



**Meeting Minutes**  
**IADC Accounting Issues/Procedures Committee**  
**23 June 2016, 2-4pm**  
**International Association of Drilling Contractors**  
10370 Richmond Ave., Ste. 760, Houston, TX 77042

**Agenda Item: Next meeting & Location**

The IADC has offered to host the next quarter's meeting on September 15, 2016, from 2 to 4 P.M. at 10370 Richmond Ave., 8<sup>th</sup> Floor conference room, 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: "Update from revenue and lease subcommittee and group discussion"**

Colleen Grable of Ensco is the new subcommittee chairwoman for 2016. Nauman Yousuf of Parker Drilling is on assignment. The next subcommittee meeting is on June 30, 2016 at the offices of Rowan Companies, 2800 Post Oak Blvd., Houston, TX 77056 from 2pm to 4pm. Colleen discussed the outcome of the last meeting and the minutes of that meeting are in the process of being approved by the subcommittee for later posting on the IADC website. The subcommittee is in the process of identifying all of the components and the appropriate method of classifying and accounting for them under the new guidelines. Some of the items discussed were the accounting for termination fees, variable aspects of the lease and the allocation of service components vs. lease components. All of these considerations will be addressed at the upcoming subcommittee meetings.

**Agenda Item: "Application impacts of recent SEC guidance on use of non-GAAP measures"**

The committee had a general discussion of the recently issued SEC staff guidance regarding the use of non-GAAP measures. The committee discussed the potential impacts on their use of non-GAAP disclosures. Most indicated they did not anticipate a significant change to their reporting of non-GAAP measures (e.g. EBITDA/Adjusted EBITDA) other than ensuring such measures do not proceed the most closely related GAAP measure in particular within earnings releases. Further discussion occurred surrounding what constitutes nonrecurring, infrequent, or unusual if the charge or gain is reasonably likely to recur within two years or had occurred within the past two years under the SEC guidance. Most expressed a view that it would still remain appropriate in certain instances to adjust for certain non-cash items, such as losses from impairment or gains on debt extinguishment, even if it did not meet the two-year criteria.

**Agenda Item: "Application of salvage value to fixed assets"**

The committee discussed their various treatments of using salvage values. Participants indicated that attributed salvage values to their rigs. The percentage of salvage values were dependent to some extent upon the level of rig componentization used with some committee members only attributing salvage value to the hull of the rigs at around 10% and other attributing to hull and some capital equipment at around 5%. Some stated that they determined salvage value on a rig by rig basis. Some committee members indicated some changes to estimates of salvage values while in other instances recent scrapping activity validated the salvage percentage estimate.

**Agenda Item: "New Matters"**

The committee also discussed the following matters:

- A. Useful life of rig – A matter was raised if based on current industry activity, including scrapping of rigs, whether any participant had considered decreasing 30-35 year useful lives. Some members indicated having consider the matter and determined not to do so. The committee was in general agreement that a 30-35 year useful life remained appropriate based on expectations of the hull’s life. Some members indicated changing estimate of useful lives in particular on a rig-by-rig basis following shipyard stays.
- B. Government reimbursements – A matter was raised about the method of accounting for government reimbursement for the costs incurred in hiring foreign nationals, i.e. revenue recognition or offsetting expenses. Participants in the committee indicated that the matter was not something that had experienced in their companies.
- C. Support for future assumption used in impairment testing models – The committee discussed what, if any, level of third-party support was required by their auditors in their evaluation of internal control and financial statement audit impairment testing. Some participants indicated that their auditors relied solely on historical data, inquiry of management and management’s knowledge of appropriate future assumptions (i.e. dayrates, contract starts, utilization, etc.). Some indicated that their auditors corroborated assumptions through with third-party reports available to them from their firm resources. Some members did provide third-party support, such as reports from Fearnley’s containing research on future projections, that the auditors used for SOX control testing and financial statement audit purposes.
- D. Q2’16 impairment triggers – The committee discussed whether that considered any industry-wide conditions to be an indication of a triggering event for the second quarter. Most stated that they did not believe any triggering events have occurred since 2015.

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

**Attendance:**

<b>Name</b>		<b>Company Name</b>
Jay	Ignacio	<b>ATWOOD OCEANICS, INC.</b>
Melissa	Essary	<b>DIAMOND OFFSHORE DRILLING, INC.</b>
Jacob	Campbell	<b>ENSCO PLC</b>
Colleen	Grable	<b>ENSCO PLC</b>
Derek	Sample	<b>ENSCO PLC</b>
Zarksis	Italia	<b>ENSCO PLC</b>
Dean	Gant	<b>IADC</b>
Richard	Tatum	<b>PACIFIC DRILLING</b>
Kelly	Bludau	<b>PARKER DRILLING</b>
Brandili	Dehls	<b>PARKER DRILLING</b>
Wayne	Fox	<b>PARKER DRILLING</b>
David	Meliza	<b>TRANSOCEAN</b>
Anthony	Deblanc	<b>WEATHERFORD INTERNATIONAL</b>