

International Association of Drilling Contractors



AIP Committee Meeting

18 June 2015

2 – 4 pm

IADC

10370 Richmond Ave., Suite 760
Houston, TX 77042

Minutes

Agenda Item: Next meeting & Location

Dean Gant, Sr. Director Finance, IADC has offered to host the next quarter's meeting on September 17, 2015 from 2 to 4 P.M. at 10370 Richmond Ave., Ste 760, Houston, TX 77042.

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: "Revenue Recognition Standard"

Mr. Tracey Henson of Price Waterhouse Coopers presented an educational session on the upcoming Revenue Recognition standard. He discussed the standard's timeline of development from 2002 to through its current state and provided background on key elements of the standard. Mr. Henson also discussed areas of considerations for drilling entities to apply the five-step model of the revenue standard. Amongst the considerations highlighted were properly identifying performance obligations and whether variable consideration exists. Within step 2 on identifying performance obligations, Mr. Henson indicated the industry will need to consider whether all drilling-related services (e.g., catering, transportation, drilling materials and supplies, rental tools) are a single performance obligation. Additionally, he indicated the industry will need to access whether mobilization fees are a separate performance obligation. Within step 3 to determine transaction price, Mr. Henson highlighted that the industry will need to consider whether different dayrates specified in drilling contracts for different activities (e.g. operating, standby, etc.) could be interpreted as variable compensation.

Agenda Item: "Revenue Recognition Subcommittee Update"

Nauman Yousuf, Parker Drilling, Chairman of the subcommittee, discussed the activities of the subcommittee's first meeting held on June 11, 2015. He stated that the mission statement of the subcommittee is the preparation of a white paper which would detail IADC's understanding of and position on the application of the new revenue recognition standard specifically regarding drilling contracts. The current focus of the subcommittee is on revenue recognition. If a final standard is issued on leases in the future, the subcommittee will add this to its agenda for consideration.

The next meeting of the subcommittee will be hosted by Ken Smith, Director – Financial Reporting, of EnSCO on Monday, August 17, 2015 from 2 to 4 P.M. at 5847 San Felipe, Ste. 3300, Houston, TX 77057. The agenda will include discussion of the types of contracts, performance obligations and transaction pricing. It will also include any auditor feedback offered to members of the subcommittee. The subcommittee will also discuss a possible industry response to the SEC regarding revenue recognition and also to encourage industry consistency regarding the standard's implementation.

Agenda Item: "UK Filing requirements eliminating U.S. GAAP and requiring UK GAAP or IFRS" -

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Some of the committee members stated that their companies are incorporated in the United Kingdom. The United Kingdom is in the process of changing its accounting regulations from old UK GAAP and giving companies a choice of new UK GAAP or IFRS. Previously, some committee members have been complying with UK Companies Law by utilizing an exemption which allows filing consolidated financials under US GAAP. This exemption expires this year and it is unclear whether the UK government will extend the exemption. If this occurs, consolidated statutory filings will be required to be in accordance new UK GAAP or IFRS. Members discussed their current UK filing status and plans for ensuring compliance.

Agenda Item: “Inventories of Materials and Supplies; Types of items considered inventory vs. capital vs. expensed when purchased; Inventory obsolescence process”

The committee discussed various methods of dealing with a variety of issues impacting this accounting area. Some committee member indicated their practice is accounted for purchases of inventories of materials and supplies as an asset. As the goods are issued from inventory, the associated costs are expensed. For inventory obsolescence, these committee members generally make a provision for slow moving non-critical items.

Other members indicated maintaining a balance sheet value for only inventory held on shore. For inventory sent to rigs, the costs are expensed upon purchase. The basis for this practice is that the inventory does not have any value once on the rig. Some, but not all, of the members following the expense upon purchase practice, maintain an imprest inventory on their balance sheet.

Agenda Item: “SAP user matter; best practices for reassigning plant codes to ensure company code accounting” – Committee members discussed their practices in SAP and Oracle in manually or automatically configuring a plant code to a new operating company with change in operating location.

Agenda Item: “Liquidated Damages” – The committee members discussed the practice of adjusting revenue as a result of late arrival liquidated damages or bonus malice. Depending on contract terms and facts/circumstance, the committee general indicated liquidated damages for late arrival would be a reduction to mobilization fees and recognized over the contract term.

Agenda Item: “New Matters”

The committee had a brief discussion of who had received recent comment letters from the SEC. The one resulting topic discussed was impairment.

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

Attendance:

| Name | | Company Name |
|-------------|---------|--|
| Jay | Paul | ATWOOD OCEANICS, INC. |
| Mark | Smith | ATWOOD OCEANICS, INC. |
| Carie | Cumming | ATWOOD OCEANICS, INC. |
| Janelle | Flores | DIAMOND OFFSHORE DRILLING, INC. |
| Melissa | Essary | DIAMOND OFFSHORE DRILLING, INC. |
| Beth | Gordon | DIAMOND OFFSHORE DRILLING, INC. |
| Kevin | Smith | ENSCO PLC |
| Melissa | Cogle | ENSCO PLC |
| Dean | Gant | IADC |

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| Edward | Wong | PACIFIC DRILLING SERVICES, INC |
| Richard | Tatum | PACIFIC DRILLING SERVICES, INC |
| Katie | Cunningham | PARAGON OFFSHORE |
| Kelly | Bludau | PARKER DRILLING COMPANY |
| Brandili | Dehls | PARKER DRILLING COMPANY |
| Leslie | Nagy | PARKER DRILLING COMPANY |
| Wayne | Fox | PARKER DRILLING COMPANY |
| Nauman | Yousuf | PARKER DRILLING COMPANY |
| Jessie | Satterwhite | PATTERSON |
| Andy | Hart | ROWAN COMPANIES PLC |
| Nick | Brown | SEADRILL |
| Philip | Rider | SIDEWINDER DRILLING INC |
| David | Meliza | TRANSOCEAN |
| Anthony | DeBlanc | WEATHERFORD |