062** | **3,363,443** |
| At 31 December 2020 | 30,312 | 2,915,083 | - | 255 | 12,592 | 303,194 | 3,261,436 |

During the year, the Company performed an impairment assessment and concluded that for certain assets, the recoverable amount was lower than the carrying value of the assets. As a result, the Company has recognised an impairment of USD 10,321 thousand (2020: USD Nil).

## 5 Property and equipment (continued)

The depreciation is allocated as follows:

| | **2021** **USD'000** | 2020 USD'000 |
|---|---|---|
| Direct cost (note 16) | **374,954** | 348,573 |
| General and administrative expenses (note 17) | **17,519** | 8,464 |
| | **392,473** | 357,037 |

Property and equipment include assets that are still in use and which are fully depreciated amounting to USD 879,872 thousand (2020: USD 776,311 thousand).

## 6 Right-of-use assets and lease liabilities

Amounts recognised in the statement of financial position:

| | **2021** **USD'000** | 2020 USD'000 |
|---|---|---|
| **Right-of-use assets** | | |
| At 1 January | **39,301** | 15,941 |
| Additions during the year | **11,115** | 15,960 |
| Lease modification | **7,743** | 16,577 |
| Depreciation for the year | **(23,775)** | (9,177) |
| **At 31 December** | **34,384** | 39,301 |
| **Lease liabilities** | | |
| At 1 January | **40,112** | 19,366 |
| Additions during the year | **11,115** | 15,960 |
| Lease modification* | **7,743** | 16,577 |
| Accretion of interest | **783** | 521 |
| Payments | **(20,405)** | (12,312) |
| **At 31 December** | **39,348** | 40,112 |
| *Disclosed as follows:* | | |
| Current | **20,317** | 11,723 |
| Non-current | **19,031** | 28,389 |
| | **39,348** | 40,112 |

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 6 Right-of-use assets and lease liabilities (continued)

Amounts recognised in the statement of profit or loss and other comprehensive income

| | **2021 USD'000** | 2020 USD'000 |
|---|---|---|
| Direct cost (note 16) | **16,811** | 8,129 |
| General and administrative expenses (note 17) | **6,964** | 1,048 |
| | **23,775** | 9,177 |

* The Company and the lessor agreed to amend the annual lease payments for an additional period of 2 years from the original contract period for lease of hire equipment. The Company accounted it as a lease modification and remeasured the lease liability to reflect the modified lease payments discounted at a revised incremental borrowing rate ("IBR") of 1.5%. This resulted in lease modification amounting to USD 7,743 thousand.

During the previous year, the Company and lessor agreed to amend the annual lease payments for the remaining 5 years for lease of office building. The Company accounted it as a lease modification and remeasured the lease liability to reflect the modified lease payments discounted at a revised incremental borrowing rate ("IBR") of 1.5%. This resulted in lease modification amounting to USD 16,577 thousand.

## 7 Inventories

| | **2021 USD'000** | 2020 USD'000 |
|---|---|---|
| Inventories | **200,183** | 197,430 |
| Less: allowance for slow moving or obsolete inventories | **(25,158)** | (20,377) |
| | **175,025** | 177,053 |

The movement in the allowance for slow moving or obsolete inventories during the year was as follows:

| | **2021 USD'000** | 2020 USD'000 |
|---|---|---|
| At 1 January | **20,377** | 22,316 |
| Charge/(reversal) during the year | **4,781** | (1,939) |
| **At 31 December** | **25,158** | 20,377 |

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 8 Trade and other receivables

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Trade receivables | **28,613** | 20,028 |
| Advances | **36,280** | 67,709 |
| Accrued revenue | **18,554** | 10,159 |
| Insurance prepayment | **5,665** | 5,306 |
| Other receivables | **13,342** | 36,094 |
| | **102,454** | 139,296 |

## 9 Cash and cash equivalents

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Cash in bank | **452,795** | 953,152 |
| Cash on hand | **306** | 313 |
| | **453,101** | 953,465 |

Included within cash in bank is an amount of USD 451,752 thousand (2020: USD 951,993 thousand) held by ADNOC. Cash held by ADNOC are funds held on behalf of the Company and are available on demand.

## 10 Share capital and statutory reserve

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Ordinary share capital of USD: 0.0272294 (AED: 0.10) each (2020 USD: 27.2294 (AED: 100) each) | **435,671** | 108,918 |

The movement in ordinary share capital and fully paid is as follows:

| | Number of shares ('000) | USD'000 |
|---|---|---|
| At 1 January 2021 | 4,000 | 108,918 |
| Share split AED 100 to AED 0.10 (note 1) | 3,996,000 | - |
| Capitalisation | 12,000,000 | 326,753 |
| **At 31 December 2021** | **16,000,000** | **435,671** |

During the year, the shareholders resolved to increase the ordinary share capital by USD 326,753 thousand by issuance of 12,000,000 thousand ordinary shares of AED 0.10 (USD: 0.0272294) each by way of capitalisation of retained earnings.

## 10 Share capital and statutory reserve (continued)

In accordance with the UAE Federal Law No. 2 of 2015 (as amended), and the Articles of Association of the Company, 10% of the profit is transferred to a non-distributable statutory reserve. Such transfer is required to be made until the reserve is equal to 50% of the paid up share capital.

## 11 Borrowings

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| **Non-current** | | |
| Syndicated loan | **1,500,000** | 1,500,000 |

In 2018, the Company obtained syndicated loan from multiple banks, as listed below, to finance the payment of dividends to the shareholder which was declared and paid during the year ended 31 December 2020 and 2019.

The borrowings presented in the statement of financial position consist of the following:

| **Type** | **Currency** | **Interest rate** | **Year of maturity** | **2021** | 2020 |
|---|---|---|---|---|---|
| | | | | **USD'000** | USD'000 |
| **Syndicated loan** | **USD** | **LIBOR + 0.9%** | **2023** | **1,500,000** | 1,500,000 |

The facility carries a fixed margin of 0.9% and one month LIBOR interest rate. The loan matures in a lump sum amount after 5 years from utilisation facility request date with each respective bank.

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| First Abu Dhabi Bank (note 14) | **375,000** | 375,000 |
| Sumitomo Mitsui Banking Corporation | **375,000** | 375,000 |
| Abu Dhabi Commercial Bank (note 14) | **375,000** | 375,000 |
| Bank of America Merrill Lynch International Limited | **75,000** | 75,000 |
| Citibank | **75,000** | 75,000 |
| Mizuho Bank | **75,000** | 75,000 |
| Sgbtci SA | **75,000** | 75,000 |
| UniCredit Bank Austria AG | **75,000** | 75,000 |
| | **1,500,000** | 1,500,000 |

On 24 October 2021, the Company entered into a syndicated Term and Revolving Facilities Agreement with multiple banks and financial institutions, for general corporate purpose and without limitation shall include payment of dividends, payments for products and services to develop integrated services abilities and the payment of transaction costs associated with the facilities.

## 11 Borrowings (continued)

The facilities carry a fixed margin of 0.8% and six-month LIBOR interest rate. The facilities terminate four (4) years from the date of the agreement. No drawdown has been made as at 31 December 2021 against these facilities.

| | **Facility A – Revolving Loan USD'000** | **Facility B – Term Loan USD'000** |
|---|---|---|
| Abu Dhabi Commercial Bank | 165,000 | 110,000 |
| First Abu Dhabi Bank | 165,000 | 110,000 |
| J.P. Morgan Securtities PLC | 90,000 | 60,000 |
| HSBC Bank Midde East | 90,000 | 60,000 |
| Bank of America Europe Designated Activity Company | 60,000 | 40,000 |
| Societe Generale | 60,000 | 40,000 |
| Emirates NBD Capital Limited | 60,000 | 40,000 |
| Goldman Sachs Bank USA | 60,000 | 40,000 |
| | **750,000** | **500,000** |

Pursuant to the above-mentioned Term and Revolving Facilities Agreement, Abu Dhabi National Oil Company (ADNOC), on 23 November 2021, terminated the Shareholder Loan (Refer note 14) of USD 1,250,000 thousand which was entered into by the Company via Shareholder Loan Agreement dated 16 August 2021.

## 12 Provision for employees' end of service benefits

The movement in the provision for employees' end of service benefit is as follows:

| | **2021 USD'000** | 2020 USD'000 |
|---|---|---|
| At 1 January | **86,460** | 87,496 |
| Charge during the year (note 18) | **33,180** | 12,691 |
| Paid during the year | **(6,280)** | (11,190) |
| Reversal during the year | **-** | (2,537) |
| **At 31 December** | **113,360** | 86,460 |

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 13 Trade and other payables

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Accrued expenses | **177,167** | 322,595 |
| Trade payable | **107,831** | 66,361 |
| Retention payable | **11,895** | 3,818 |
| Accrual for employees' benefits | **12,072** | 14,678 |
| Pension payable | **4,685** | 3,707 |
| Other payables | **1,263** | 2,630 |
| | **314,913** | 413,789 |

The average credit period on purchases is 60 days (2020: 60 days). The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 14 Related party balances and transactions

Related parties represent the shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties and the Government of the Emirate of Abu Dhabi and its related parties. Pricing policies and terms of these transactions are approved by the Company's management.

The Company's transaction with other entities owned or controlled, either directly or indirectly by the Government of Abu Dhabi, included in the statement of financial position are as follows:

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Due from related parties (a) | **81,607** | 136,924 |
| Other balances due from related parties (b) | **878,793** | 765,677 |
| | **960,400** | 902,601 |
| **(a) Due from related parties** | | |
| ADNOC Offshore | **81,099** | 135,569 |
| Abu Dhabi National Oil Company (ADNOC) | **280** | 933 |
| ADNOC Refining | **134** | 128 |
| ADNOC Sour Gas | **55** | 96 |
| Al Dhafrah JV | **21** | 54 |
| ADNOC Gas Processing | **18** | 18 |
| Abu Dhabi National Oil Company for Distribution | **-** | 126 |
| | **81,607** | 136,924 |

At 31 December 2021, the Company had a significant concentration of credit risk, with one of the customer representing 99% (2020: one customer representing 99%) of related parties receivables outstanding at that date.

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

### 14 Related party balances and transactions (continued)

Management is confident that this concentration of credit risk will not result in any loss to the Company considering the credit history of these customers and the fact that those balances are due from sister companies majority owned by ADNOC, which is wholly owned by the Government of Abu Dhabi. Fitch Ratings has given ADNOC Group a standalone credit rating of AA+ and a long-term issuer default rating of AA with a stable outlook, in line with the sovereign rating of Abu Dhabi.

Due from related party balances that are less than one month from invoice date are not considered impaired. As at 31 December 2021, related party balances of USD 49,181 thousand (2020: USD 89,880 thousand) were neither past due nor impaired.

As at 31 December, the ageing of related party balances was as follows:

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| *Not past due* | **49,181** | 89,880 |
| Due from 31 to 60 days | **3,977** | 13 |
| Due from 61 to 90 days | **3,004** | 9,242 |
| Due from more than 91 days | **25,445** | 37,789 |
| | **81,607** | 136,924 |

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| **(b) Other balances due from related parties** (i) | | |
| ADNOC Onshore | **653,799** | 575,768 |
| ADNOC Offshore (ii) | **223,776** | 189,332 |
| ADNOC Sour Gas | **863** | 482 |
| Al Dhafra JV | **355** | 95 |
| | **878,793** | 765,677 |
| **Advance to a related party** | | |
| Baker Hughes Holding SPV Ltd.(iii) | **-** | 408 |

(i) Other balances due from related parties represents revenue generated from providing drilling services but not yet billed. Billing will occur based on the terms of the contract. The contract assets primarily relate to the Company's rights to consideration for the provided drilling services to the Company's clients but not billed at the reporting date.

(ii) This balance is presented net of an amount of USD Nil (2020: USD 41,717 thousand) for a credit note issued in the previous year (note 15).

(iii) Baker Hughes Holding SPV Ltd. is no longer considered a related party in accordance with the requirements of IAS 24 *Related Party Disclosures.*

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 14 Related party balances and transactions (continued)

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| **Due to related parties** | | |
| ADNOC Onshore | **231,154** | 102,655 |
| Abu Dhabi National Oil Company for Distribution | **76,403** | 44,852 |
| Abu Dhabi National Oil Company (ADNOC) | **19,580** | 34,593 |
| ADNOC Logistics & Services | **5,244** | 3,538 |
| ADNOC Refining | **1,015** | - |
| | **333,396** | 185,638 |

The balances due to/from related parties are non-interest bearing and are payable/receivable on demand.

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| **Loan from related parties (note 11)** | | |
| First Abu Dhabi Bank | **375,000** | 375,000 |
| Abu Dhabi Commercial Bank | **375,000** | 375,000 |
| | **750,000** | 750,000 |

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| **Cash and cash equivalents (note 9)** | | |
| Abu Dhabi National Oil Company (ADNOC) | **451,752** | 951,993 |
| First Abu Dhabi Bank | **932** | 1,019 |
| Abu Dhabi Commercial Bank | **111** | 140 |
| | **452,795** | 953,152 |

**Shareholder Loan Agreement**

On 16 August 2021, the Company entered into a shareholder loan facility ("Facility") of USD 1,250,000 thousand with ADNOC ("the Shareholder Loan Agreement"). The purpose of the Facility was to provide financing for working capital and general corporate purposes. Pursuant to the Shareholder Loan Agreement (i) the Facility maturity date was to be 30 June 2023, unless extended, cancelled in the event of non-utilisation or the Facility is repaid in accordance with the terms of the Shareholder Loan Agreement; and (ii) interest was to be the aggregate of six (6) month LIBOR plus a margin of 1.2% per annum, payable biannually on 30 June and 31 December of each year. The principal amount of the Facility was payable upon maturity or termination. The Shareholder Loan Agreement contained no maintenance or incurrence covenants. This agreement was terminated on 23 November 2021 and there was no draw down from the Facility in 2021.

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 14 Related party balances and transactions (continued)

Significant transactions with related parties during the year are as follows:

| | **2021** **USD'000** | 2020 USD'000 |
|---|---|---|
| *Revenue* | | |
| ADNOC Onshore | **1,262,004** | 1,156,899 |
| ADNOC Offshore | **886,499** | 881,669 |
| Abu Dhabi National Oil Company (ADNOC) | **52,889** | 900 |
| ADNOC Sour Gas | **-** | 498 |
| Al Dhafrah JV | **-** | 51 |
| | **2,201,392** | 2,040,017 |

| | **2021** **USD'000** | 2020 USD'000 |
|---|---|---|
| *Purchases* | | |
| Abu Dhabi National Oil Company (ADNOC) | **22,780** | 33,191 |
| ADNOC Logistics & Services | **8,931** | 15,075 |
| ADNOC Distribution | **78,929** | 42,571 |
| ADNOC Onshore | **-** | 23 |
| | **110,640** | 90,860 |
| *Other income* | | |
| Abu Dhabi National Oil Company (ADNOC) | **2,427** | - |
| *Finance income* | | |
| Abu Dhabi National Oil Company (ADNOC) | **624** | 413 |
| *Lease payments* | | |
| Abu Dhabi National Oil Company (ADNOC) | **20,405** | 12,113 |
| **Key management compensation** | | |
| Compensation of key management personnel | **4,108** | 2,960 |
| Board of Directors members | **7** | 7 |
| Key management personnel | **8** | 6 |

## 15 Revenue

The Company derives revenue from the transfer of drilling services over time from the following major product lines:

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Drilling services | **2,260,618** | 2,080,462 |
| Facilitation of rigs rental | **8,852** | 17,398 |
| | **2,269,470** | 2,097,860 |

Included in revenue for drilling services for the year ended 31 December 2020 is a discount of USD 41,717 thousand related to a credit note issued by the Company to a related party for past services performed. The credit note issued resulted from commercial negotiations with the related party which were concluded during the year ended 31 December 2020 (refer to note 4).

As at 31 December 2021, Management does not have unsatisfied performance obligations that will be recognised as revenue during the next financial year. The amount disclosed above does not include variable consideration which is constrained.

## 16 Direct cost *

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Staff costs (note 18) | **465,594** | 452,227 |
| Depreciation of property and equipment (note 5) | **374,954** | 348,573 |
| Repairs and maintenance | **152,716** | 146,885 |
| Chemicals | **111,592** | 91,207 |
| Fuel and lubricants | **83,794** | 61,591 |
| Major maintenance charges | **81,314** | 89,066 |
| Hire of equipment | **79,995** | 66,659 |
| Depreciation of right-of-use assets (note 6) | **16,811** | 8,129 |
| Other direct cost | **18,432** | 27,605 |
| | **1,385,202** | 1,291,942 |

## 17 General and administrative expenses *

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Staff costs (note 18) | **199,074** | 165,185 |
| Depreciation of property and equipment (note 5) | **17,519** | 8,464 |
| Impairment of property and equipment (note 5) | **10,321** | - |
| Depreciation of right-of-use assets (note 6) | **6,964** | 1,048 |
| Other expenses | **39,640** | 40,608 |
| | **273,518** | 215,305 |

## 18 Staff costs *

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Salaries and allowances | **531,587** | 508,314 |
| End of service benefits (note 12) | **33,180** | 12,691 |
| Pension | **22,685** | 22,524 |
| Other employees' benefits | **77,216** | 73,883 |
| | **664,668** | 617,412 |

* Comparative figures within direct cost and general and administrative expenses have been reclassified to conform to current period presentation.

## 19 Finance cost, net

| | 2021 USD'000 | 2020 USD'000 |
|---|---|---|
| Finance income | **728** | 872 |
| Less: finance costs | **(17,700)** | (25,346) |
| | **(16,972)** | (24,474) |

## 20 Dividends

On 16 March 2021, the shareholders approved a declaration of dividend amounting to USD 700,000 thousand (2020: USD 700,000 thousand) pertaining to 2020, in accordance with the Shareholders' Agreement in the relevant shareholding portions of USD 665,000 thousand (2020: USD 665,000 thousand) for ADNOC and USD 35,000 thousand (2020: USD 35,000 thousand) for Baker Hughes Holdings SPV LTD. The dividend was fully paid on 22 March 2021.

## 20 Dividends (continued)

On 21 August 2021, the shareholders approved declaration of interim dividend for 2021 amounting to USD 360,300 thousand in accordance with the Shareholders' Agreement in the relevant shareholding portions of USD 342,285 thousand (2020: Nil) for ADNOC and USD 18,015 thousand (2020: Nil) for Baker Hughes Holdings SPV LTD. The dividend was fully paid on 30 August 2021.

## 21 Commitments and contingencies

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| Capital commitments – rigs procurement | **89,659** | 66,350 |
| Bank guarantees | **87** | 48 |

The above commitments, bank guarantees and letters of credit were issued in the normal course of business.

## 22 Financial instruments by category

| | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| **Financial assets** | | |
| Trade and other receivables | **41,955** | 56,122 |
| Due from related parties | **81,607** | 136,924 |
| Cash and cash equivalents | **453,101** | 953,465 |
| | **576,663** | 1,146,511 |
| **Financial liabilities** | | |
| Borrowings | **1,500,000** | 1,500,000 |
| Trade and other payables | **314,913** | 413,789 |
| Due to related parties | **333,396** | 185,638 |
| Lease liabilities | **39,348** | 40,112 |
| | **2,187,657** | 2,139,539 |

## 23 Financial instruments

### Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Market risk management

*Foreign exchange risk*

Foreign exchange risk is limited as the Company's transactions are principally in UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in AED are not considered to represent significant currency risk.

*Price risk*

The Company has no significant direct exposure to commodity price risk. Reduction in oil prices may lead to reduction in the level of future drilling services procured by customers who have significant exposure to oil and gas prices.

*Cash flow and fair value interest rate risk*

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Company's profit.

| | **Effect on profit USD'000** |
|---|---|
| **2021** | |
| +10 increase in basis points | **(1,500)** |
| -10 increase in basis points | **1,500** |
| **2020** | |
| +10 increase in basis points | (1,500) |
| -10 increase in basis points | 1,500 |

The fair values of the Company's financial instruments are not materially different from their carrying amounts.

## 23 Financial instruments (continued)

### Financial risk management (continued)

Credit risk management

Credit risk arises from balances with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, due from group companies and committed transactions. Management assesses the credit quality of its customers, taking into account financial position, past experience and other factors. Individual risk limits are based on management's assessment on a case-by-case basis. The utilisation of credit limits is regularly monitored.

The Company's policy is to place cash and cash equivalents with reputable banks and financial institutions and the Company's management does not expect any losses from non-performance of its counterparties as it believes that adequate allowance has been created against the impaired receivables.

The Company's trade receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount of the trade receivables as disclosed in note 8.

Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses for a short term period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2021 and 2020 based on the contractual undiscounted payments.

| | Notes | Carrying value USD'000 | Contractual cash flows USD'000 | 1 year or less USD'000 | More than 1 year USD'000 |
|---|---|---|---|---|---|
| **31 December 2021** | | | | | |
| Lease liabilities | **6** | **39,348** | **42,091** | **21,017** | **21,074** |
| Borrowings | **11** | **1,500,000** | **1,547,104** | **15,701** | **1,531,403** |
| Trade and other payables | **13** | **314,913** | **314,913** | **314,913** | **-** |
| Due to related parties | **14** | **333,396** | **333,396** | **333,396** | **-** |
| | | **2,187,657** | **2,237,504** | **685,027** | **1,552,477** |

## 23 Financial instruments (continued)

**Financial risk management (continued)**

Liquidity risk management (continued)

| | Notes | Carrying value USD'000 | Contractual cash flows USD'000 | 1 year or less USD'000 | More than 1 year USD'000 |
|---|---|---|---|---|---|
| 31 December 2020 | | | | | |
| Lease liabilities | 6 | 40,112 | 40,231 | 14,691 | 25,540 |
| Borrowings | 11 | 1,500,000 | 1,547,104 | 15,701 | 1,531,403 |
| Trade and other payables | 13 | 413,789 | 413,789 | 413,789 | - |
| Due to related parties | 14 | 185,638 | 185,638 | 185,638 | - |
| | | 2,139,539 | 2,186,762 | 629,819 | 1,556,943 |

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The policies are based on management's assessment of available options, in conjunction with the shareholders.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

The Company monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total equity plus net debt. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity as shown in the statement of financial position plus net debt.

## 24 Segment reporting

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 *Operating Segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Executive Officer, as the Chief Operating Decision Maker (CODM), in order to allocate resources to the segment and to assess its performance. Information reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance focuses on the financial performance of each business segment and property and equipment only. No information that includes the segments' assets (excluding property and equipment) and liabilities are reported to the Chief Executive Officer.

For management purpose the Company is organised into four operating segments, all of which are referred to as 'business units':

**Onshore** segment is the largest segment with land rigs, water wells, work over rigs deployed mainly across ADNOC Onshore with a few rigs also assigned to other concessions within the ADNOC group.

**Offshore Jackup** with owned jackups and some rentals predominantly meeting the ADNOC Offshore drilling needs with a few rigs also assigned to other concessions within the ADNOC group.

**Offshore Island** rigs is the third largest segment representing the Island part of ADNOC Offshore's requirement.

**Oilfield Services (OFS)** segment was created through the partnership with Baker Hughes in late 2018 and provides other services.

The Company operates solely in United Arab Emirates and accordingly no further geographical analysis of revenue, profit, assets and liabilities has been provided.

The revenue reported represents revenue generated from external customers only. There were no inter-segment sales in current or previous year.

Earnings before interest, tax, depreciation and amortisation "EBITDA" is the measure of the profitability being reviewed by the CODM which is the profit for the year before finance cost, net (both of which are as presented in statement of profit or loss and other comprehensive income) and depreciation and impairment (note 16 & 17).

Refer to note 14 for analysis of revenue from major customers.

## 24 Segment reporting (continued)

| 31 December 2021 | Onshore USD'000 | Offshore Jackup USD'000 | Offshore Island USD'000 | OFS USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| Revenue | **1,140,139** | **595,831** | **203,880** | **329,620** | **2,269,470** |
| Direct cost (excluding depreciation) | **(514,707)** | **(168,550)** | **(52,176)** | **(258,004)** | **(993,437)** |
| **Gross profit** | **625,432** | **427,281** | **151,704** | **71,616** | **1,276,033** |
| General and administrative expenses (excluding depreciation and impairment) | **(138,723)** | **(74,993)** | **(24,998)** | **-** | **(238,714)** |
| Other income, net | **6,478** | **2,728** | **909** | **20** | **10,135** |
| **EBITDA** | **493,187** | **355,016** | **127,615** | **71,636** | **1,047,454** |

EBITDA is reconciled to profit for the year as follows:

| | Onshore USD'000 | Offshore Jackup USD'000 | Offshore Island USD'000 | OFS USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **EBITDA** | **493,187** | **355,016** | **127,615** | **71,636** | **1,047,454** |
| Depreciation included in direct cost | **(167,663)** | **(134,526)** | **(44,262)** | **(45,314)** | **(391,765)** |
| Depreciation and impairment included in general and administrative expenses | **(21,196)** | **(10,206)** | **(3,402)** | **-** | **(34,804)** |
| **Total depreciation and impairment** | **(188,859)** | **(144,732)** | **(47,664)** | **(45,314)** | **(426,569)** |
| Finance cost, net | **(11,288)** | **(4,263)** | **(1,421)** | **-** | **(16,972)** |
| **Profit for the year** | **293,040** | **206,021** | **78,530** | **26,322** | **603,913** |

**Notes to the financial statements**
**for the year ended 31 December 2021 (continued)**

## 24 Segment reporting (continued)

| 31 December 2020 | Onshore USD'000 | Offshore Jackup USD'000 | Offshore Island USD'000 | OFS USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| Revenue | 1,075,939 | 596,694 | 202,612 | 222,615 | 2,097,860 |
| Direct cost (excluding depreciation) | (485,284) | (196,736) | (67,883) | (185,337) | (935,240) |
| Gross profit | 590,655 | 399,958 | 134,729 | 37,278 | 1,162,620 |
| General and administrative expenses (excluding depreciation) | (115,243) | (80,672) | (9,878) | - | (205,793) |
| Other income, net | 1,467 | 814 | 276 | 338 | 2,895 |
| EBITDA | 476,879 | 320,100 | 125,127 | 37,616 | 959,722 |

EBITDA is reconciled to profit for the year as follows:

| | Onshore USD'000 | Offshore Jackup USD'000 | Offshore Island USD'000 | OFS USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| EBITDA | 476,879 | 320,100 | 125,127 | 37,616 | 959,722 |
| Depreciation included in direct cost | (162,311) | (133,543) | (42,533) | (18,315) | (356,702) |
| Depreciation included in general and administrative expenses | (5,327) | (3,728) | (457) | - | (9,512) |
| Total depreciation | (167,638) | (137,271) | (42,990) | (18,315) | (366,214) |
| Finance cost, net | (13,705) | (9,594) | (1,175) | - | (24,474) |
| Profit for the year | 295,536 | 173,235 | 80,962 | 19,301 | 569,034 |

The following table represents segment assets for the Company's operating segments as reviewed by Chief Operating Decision maker:

| | **Onshore USD'000** | **Offshore Jackup USD'000** | **Offshore Island USD'000** | **OFS USD'000** | **Total USD'000** |
|---|---|---|---|---|---|
| **31 December 2021** | | | | | |
| **Property and equipment** | **940,129** | **1,669,016** | **251,156** | **503,142** | **3,363,443** |
| 31 December 2020 | | | | | |
| Property and equipment | 1,031,971 | 1,520,538 | 265,460 | 443,467 | 3,261,436 |

## 25 Basic and diluted earnings per share

Earnings per share amounts are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of share outstanding during the year.

| | **2021** | 2020 |
|---|---|---|
| Profit attributable to shareholders of the Company (USD'000) | **603,913** | 569,034 |
| Weighted average number of shares for the purpose of basic earnings per share ('000) (note 10) | **16,000,000** | 16,000,000 |
| Earnings per share (USD) | **0.038** | 0.036 |

There are no dilutive securities, therefore diluted EPS is the same as basic EPS. The weighted average number of shares outstanding at 31 December 2021 are adjusted proportionately as if the share split and capitalisation had taken place at the start of the earliest year for which EPS is presented.

## 26 Subsequent event

The Board of Directors, in their meeting held on 10 February 2022, proposed a final cash dividend of AED 7.46 fils per share amounting to USD 325,000 thousand for the year ended 31 December 2021. The proposed dividend is subject to approval of the shareholders at the Annual General Meeting.

## 27 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2022.