

International Association of Drilling Contractors



AIP Revenue Recognition Subcommittee Meeting

11 June 2015

2 – 4 pm

Parker Drilling
5 Greenway Plaza, Suite 100
Houston, TX 77046

Minutes

Attendance:

In-Person:

1. Dean Gant (IADC)
2. Nauman Yousuf (Parker Drilling)
3. Leslie Nagy (Parker Drilling)
4. Brandili Dehls (Parker Drilling)
5. Jay Ignacio (Atwood Oceanics)
6. Carrie Cumming (Atwood Oceanics)
7. Jacob Campbell (Ensco)
8. Scott Lyon (Ensco)
9. Ken Smith (Ensco)
10. Scott Davis (Noble Drilling)
11. Philip Rider (Sidewinder Drilling)
12. Debbie King (Vantage Drilling)
13. Ed Brantley (Vantage Drilling)
14. Maria Liapino (Weatherford)
15. Andy Hart (Rowan)
16. Nick Brown (Seadrill)
17. Maria Sabat (Noble Corp)
18. Chip Schweiger (Whitley Penn, LLP)

Via Phone:

19. Katie Cunningham (Paragon Offshore)

Agenda Item: Next meeting & Location

Ken Smith, Director – Financial Reporting, of Ensco has offered to host the next meeting on Monday, August 17, 2015 from 2 to 4 P.M. at 5847 San Felipe, Ste. 3300, Houston, TX 77057.

Note: Anti-Trust Statement

It is the policy of IADC committees that no discussion of any specific proprietary information will be exchanged. It is also strictly forbidden that any promotion of or solicitation for participation in agreements between IADC members be allowed.

Agenda Item: “Purpose of the Sub-Committee Meeting”

The sub-committee discussed its mission statement: “As an industry, to come to a consensus and document the Association’s understanding of and position on the application of the new revenue recognition standard specifically regarding drilling contracts”. The sub-committee will attempt to prepare

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documentation to support the drilling industry's position to auditors and the SEC as requested. This will be finalized in an IADC formal white paper from the sub-committee. It was discussed that the SEC sees a % of completion approach to accounting for the drilling contract. The white paper will state a clear definition of what the drilling industry does, how contracts are written and to support our conclusion for the application of the new pronouncement. Items to be included would be the decision of the distinction between contract components of drilling vs. service revenue.

The sub-committee determined these four guidelines: 1) that the members should report their results before the main committee which meets quarterly. 2) to identify the issues/views and develop a draft position for the committee to review, 3) the sub-committee agrees to meet once a month during the 3rd or 4th week and 4) to perform the goal of a documented position on drilling contract revenue recognition by December 31, 2015. Maria Sabat of Noble Drilling, Brandili Dehls of Parker Drilling and Ken Smith of EnSCO volunteered to be involved in the drafting of the final document (i.e.: Drafting Team)..

Regarding Steps 1, 2 and 3 below, the sub-committee attendees are asked to submit to Nauman Yousuf (nauman.yousuf@parkerdrilling.com) the following information by July 31, 2015 in time to be compiled before the next sub-committee meeting. Each committee member should work with their audit firm for any guidance available at the present time. Each member is asked to have a list of topics and proposed accounting procedures for the committee to discuss. These procedures will include the practice of bifurcating the business of drilling vs. service revenue. The goal of this will be the application of the new accounting standard to the standard drilling contract for revenue recognition. The drilling contract's components/elements should be stated and address the accounting ramifications.

The following four steps were identified as an aid in the preparation of this material:

Each committee member should document what their respective contracts include and what each firm does to address the accounting ramifications, i.e. the practice of rebuilds, bonuses, etc.

Identify the contract's performance obligations and the unit of measurement. This would include mobilization/demobilization and start-up costs.

Determine the transaction price. These are examples of the items to be addressed for accounting consideration:

- A. Multiple rates linked to escalation clauses and the cost of labor
- B. Financing components
- C. Day rates linked to an index; multiple day rates
- D. Escalation clauses based on time and performance cost increases
- E. Variable considerations, i.e. performance bonuses
- F. Downtime rates
- G. Concessions and modifications, i.e. late fees and delays
- H. The determination of blended rates.

Allocation of Revenue according to the drilling contract.

Agenda Item: "Third Party Firms to Invite"

The committee discussed the need for inviting audit firm representatives to provide a presentation in a future meeting. The members will make those recommendations to be added to a future sub-committee meeting agenda. For now, the intent is to keep this meeting within the industry representatives.

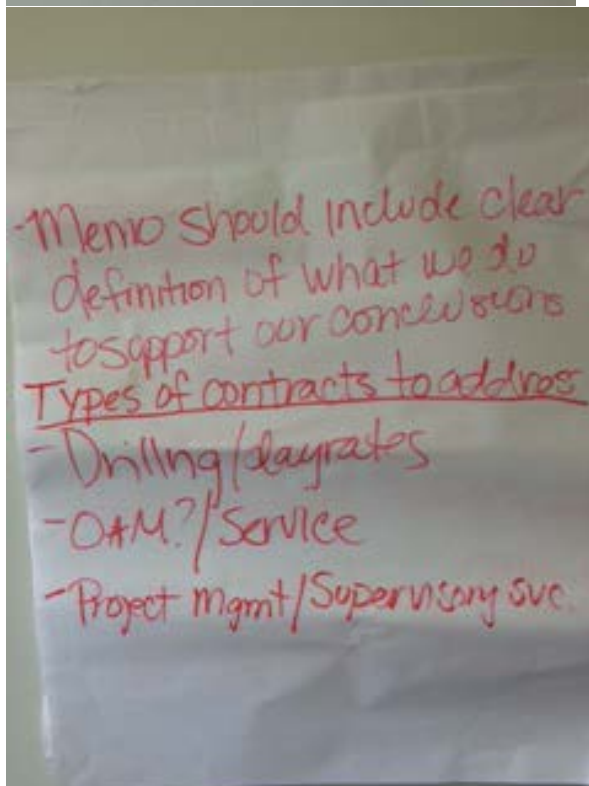
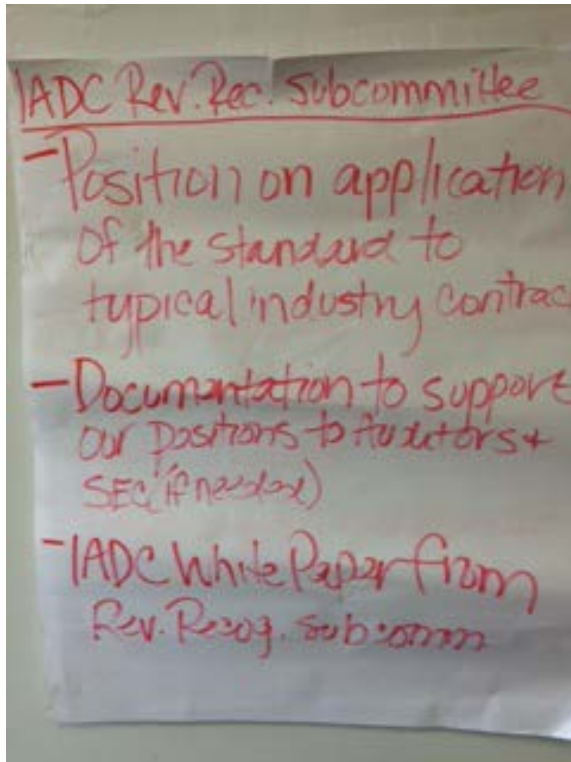
See Appendix for Group Notes from the Meeting

After a full discussion of the agenda topics the committee was adjourned.

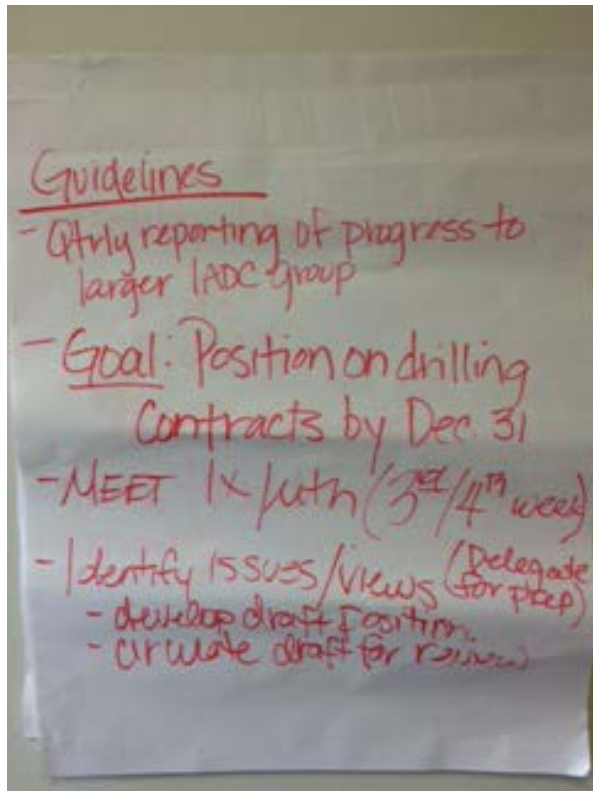
For further information regarding this committee please contact Dean Gant, IADC Senior Finance Director at 713-292-1945, ext. 213.

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Appendix (Group Notes from Meeting)



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- Identify "Drafting" team
 - Maria
 - Brandili
 - Ken or delegate
- Need to address change mgmt

- How do we operate a drilling contract, what do we do
 - what are the components/elements
- Send summary by 7/31
- Next mtg Thurs 8/17

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Step 1 - Identify contract

- Modifications
 - New or extension
- Combination of contracts
 - 1 contract or separate
- Within 1 contract
 - Sale of equip / ~~with~~ LIT - ~~is~~ ~~is~~
this separate from the
main contract

Step 2 - Perf oblig

- Unit of measurement
- Mobilization / Demob
- Startup / pre-contract costs
- Add'l services (Inventory)
- Options to renew contract

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Step 3 - frank price

- Concessions
- financing component
(contract > 1yr)
- Multiple day rates
- Dayrates linked to an index
- escalation clauses (based on time, performance, cost increasing)
- Variable consideration (Perf. bonuses)
- Downtime rates
- Late fees (delay of start)