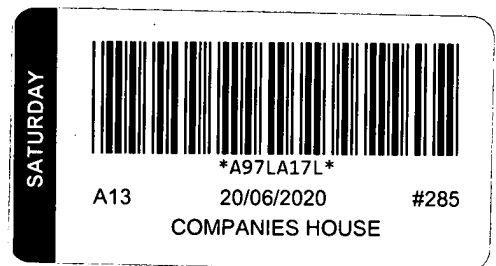


Company registration no. SC145802

Schoeller-Bleckmann Darron Limited

**Annual Report
For the year ended 31 December 2019**



Contents

For the year ended 31 December 2019

	Page
Company Information	1
Strategic Report	2-3
Directors' Report	4-5
Independent Auditor's Report	6-8
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12-23

Company Information

For the year ended 31 December 2019

DIRECTORS

M Fosleitner

G Grohmann

K Mader

C MacPherson

COMPANY SECRETARY

Stronachs Secretaries Limited

REGISTERED OFFICE

Unit 47

Howe Moss Terrace

Kirkhill Industrial Estate

Dyce

Aberdeen

AB21 0GR

COMPANY NUMBER

SC145802

AUDITOR

Mazars LLP

Tower Bridge House

St Katharine's Way

London

E1W 1DD

Strategic Report

For the year ended 31 December 2019

The directors present their Strategic Report for Schoeller-Bleckmann Darron Limited the year ended 31 December 2019.

Business Review

Revenue has decreased by 16.2% to \$13.3 million from \$15.9 million. Profit before tax has decreased by 22.0% to \$1.7 million from \$2.1 million. Reasons were aggressive pricing of competitors for NM material, reduced BICO business due to less milling jobs for CT motors, and copied PBL tools that forced us to reduce our prices by 30% in order to keep in the Russian market.

Our key objectives remain unchanged, keeping costs low while increasing revenues and market share due to best value for money of our products and services for customers.

Due to investments in new machinery we could offer high-tech repairs strongly requested by our customers.

To overcome threats in the market we need to remain customer oriented and to monitor our pricing strategy closely.

Future developments

The Company plans to increase substantially its existing market share both in Russia and other geographical locations in the Former Soviet Union while offering additionally high precision manufacturing.

Principal risks and uncertainties

The Company's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk and credit risk. The Company participates in policies developed and implemented for the group as a whole by the ultimate parent Company SBO AG undertaking to monitor and control these risks.

Given the size of the Company, the members have not delegated the responsibility of monitoring financial risk management to a sub-committee. The Company's Finance Department implements the policies set by the directors.

Credit risk

The Company has implemented policies that require customers to be credit checked before new accounts are accepted.

The Company has a risk management programme in place that seeks to limit adverse effects on financial performance by monitoring levels of debt finance and the related finance costs when applicable. The Company does not use derivative instruments to manage interest rate costs and, as such, no hedge accounting is applied.

The amount of exposure to any individual counterparty is subject to a limit, which is re-assessed annually by the members.

Foreign exchange risk

The Company operates in a number of currencies and is exposed to exchange rate fluctuations. This risk is assessed on an ongoing basis. The Company does not use derivative financial instruments to manage currency exchange movements and, as such, no hedge accounting is applied.

Interest rate cash flow risk

The group holds interest bearing assets including Company bank balances that receive interest income at a variable rate. The risks arising from holding such assets are regularly reviewed by the directors.

Political risk

The Company's branch operates in the Russian Federation. In the past twelve months there have been significant operational challenges due to the ongoing political situation including trading sanctions and currency issues. The directors continue to closely monitor operations to enable the Company to react as required.

Strategic Report (continued)

For the year ended 31 December 2019

Covid 19 risk and impact

Subsequent to the year end, COVID-19 has been classified as a global pandemic by the World Health Organisation.

As yet this pandemic has had minimal impact in the branch's location and business operations are ongoing. Management are monitoring the situation but do not expect it to significantly impact operations given they operate in a key industry.

There is the risk that the pandemic impacts the operations and the government requires all businesses to close.

Brexit

The company and branch are not impacted by the decision of the United Kingdom electorate to leave the European Union ("Brexit").

Financial key performance indicators

The Company regard the level of revenue and operating profit as the key indicators of the Company's financial performance. These indicators are included above.

All the above indicators are monitored on an ongoing basis.

This report was approved by the board and signed on its behalf.



M Fosleitner

Director

Date: 6 June 2020

Directors' Report

For the year ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of the Company in the year under review were those of the manufacture, repair and sale of non-magnetic and black steel drill string components for oil and gas wells, as well as thread connection inspections services, rent of down-hole motors, drilling jars, NMDC's, and multi-activating circulation wells for the oil & gas industry.

Results and dividends

The profit for the year, after taxation, amounted to \$1.2 million (2018: \$1.6 million)

During the year an interim dividend of \$0.8 million (2018: \$1.1 million) was paid. The directors do not recommend the payment of a final dividend.

Directors

The directors who served during the year were:

M Fosleitner

G Grohmann

K Mader

C MacPherson

The Company's Articles of Association include provisions indemnifying the directors for all liabilities incurred in the performance of their duties.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: \$nil).

Matters covered in the Strategic report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulation 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 2 to 3. These matters relate to future developments and financial instruments.

Overseas branches

The company has a branch in the Russian Federation.

Directors' Report (continued)

For the year ended 31 December 2019

Directors' Responsibilities Statement

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Provision of Information to Auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

Coronavirus and the COVID-19 pandemic

The impact of the Coronavirus outbreak is yet not clear and at the date of this report it is not possible to evaluate all potential implications for the Company's trade, customers, and suppliers. The directors consider that depending on the effect of the pandemic as well as government responses to it, the company may face different economic scenarios such as a slowdown or recession. This may directly affect the trade of the company. The directors are actively analysing possible consequences whilst directing the company's response to mitigate these risks. Their principal objectives are to protect the health and safety of personnel in the performance of their duties, ensure the continuity of operations, and to fully cooperate with public authorities on all matters within their scope.

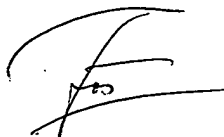
Directors' Report (continued)

For the year ended 31 December 2019

Auditor

The auditor, Mazars LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by

A handwritten signature in black ink, appearing to be 'M Fosleitner', with a stylized flourish above the letters.

M Fosleitner

Director

Date: 6 June 2020

Independent Auditor's Report to the Members of Schoeller-Bleckmann Darron Limited

For the year ended 31 December 2019

Opinion

We have audited the financial statements of Schoeller-Bleckmann Darron Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 'Reduced Disclosure Framework'.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. 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 ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the company financial statements, which is not modified in relation to going concern, we draw your attention to the directors' view on the impact of the COVID-19 as disclosed on page 2, and the consideration in the going concern basis of preparation on page 12 and non-adjusting post balance sheet events on page 19.

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK.

The full impact following the recent emergence of the COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the company's trade, customers, suppliers and the wider economy.

Independent Auditor's Report to the Members of Schoeller-Bleckmann Darron Limited

For the year ended 31 December 2019

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specific by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of Schoeller-Bleckmann Darron Limited

For the year ended 31 December 2019

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

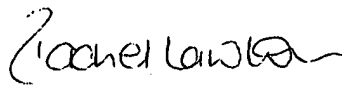
Auditor's responsibilities for the audit of the financial statements

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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.



Rachel Lawton (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Mazars LLP,
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date: 9 June 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 \$	2018 \$
Revenue	4	13,326,455	15,902,877
Cost of sales		(9,756,326)	(11,038,881)
Gross profit		3,570,129	4,863,996
Administrative expenses		(1,910,469)	(2,818,152)
Operating profit	5	1,659,660	2,045,844
Finance income	7	71,872	99,968
Finance costs	8	(58,120)	-
Profit before taxation		1,673,412	2,145,812
Taxation	9	(436,818)	(579,884)
Profit for the year attributable to owners of the Company		1,236,594	1,565,928
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>		-	-
<i>Items that will be reclassified to profit or loss:</i>		-	-
Total other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to owners of the Company		1,236,594	1,565,928

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

The notes on pages 13 to 29 form part of these financial statements.

Statement of Financial Position

As at 31 December 2019

	Notes	2019 \$	2018 \$
ASSETS			
Non-current assets			
Property, plant and equipment	10	9,486,965	9,210,251
Right-of-use assets	11	507,781	-
Deferred tax asset	17	241,141	225,119
		<u>10,235,887</u>	<u>9,435,370</u>
Current assets			
Inventories	12	5,290,789	5,857,650
Trade and other receivables	13	6,556,571	5,343,324
Cash and cash equivalents	14	1,154,840	1,414,319
		<u>13,002,200</u>	<u>12,615,293</u>
Total assets		<u>23,238,087</u>	<u>22,050,663</u>
LIABILITIES			
Current liabilities			
Trade and other payables	15	2,250,347	2,019,769
Current tax liabilities		66,643	71,812
Obligations under leases	11	5,954	-
		<u>2,322,944</u>	<u>2,091,581</u>
Non-current liabilities			
Obligations under leases	16	519,467	-
		<u>519,467</u>	<u>-</u>
Total liabilities		<u>2,842,411</u>	<u>2,091,581</u>
Net assets		<u>20,395,676</u>	<u>19,959,082</u>
EQUITY			
Share capital	18	6,782,773	6,782,773
Retained earnings		13,612,903	13,176,309
Total equity		<u>20,395,676</u>	<u>19,959,082</u>

The financial statements were approved by the Board of Directors and authorised for issue and signed on their behalf by:

M Fosleitner

Director

Date: 6 June 2020

The notes on pages 13 to 29 form part of these financial statements.

Statement of Changes in Equity

As at 31 December 2019

	Share capital \$	Retained earnings \$	Total equity \$
At 1 January 2018	6,782,773	12,710,381	19,493,154
Profit for the year	-	1,565,928	1,565,928
Other comprehensive income	-	-	-
Total comprehensive income	-	1,565,928	1,565,928
Dividends paid	-	(1,100,000)	(1,100,000)
At 31 December 2018	6,782,773	13,176,309	19,959,082
Profit for the year	-	1,236,594	1,236,594
Other comprehensive income	-	-	-
Total comprehensive income	6,782,773	14,412,903	21,195,676
Dividends paid	-	(800,000)	(800,000)
At 31 December 2019	6,782,773	13,612,903	20,395,676

The notes on pages 13 to 29 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1. Corporate information

Schoeller-Bleckmann Darron Limited is a Company incorporated in Scotland. The registered address of the Company is given on page 1. The principal operations of the Company are included in the Directors' Report on page 4-5.

2. Accounting policies

2.1. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with the applicable provisions of the Companies Act 2006. Except for certain disclosure exemptions detailed below, the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

Basis of measurement

The financial statements have been prepared on the historical cost basis.

Going concern

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

Disclosure exemptions applied

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101 paragraph 8:

- (i) The requirement of IFRS 7 'Financial Instruments: Disclosures' relating to the disclosure of financial instruments and the nature and extent of risks arising from such instruments;
- (ii) The requirement of IFRS 13 'Fair Value Measurement' paragraphs 91 to 99 relating to the fair value measurement disclosures of financial assets and financial liabilities that are measured at fair value, such as the available for sale investments and derivative financial instruments;
- (iii) The applicable requirements of IAS 36 'Impairment of Assets' relating to the disclosures of estimates used to measure recoverable amounts;
- (iv) The applicable requirements of IAS 1 'Presentation of Financial Statements' relating to the disclosure of comparative information in respect of the number of shares outstanding at the beginning and end of the year (IAS 1.79(a)(iv)), the reconciliation of the carrying amount of property, plant and equipment (IAS 16.73(e)) and the reconciliation of the carrying amount of intangible assets (IAS 18(118)(e)).
- (v) The requirement of IAS 1 'Presentation of Financial Statements' paragraphs 134 to 136 relating to the disclosure of capital management policies and objectives;
- (vi) The requirements of IAS 7 'Statement of Cash Flows' and IAS 1 'Presentation of Financial Statements' paragraph 10(d), 111 relating to the presentation of a Cash Flow Statement;
- (vii) The requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31 relating to the disclosure of standards, amendments and interpretations in issue but not yet effective; and

Notes to the Financial Statements

For the year ended 31 December 2019

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

- (viii) The requirements of IAS 24 'Related Party Disclosures' relating to the disclosure of key management personnel compensation and relating to the disclosure of related party transactions entered into between the Company and other wholly-owned subsidiaries of the group.

For the disclosure exemptions listed in points (i) to (iii), the equivalent disclosures are included in the consolidated financial statements of the group, Schoeller-Bleckmann Oilfield Equipment AG which the Company is consolidated into.

Adoption of new and revised standards

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company (see note 11).

The company had to change its accounting policies as a result of adopting IFRS 16. The company elected to adopt the cumulative catch-up approach to recognise the cumulative effect of initially applying the new standard on 1 January 2019. As permitted under IFRS 16, the company has taken the exemption of not including short term leases on the balance sheet. This is disclosed in note 3. The other amendments did not have a material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Functional and presentational currency

The Company's functional currency is US Dollar, as this is the currency of the primary economic environment of that which the Company operates.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 2.14.

2.2. Foreign currency

Transactions in foreign currencies are translated into the functional currencies at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at each reporting date are translated into the functional currency at the spot exchange rates as at that date. Exchange rates are \$1: RR62.045 (2018: \$1: RR69.72).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2019

2.3. Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided during the year in the normal course of business, net of discounts, VAT, and other sales-related taxes. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is recognised on despatch of goods.

2.4. Income tax

Current income tax assets and/or liabilities comprise obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid/due at the reporting date. Current tax is payable on taxable profits, which may differ from profit or loss in the financial statements. Calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, for deductible temporary differences associated with investments in subsidiaries a deferred tax asset is recognised when the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2019

2. Accounting policies (continued)

2.5. Property plant and equipment

Property, plant and equipment is recognised as an asset only if 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.

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. Cost of an item of property, plant and equipment comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and an initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located.

After recognition, all property, plant and equipment are carried at costs less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided at rates calculated to write down the cost of assets, less estimated residual value, over their expected useful lives on the following basis:

Freehold property	5% to 20% on cost
Plant and machinery	10% to 25% on cost
Motor vehicles	20% to 33% on cost
Fixtures & fittings	25% to 33% on cost

Construction in progress is not depreciated until brought into use.

The residual value and the useful life of an asset is reviewed at least at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying value of the asset and are recognised in statement of comprehensive income.

2.6. Impairment of non-financial assets

At each reporting date, the Company reviews the carrying value of non-financial assets 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 in order to determine the extent of the impairment loss.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset, or cash generating unit.

The present value calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset, and from its ultimate disposal, applying an appropriate discount rate to those future cash flows.

Where the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognised immediately in profit or loss. An impairment loss recognised for all assets is reversed in a subsequent period if, and only if, the reasons for the impairment loss have ceased to apply.

2.7. Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Costs includes all direct costs and an appropriate proportion of fixed and variable overheads.

Notes to the Financial Statements

For the year ended 31 December 2019

2. Accounting policies (continued)

2.8. Financial instruments

Financial assets carried at amortised cost

Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus directly attributable transaction costs.

Financial assets carried at amortised cost are classified as loans and receivables and comprise trade and other receivables and cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and reward are transferred.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables only.

Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

2.9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

2.10. Equity and reserves

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior period retained profits.

Notes to the Financial Statements

For the year ended 31 December 2019

2. Accounting policies (continued)

2.11. Provisions

Provision for onerous contracts, restructuring costs and legal claims are recognised when: the company has a present or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is assessed based on the impact on the class of obligations as a whole, even if the likelihood of an outflow with respect to any one individual item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

2.12. Pension costs and other post-retirement benefits

The company contributes to the Russian Social Security Fund in compliance with local legislation. Costs are expensed as incurred.

2.13. Leases

All leases are accounted for in the same manner:

- A right of use asset and lease liability is recognised on the statement of financial position, initially measured at the present value of future lease payments;
- Depreciation of right-of-use assets and interest on lease liabilities are recognised in the statement of comprehensive income; and

The initial measurement of the right of use asset and lease liability takes into account the value of lease incentives such as rent free periods, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The company's lease liabilities are included in Interest-bearing loans and borrowings.

Notes to the Financial Statements

For the year ended 31 December 2019

2.14. Significant management judgements in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Company that have the most effect on the financial statements.

Recognition of deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the level and the likely timing of future taxable profits. Further details on deferred tax asset recognition are disclosed in note 13.

Key sources of estimation uncertainty

Right-of-use assets

The interest rate used to calculate the finance charge on a right-of-use asset is the same as the interest rate used by the parent company on loans to the company. This being the cost of money to the company if it were to borrow funds to satisfy the lease obligation.

3. Changes in accounting policies

As indicated in accounting policy 2.1 above, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019. The new accounting policies are disclosed in note 11.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was between 11% and 13%.

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Notes to the Financial Statements

For the year ended 31 December 2019

4. Revenue

The whole of the revenue is attributable to manufacture, repair and sale of plant equipment and parts for the oil industry.

All revenue arose within the Russian Federation.

5. Operating profit

The operating profit is stated after charging/(crediting):

	2019	2018
		\$
Depreciation of tangible fixed assets:		
- Owned by the company	2,264,080	2,388,460
Depreciation on right of use assets	22,956	-
Auditor's remuneration	39,500	50,000
Auditor's remuneration – non-audit	6,800	8,100
Difference on foreign exchange income	(589,984)	(1,292,488)
Cost of stock recognised as an expense	4,698,083	4,912,005

No salaries or wages have been paid to the directors in the current or prior year and no contributions were made to a pension on behalf of a director (2018: \$nil).

The directors of the company are also the key management personnel.

6. Staff costs

Staff costs were as follow:

	2019	2018
	\$	\$
Wages and salaries	2,136,271	1,941,430
Social security costs	501,839	460,729
	2,638,110	2,402,159

The average monthly number of employees, including the directors, during the year was as follows:

	2019	2018
	No.	No.
Production	73	67
Administration	1	1
Control and accounting	5	4
Sales and marketing	6	6
Management	1	1
	86	79

Notes to the Financial Statements

For the year ended 31 December 2019

7. Finance income

	2019	2018
	\$	\$
Bank interest receivable	71,872	99,968

8. Finance costs

	2019	2018
	\$	\$
Interest on right-of-use assets	58,120	-

Notes to the Financial Statements

For the year ended 31 December 2019

9. Income tax

	2019 \$	2018 \$
Tax for current year	452,841	588,202
Prior year adjustment	-	(510)
	<u>452,841</u>	<u>587,692</u>
Double taxation relief	(452,841)	-
After double taxation relief	-	587,692
Foreign taxation	452,840	-
Total current tax expense	<u>482,840</u>	<u>587,692</u>
Deferred tax for current year	(16,022)	(1,453)
Deferred tax in respect of prior year	-	(6,355)
Total deferred tax credit	<u>(16,022)</u>	<u>(7,808)</u>
Total tax expense	<u>436,818</u>	<u>579,884</u>

The tax rate used for the reconciliation is the corporate tax rate of 19% (2018: 19%) payable by the Company in the UK on taxable profits under UK tax law.

The charge for the year can be reconciled to the profit for the year as follows:

	2019 \$	2018 \$
Profit before taxation	<u>1,673,412</u>	<u>2,145,812</u>
Income tax calculated at 19% (2018: 19%)	317,948	407,704
Effect of expenses that are not deductible	830	2,401
Origination and reversal of temporary differences	140,304	177,947
Prior year adjustments – current tax	-	(510)
Adjust closing deferred tax to average rate of 19.00%	28,370	-
Adjust opening deferred tax to average rate of 19.00%	(26,485)	-
Re-measurement of deferred tax	-	(7,808)
Group relief claimed	(24,148)	(19,263)
Foreign tax credits	(1)	-
Double taxation relief	-	19,413
Total tax expense	<u>436,818</u>	<u>579,884</u>

Notes to the Financial Statements

For the year ended 31 December 2019

10. Property, plant and equipment

	Freehold property	Plant & machinery	Motor vehicles	Fixtures & fittings	Total
	\$	\$	\$	\$	\$
Cost					
At 1 January 2019	6,110,373	4,150,750	9,708,899	258,536	20,228,558
Additions	532,617	682,363	1,859,446	-	3,074,426
Disposals	(126,509)	(65,125)	(1,597,263)	(13,162)	(1,802,059)
As at 31 December 2019	6,516,481	4,767,988	9,971,082	245,374	21,500,925
Depreciation					
At 1 January 2019	2,213,588	2,500,740	6,071,622	232,357	11,018,307
Charge for the year	446,386	373,312	1,438,105	6,276	2,264,079
On disposals	(126,509)	(65,124)	(1,068,667)	(8,126)	(1,268,426)
As at 31 December 2019	2,533,465	2,808,928	6,441,060	230,507	12,013,960
Net book value					
As at 31 December 2019	3,983,016	1,959,060	3,530,022	14,867	9,486,965
As at 31 December 2018	3,896,785	1,650,010	3,637,277	26,179	9,210,251

Notes to the Financial Statements

For the year ended 31 December 2019

11. Right-of-use assets

	Land and buildings	Total
	\$	\$
Cost		
At 1 January 2019	-	-
Additions	530,737	530,737
As at 31 December 2019	530,737	530,737
Depreciation		
At 1 January 2019	-	-
Charge for the year	22,956	22,956
As at 31 December 2019	22,976	22,976
Net book value		
As at 31 December 2019	507,781	507,781
As at 31 December 2018	-	-
	2019	2018
	\$	\$
Lease liabilities		
Current	5,594	-
Non-current	519,567	-
	525,161	
	2019	2018
	\$	\$
Maturity analysis		
Due within one year	5,594	-
Due within two to five years	519,467	-
	525,061	-

(i) Amounts recognised in the statement of comprehensive income

	2019	2018
	\$	\$
Depreciation charge of right-of use assets		
Land and buildings	22,956	-
Interest expense (included within finance costs) note 8	58,120	-
	81,076	-

The total cash outflow relating to leases in the period amounted to \$40k.

(ii) The company's leasing activities and how these are accounted for

The company leases apartments and computer equipment. Rental contracts are typically made for fixed periods of 1 year, but may have extension options.

Notes to the Financial Statements

For the year ended 31 December 2019

12. Rights-of-use assets (continued)

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the company under residual value guarantee
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalue its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Notes to the Financial Statements

For the year ended 31 December 2019

12. Inventories

	2019	2018
	\$	\$
Finished goods and goods for resale	5,290,789	5,857,650

An impairment loss of \$120,810 was recognised in the year (2018: \$nil).

13. Trade and other receivables

	2019	2018
	\$	\$
Trade receivables	6,441,744	5,245,514
Prepayments and accrued income	17,905	11,443
Amounts owed by group undertakings	96,922	86,367
	<u>6,556,571</u>	<u>5,343,324</u>

The amounts owed by group undertakings are unsecured, interest free and repayable by 1 January 2021.

14. Cash and cash equivalents

	2019	2018
	\$	\$
Cash at bank and in hand	1,154,840	1,414,319

15. Trade and other payables

	2019	2018
	\$	\$
Current liabilities		
Accruals and other creditors	388,873	510,694
Amounts owed to group undertakings	1,596,698	1,434,710
Other taxation and social security	264,777	74,365
	<u>2,250,348</u>	<u>2,019,769</u>

There is a floating charge over all the assets of the Company in favour of Royal Bank of Scotland.

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2019

16. Obligation under leases

	2019	2018
	\$	\$
Non-current liabilities		
Obligation under leases	519,467	-
	<u>519,467</u>	<u>-</u>

17. Deferred tax asset

	2019	2018
	\$	\$
At beginning of year	225,119	217,311
Utilised during year	16,022	7,808
At end of year	<u>241,141</u>	<u>225,119</u>

The deferred tax asset is made up as follows:

	2019	2018
	\$	\$
Accelerated capital allowances	177,915	182,430
Other short term timing differences	63,226	42,689
	<u>241,141</u>	<u>225,119</u>

18. Share capital

	2019	2018
	\$	\$
Allotted, called up and fully paid		
4,365,000 Ordinary shares of £1 each	<u>6,782,773</u>	<u>6,782,773</u>

The company has one class of shares; each share carries one voting right per share but no right to fixed income.

19. Dividends

	2019	2018
	\$	\$
Dividends paid on equity capital	<u>800,000</u>	<u>1,100,000</u>

Notes to the Financial Statements

For the year ended 31 December 2019

20. Contingent liabilities

The Company has entered into an intercompany guarantee with its bank for all amounts due from Darron Tool & Engineering (Sheffield) Limited, Schoeller-Bleckmann Oilfield Equipment (UK) Limited and Schoeller-Bleckmann Darron Limited.

21. Capital commitments

At 31 December 2019 the company had capital commitments as follows:

	2019	2018
	\$	\$
Contracted for but not provided in these financial statements	nil	nil

22. Related party transactions

During the year the Company made sales of \$nil (2018: \$nil) and purchases of \$nil (2018: \$nil) from Darron Tool and Engineering Limited, a company in the same group. Group tax relief of \$nil (2018: \$nil) was utilised in the year. The net balance due from Darron Tool and Engineering Limited at the year-end was \$nil (2018: \$nil) and \$nil (2018: \$nil) due to this Company.

During the year the Company made sales of \$nil (2018: \$nil), purchases of \$2,368,531 (2018: \$2,174,452) and fixed asset acquisitions of \$nil (2018: \$nil) from Schoeller-Bleckmann Oilfield Technology GMBH, a company in the same group. The balance due to Schoeller-Bleckmann Oilfield Technology GMBH at the year-end was \$1,253,845 (2018: \$561,209).

During the year the Company made sales of \$nil (2018: \$nil), and purchases of \$404,114 (2018: \$1,063,695) and fixed asset acquisitions of \$nil (2018: \$nil) from Drilling Services International Limited, a company in the same group. The net balance due to Drilling Services International Limited at the year-end was \$325,980 (2018: \$873,501).

During the year the Company made sales of \$nil (2018: \$304,614), purchases of \$116,557 (2018: \$151,386) and fixed asset acquisitions of \$1,038,000 (2018: \$304,900) from BICO Faster Drilling Tools Inc, a company in the same group. The balance due to BICO Faster Drilling Tools Inc at year end was \$16,193 (2018: \$nil).

During the year the Company made sales of \$nil (2018: \$nil) and purchases of \$41,187 (2018: \$689,923) and fixed asset acquisitions of \$nil (2018: \$nil) from BICO Drilling Tools Inc. The net balance due to BICO Drilling Tools Inc. at the year-end was \$nil (2018: \$nil).

During the year the Company made sales of \$nil (2018: \$nil), purchases of \$nil (2018: \$4,520) and fixed asset acquisitions of \$nil (2018: \$nil) from Schoeller-Bleckmann Darron Aberdeen Limited, a company in the same group. The balance due to Schoeller-Bleckmann Aberdeen Limited at the year-end was \$680 (2018: \$nil).

During the year the Company made purchases of \$nil (2018: \$nil) and incurred management charges of \$132,742 (2018: \$162,550) from Schoeller-Bleckmann Oilfield Equipment AG, the ultimate parent company. The balance due to Schoeller-Bleckmann Oilfield Equipment AG was \$nil (2018: \$nil).

At 31 December 2019, the balance due from OOO Schoeller-Bleckmann amounted to \$96,922 (2018: \$86,367). During the year the Company made purchases of \$65,311 (2018: \$146,487), from OOO Schoeller- Bleckmann.

Notes to the Financial Statements

For the year ended 31 December 2019

22. Related party transactions (continued)

During the year the Company made purchases of \$nil (2018: \$151,940), from Knust-SBD Pte Limited, a company in the same group. The balance due to Knust-SBD Pte Limited at the year-end was \$nil (2018: \$nil).

During the year the Company made sales of \$nil (2018: \$nil) to, and purchases of \$nil (2018: \$81,129) from Schoeller-Bleckmann Oilfield Equipment Middle East FTZ, a company in the same group. The balance due from Schoeller-Bleckmann Darron Limited at the year-end was \$nil (2018: \$nil).

During the year the Company made purchases of \$72,741 (2018: \$nil) from Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd, a company in the same group. The balance due from Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd at the year-end was \$nil (2018: \$nil).

During the year the Company made asset and freight purchases of \$296,307 (2018: \$154,267) from Techman Engineering Limited (formerly D-TECH (UK) Limited), a company in the same group. The balance due from Techman Engineering Limited at the year-end was \$nil (2018: \$nil).

23. Subsequent events

Subsequent to the year end, COVID-19 has been classified as a global pandemic by the World Health Organisation.

As yet this pandemic has had minimal impact in the branch's location and business operations are ongoing. Management are monitoring the situation but do not expect it to significantly impact operations given they operate in a key industry.

There is the risk that the pandemic impacts the operations and the government requires all businesses to close.

24. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Schoeller-Bleckmann Oilfield Equipment (UK) Limited.

The directors consider Schoeller-Bleckmann Oilfield Equipment AG, incorporated in Austria, to be the Company's ultimate parent undertaking. Schoeller-Bleckmann Oilfield Equipment AG prepares group accounts which are available for public inspection at Handelsgericht Wr. Neustadt, 200 Wr. Neustadt, Austria.