



SinoThanwa Drilling Co.



SinoTharwa Drilling Co.



**SinoTharwa 2011 Annual Report**

## Managing Director's statement

We would like to extend our sincere salutation and appreciation to all SinoTharwa family; working for land & offshore drilling Rigs, warehouse, workshop in addition to our Cairo Head Office employees for their fruitful efforts exerted for SinoTharwa development during 2011.

Due to the current political situation which creates internal existing financial crisis, 2011 was a challenging year for SinoTharwa to pursue its main objective for manufacturing and operating our first Offshore rig, BAHARI-1, the most advanced offshore rig all over the Middle East.

It's worth mentioning that we are extremely devoted for achieving a remarkable development and rapid growth for SinoTharwa; we are currently working on upgrading and renovating ST-2 in order to work electrically after being equipped with a top drive, moreover, we have successfully operated " Tanmia-1", effectively performed the maintenance and storage processes at our warehouse and workshop located in Badr Yard during this year realizing the desired target for optimizing cost spent on outside repair, totally controlled the purchase orders issuance , and reduced the company

inventory for each rig in compliance with our policy which stipulates the cost reduction of the performed maintenance.

We, SinoTharwa Top management, are grateful and thankful to our colleagues for all that you have done during 2011 and would like to urge to retain the hard work, follow and respect the individuals' safety standard and protect the environment to maintain the forefront position which SinoTharwa occupies among the companies working in the drilling field in order to achieve our company set goals and satisfactory profits for our shareholders and for our precious country.

Li Zhigang

General Manager & MD



Ibrahim Khidr

Chairman & MD



Human Resources and Services	5
QHSE	33
Operations	41
Engineering	55
IT & Telecommunication	75
Finance	85
Procurement	115
Contracts	127





SinoTharwa Drilling Co.



**Human Resources & Services**  
Human is the resources of everything

## Our Vission

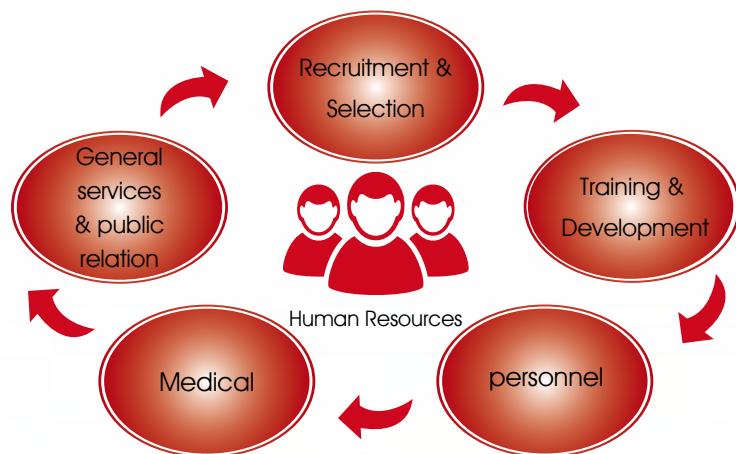
We are committed to balanced support of company and individual needs, we are guided by ethical and professional standards.

## Our Mission

To provide the highest quality outcomes, underpinned by high level knowledge and expertise, with a commitment to reach productive and creative solutions to is sues.

## Our Goals

- To develop highly effective supervisors, leaders and managers.
- A divers, highly skilled, productive, healthy, and efficient workforce.
- Fair and lawful treatment of all employees.



## Training & Development Division

"Today's learner. Tomorrow's leader."



24 hours alerting to run business in green safety and environment

Powerful compensation package to retain & assign highest skilled persons.

High performance and 100 % utilities

Participate aggressively in complex competition in order to lead the market.

In order to achieve the 1<sup>st</sup> mission "24 hours alerting to run business in green safety and environment" The Training & Development Division has conducting various safety training sessions to develop and enhance the employee's performance to ensure that all SinoTharwa Rigs are being operated, maintained efficiently and safety by competent staff well trained to comply with our standard.

In order to achieve the 2<sup>nd</sup> mission the Training & Development Division is Identify the development needs of our staff and provides tailored consultancy services to help individuals meet their needs by regularly conducting Trainings.

In order to achieve the 3<sup>rd</sup> mission "High performance and 100 % utilities". The Training & Development Division has published the 1<sup>st</sup> Training Needs & skills Audit questionnaire to SinoTharwa Head office staff, the training & Development practitioners will use the questionnaire as a planning guide for the following functions.

- Training Needs Analysis & Training Plan
- Future career aspirations
- Job analysis

Our company is our 'laboratory' where we experiment and find our own answers for learning & development issues. In order to achieve the 4<sup>th</sup> mission the Training & Development Division has launched the Learning Company project. This project is full of helpful education information, we use our decades of experience to get the newest and best articles, we strive for solutions that build individual growth, sustainable organizational development, knowledge productivity, innovation and change, The purpose of this approach is genuinely using all the

knowledge in the organization to create effective solutions for the business & to record all cases studies with the stepping procedures to solve such cases.

### 2011 Training & Development Objectives:

The principal objective of training and development division is to make sure the availability of a skilled and willing workforce to SinoTharwa. In addition to that, there are three other objectives: Individual, Organizational and Functional.

**Individual Objectives** – help SinoTharwa employees in achieving their personal goals, which in turn, enhances the individual contribution to SinoTharwa.

**Functional Objectives** – maintain the department's contribution at a level suitable to the SinoTharwa's needs.

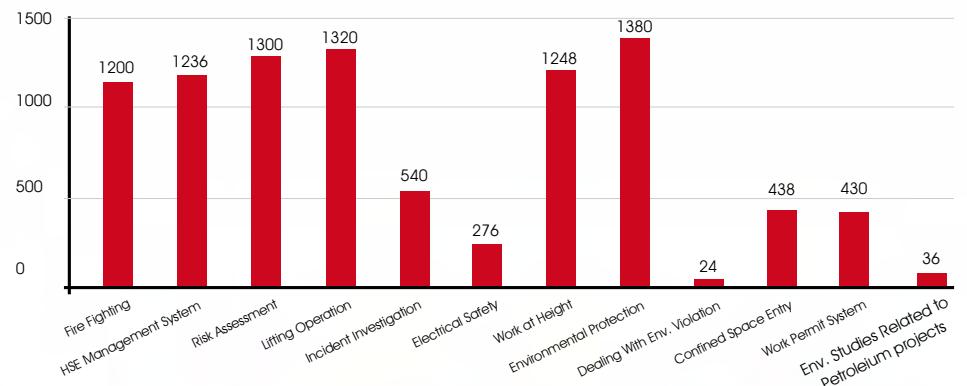
**Organizational Objectives** – assist SinoTharwa to achieve primary objective by bringing individual effectiveness.



## HSE Training:

Safety training provided by SinoTharwa is a key element in the prevention of work-related injuries, illnesses and death. When educated on safety procedures, employees will know how prevent an incident on the rigs by properly operating machinery, and will also learn how to respond quickly if presented with a dangerous situation

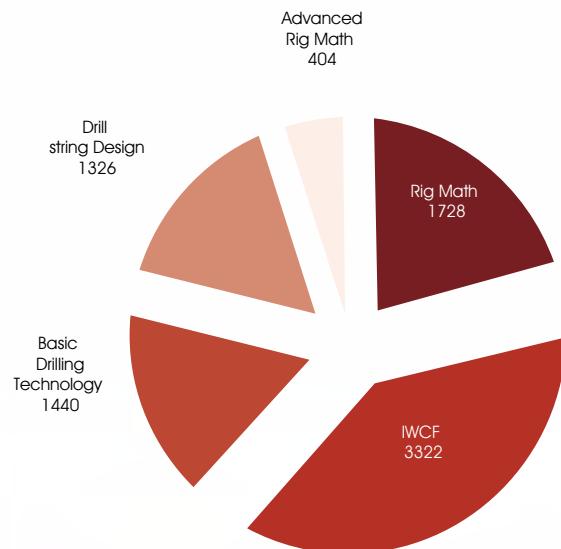
Course Name	Training Hrs Achieved	Planned Training
		Hrs
Fire Fighting	1200	1152
HSE Management System	1236	1152
Risk Assessment	1300	1152
Lifting Operation	1320	1152
Incident Investigation	540	1152
Electrical Safety	276	1152
Work At Height	1248	1152
Environmental Protection	1380	1152
Dealing With Environmental Violation	24	-
Confined Space Entry	438	-
Work Permit System	480	-
Environmental Studies Related to Petroleum Projects	36	-
<b>Total Safety Training Hours</b>	<b>9,478</b>	<b>9,216</b>



## Operation Training Hours:

Sino Tharwa Provided and recognized international technical courses such as IWCF course & Basic Drilling Technology course, to improve our employees and help them to develop their career paths.

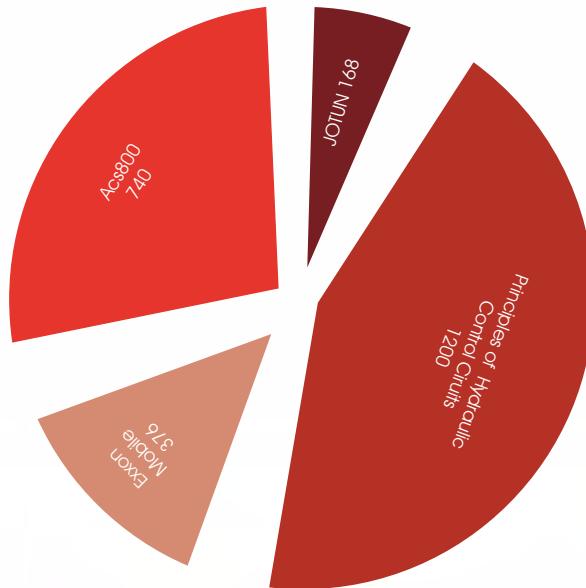
Course Name	Training Hrs Achieved	Planned Training Hrs
Rig Math	1728	1152
IWCF	3322	900
Basic Drilling Technology	1440	1152
Drill string Design	1326	600
Advanced Rig Math	404	900
Total Operations Training Hours	7,836	4,704



## Engineering Training:

SinoTharwa Provided engineering training courses to gain the critical skills needed to improve the engineering process quality.

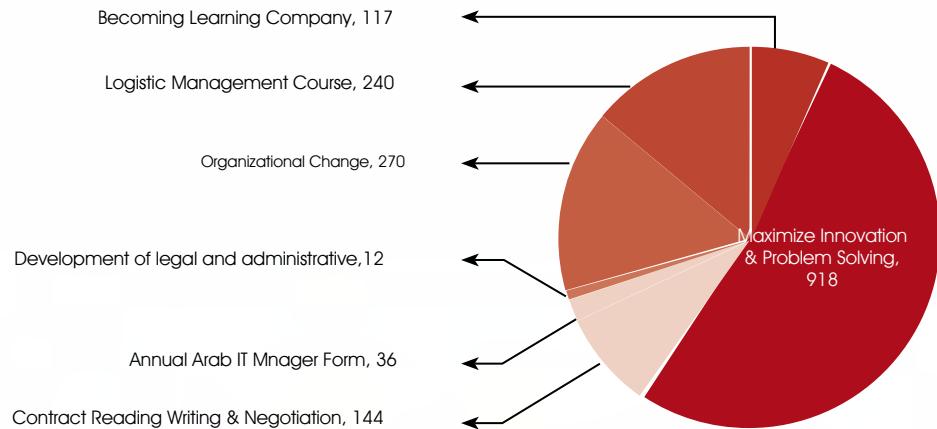
Course Name	Training Hrs Achieved	Planned Training
		Hrs
Protective Coating In Theory & Practice "JOTUN"	168	400
Principles of Hydraulic Control Circuits	1200	400
Exxon Mobile	376	800
ACS800	740	-
Total Operations Training Hours	2,484	1,600



## Soft Skills & Functional Training:

Our Soft Skills Training programs cover a wide range of skills that is integral to our organization's business needs.

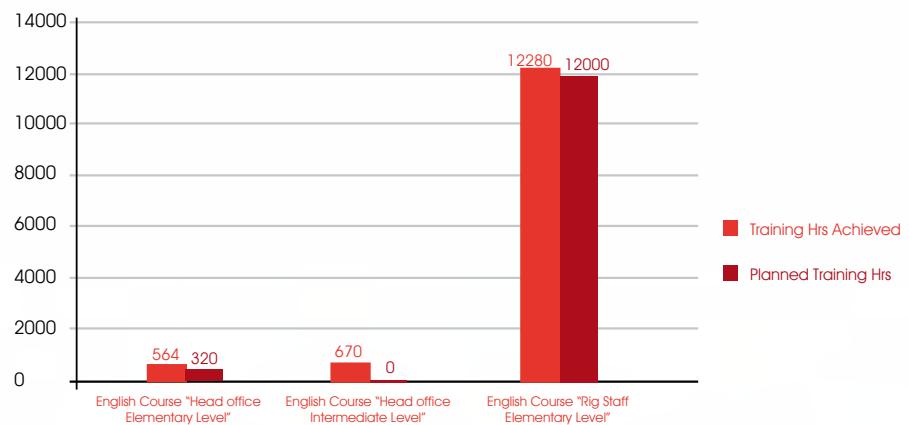
Course Name	Training Hrs Achieved	Planned Training Hrs
Becoming Learning Company	117	135
Maximize Innovation & Problem Solving	918	135
Contract Reading, Writing & Negotiation "Contract Department"	144	72
Annual Arab IT Manager Forum	36	-
Development of legal and administrative information in the Office of the Chairman of the board	12	-
Organizational Change	270	-
Logistic Management Course	240	120
<b>Total Soft Skills Training Hours</b>	<b>1,737</b>	<b>462</b>



## Languages Skills Training:

Languages Courses include reading, speaking, listening, grammar, pronunciation, and vocabulary. Languages Courses are help SinoVAATHarwa employees to develop their language skills needed for their work and career.

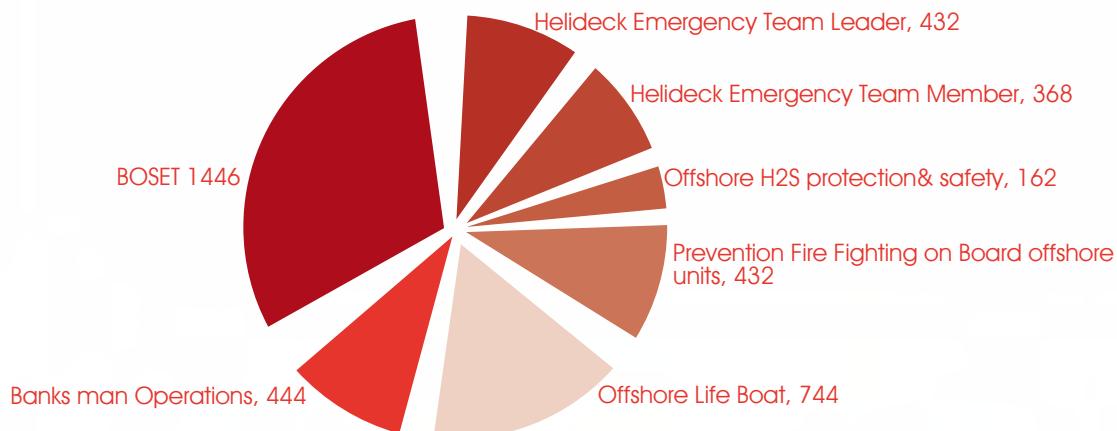
Course Name	Training Hrs Achieved	Planned Training Hrs
English Course "Head office Elementary Level"	564	320
English Course "Head office Intermediate Level"	670	-
English Course "Rig Staff Elementary Level"	12,280	12,000
<b>Total Language Training Hours</b>	<b>13,514</b>	<b>12,320</b>



## Jack up Training:

SinoTharwa provided specific package of training course designed especially for Jack up Bahari -1

Course Name	Training Hrs	Planned Training
	Achieved	Hrs
Helideck Emergency Team Leader	432	-
Helideck Emergency Team Member	368	-
Offshore H2S protection& safety	162	-
Prevention Fire Fighting on Board offshore units	432	-
Offshore Life Boat	744	-
Banks man Operations	444	-
BOSET	1446	-
Total Jack up Training Hours	4,028	-



## Personnel Division

### 2011 Company Mission



#### Overview on activities of 2011.

- 1.The personnel division complies with the entire governmental & legal requirements through labor & social insurance offices.
- 2.Monitor and analyze the result & scores of new performance appraisal for all employees.
- 3.Modify and maintain the current salary structure for rig sites & head office premises for attracting and keeping the talented and highest skilled persons.
- 4.Establish new salary structure for the Jake up staff (offshore rig) conforming to our drilling market survey which develop SinoTharwa ability to compete and lead the drilling market in Egypt.
- 5.Cover salaries gaps among existing employees after modifying the company salary structure to keep our talented employees and in the same time improving our competitive advantage.
- 6.During 2011,we have modified our company organization chart in accordance to the work needs in order to built and develop career path for newly hired persons covering the new company locations such as Jack up (Bahari 1), Badr yard & Tammia 1 (new rig site).
- 7.Maintain company job description for all job titles including company organization chart to specify the competencies' requirements for each job title (job specifications).

## Action plan for 2011.

● The company top management has determined the mission and business for year 2011 and according to the organization status, the HR Director will specify the strategy in which will be followed to accomplish such goals & objectives, meaning that each division in the HR department sets strategies related to its activities and should be appropriately comply with the company mission.

### ● Personnel Division:

- To achieve the first mission "24 hours running business in green environment" The personnel division had considered the safety factor in the company performance appraisal and how to deal your business with no work accidents, accordingly most of persons in 2011 considered the safety rules & regulations.
- To achieve the second mission "Powerful compensation package to retain & assign highest skilled persons" the personnel division has modified and developed the current salary structure for rig sites & head office premises and in the same time established new salary structure for Jack up staff (offshore rig) to keep and attract highest skilled candidates.
- To achieve the third mission "High performance and 100 % utilities" the personnel division has modified our company organization chart during 2011 according to work needs & in order to built and develop the right career path for each employee, specify the competencies' requirements and duties through maintain job analysis for each position.
- To achieve the forth mission "Participate aggressively in complex competition in order to lead the market" the personnel division used all above mentioned activities as strategies & tools so as to be the market leader in the Egyptian drilling market and compete others respectful competitors.



## Personnel Division

Modified our company organization chart during 2011 according to work needs

Covering salaries gaps among existing employees after modifying the company salary structure to keep our talent employees

Modification the current salary structure.

Maintain company job description for all job titles including company organization chart to specific the requirement competencies for each job title (job specifications).

## Company Mission

Powerful compensation package to retain & assign highest skilled persons

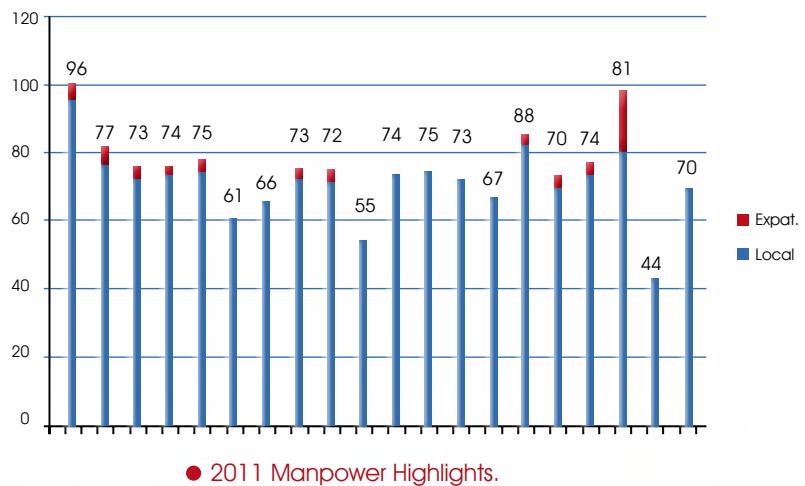
High performance and 100 % utilities

Participate aggressively in complex competition in order to lead the market.

"Keep your performance standard... Keep your benefits sustained"

## 2011 Manpower Highlights.

Location	No. of Employees	Location	No. of Employees
Head Office	100	St#10	73
St#1	82	St#11	73
St#2	76	St#12	77
St#3	76	St#21	62
St#4	77	St#22	66
St#5	75	St#23	55
St#6	75	St#24	67
St#7	85	Jack up	98
St#8	75	Badr Yard	44
St#9	74	T#1	70
Total Manpower		1480	



### ● 2011 Manpower Highlights.

Employees Turnover rate & contract termination Percentage:

Total percentage has been recorded during year 2011 is : % 0.024

## Medical Department :

"Your safe health is our green business"

### Medical Service Conducted by Alico Company:

After negotiations with Alico Company, We've succeeded to enhance benefits without applying any rate increase as follows:

	Existing Benefits	Enhanced Benefits
Annual overall maximum Ceiling	L.E. 100,000	L.E. 150,000
ICU Cases	For only 30 days	Fully covered
Consultants' fees outside the network	Covered up to L.E. 150 /visit	Covered up to L.E. 300/visit
Surplus amount of the profit share agreement	50 % to SinoTharwa	60 % to Sino Tharwa

### ● Family Medical Policy

Modification of family medical policy for rig staff as follows:

1. Upgrade all Medical Services Ceiling by 100%.

2. Covering the Companion for bed-ridden patient in Hospital:

- Procedures

Any employee or a Family member with severe illness who needs a companion; the company will afford the cost of the companion.

- Rules & Conditions:

The company physician should approve the chronic cases after reviewing the documented medical reports for each case.

\*Cases that need companion are such as Fracture hips, emiplegic etc.

-3. Exceeding Family Medications Ceiling:

- Procedures:

Any Family member with chronic disease and his Medications exceeded his ceiling limit; it will be covered from the ceiling of other family members.

- Rules & Conditions: The company physician should approve the chronic cases after reviewing the documented medical reports for each case.

Chronic cases are such as Hypertension, Heart diseases, Diabetes Mellitus, Thyroid Gland Diseases ..etc.

#### Medical Network:

- Expanding & enhancing SinoTharwa medical network by adding two hospitals, one pharmacy, Eye Care Center, two Scan Center and one laboratory center.
- After negotiation with the Marketing Manager in Elnozha International Hospital, we have got 30% discount rate on all laboratory & radiological investigations as additional benefit to SinoTharwa/Nozha International Hospital "protocol".

#### Pre-employment Medical Checkup:

Handling more than 130 medical checkup for newly hired employees.

#### Drugs Inventory:

We stick to the standard drugs list & we continued new drug inventory system: Drug inventory report received on monthly basis from Rigs & also all drugs consumption on Rigs is registered in Consumption book handled by the Rig physician.

#### Pest Control Services:

We succeed to implement the schedule for pest control service & laying out the scope of work.



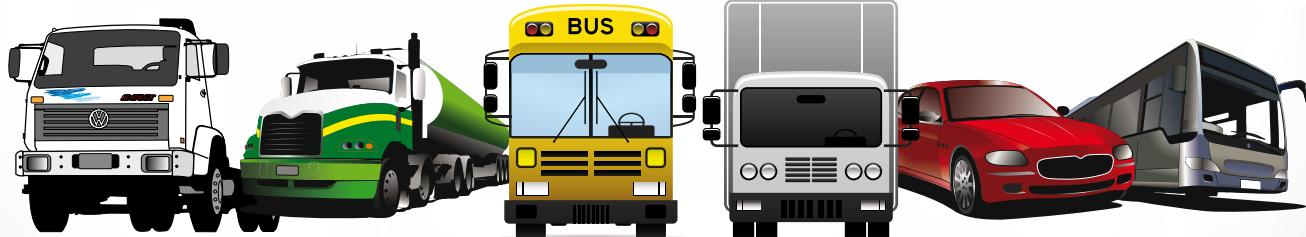
## General Services Division



"SinoTharwa our community, our commitment"

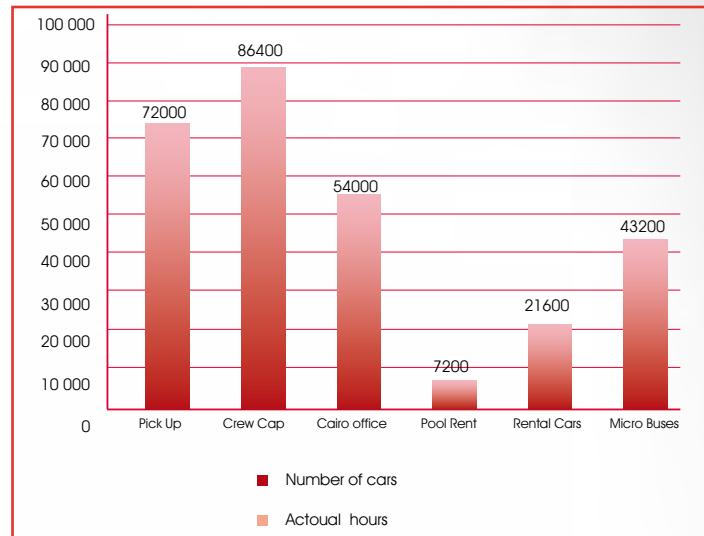
### Company's Car Fleet:

- Cost optimization; we have successfully optimized the cost through the implementation of new system of controlling & monitoring "Trucks fleet"; which has reflected more savings to our company, assure receiving of materials requested to each rig on time; accordingly we kept high standard level of service & satisfied all the rigs' needs.
- Sinotharwa owns 47 cars in different locations all over Egypt; periodic maintenance follow up system was developed & enhanced in 2011 for all company's cars with great interest to keep them in perfect condition in accordance to HSE standard.
- We have signed agreement with authorized car maintenance centers to make cars periodic maintenance and any kind of other repairs to ensure high quality of maintenance for the company cars & also provide many services to the rig locations, which has been positively reflected on rationalize the company cost, time & effort.
- Contracts with the best transportation companies in Egypt have been signed to provide SinoTharwa employees with safety & comfortable trips to company different locations moreover we have got the best competitive price for the service rendered.



## Transportation Actual Hour's Statistics During 2011

CARS	Numbers of cars	Actual hours
Pick Up	20	72000
Crew Cap	12	86400
Cairo office	15	54000
Pool Rent	2	7200
Rental Cars	6	21600
Micro Buses	2	43200
<b>Total actual hours</b>		<b>284400 h</b>



### Work Permits:

- Compliance to Egyptian labor law & following the direction of replacing expats by well trained local employees, during 2011, SinoTharwa has issued 28 work permits only for expat employees.

### Company Head office, Badr Yard & Guest house:

- We successfully saved 40% from the rigs' fleet maintenance due to a mutual agreement which took place between SinoTharwa & vehicles' agents that state the maintenance performance on site instead of doing it at the agent.
- Maintenance & follow up have been taken place for company Head office building, Guest house & Badr yard to facilitate the accommodation, trainings & any other business issues to ensure the high standard level of services & comfort to SinoTharwa staff. Moreover facilitate their work flow.

## Public Relation Division :

" we open doors for you"



**"A Dream turned into reality"**

Bahari- 1

**"Onshore we Drill Offshore we will Compete"**

"Onshore" what we have achieved & with Bahari-1;

"Offshore" we will compete.

Finally SinoTharwa has celebrated the new top achievement, ST-Bahari- I the new Jack-Up, a huge project that finally reached our country at Gabal el Ziet - Red Sea, on July 2011.

Proudly SinoTharwa drilling co. is the first drilling company who raises the Egyptian flag on an Offshore rig, Bahari-1.

By operating Bahari-I We are moving from "Onshore to Offshore", in order to introduce our company to the global market through our services & achievements.

## **"Efforts worth appreciation"**



As we always believe that social activities aims to encourage employees' team spirit internally & also strengthen our relationship externally with our partners of success to seek more benefits for the company; we have handled & arranged SinoTharwa event "Efforts worth appreciation" where all efforts & achievements have been appreciated & rewarded., Event was held on August 16<sup>th</sup> 2011 at Citystars intercontinental.



## **"Two Civilizations, One Entity"**

Our Share holders Sinopec Star VIPs visit

SinoTharwa organized & arranged Sinopec Star VIPs visit to Egypt; looking forward to having fruitful business relationship & strengthen Egyptian/Chinese relationship,



## **Meetings:**

General Assembly Meeting:

SinoTharwa has organized & handled company senior level meetings such as general assembly & extraordinary meetings arrangement.

As Successfully organized the company 4th General Assembly Meeting that was held on Aug. 11th 2011, that strongly reflected company's achievements.

Announcing; completing of our huge offshore project "Bahari-1" 1st offshore rig that raises our Egyptian Flag.

## Protocols:

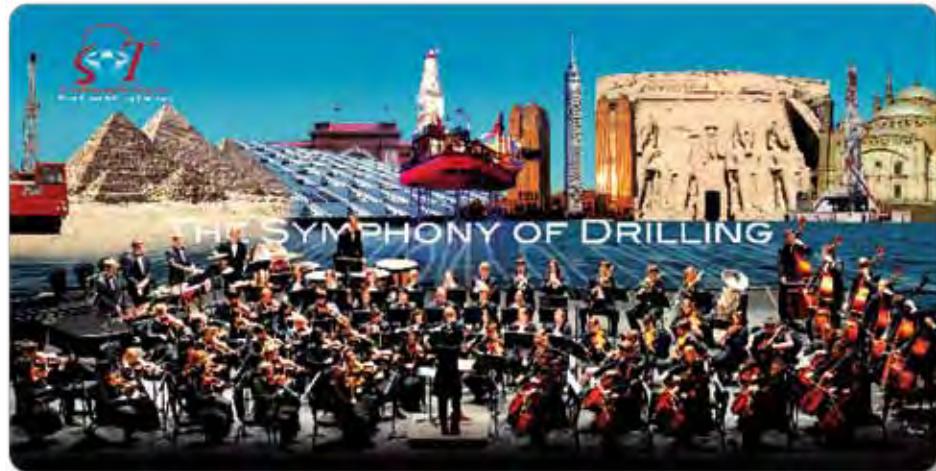
Sinotharwa Egyptair "Partners of success" Protocol 2011/2012

6 years of success & mutual cooperation with our official carrier Egyptair, in consequence & Result of strengthen our relationship with our "Partners of success" SinoTharwa has reached new corporate privileges & benefits on the occasion of our protocol agreement renewal for the year 2011/2012.



## Exhibitions:

As SinoTharwa is willing to expand its business and opening new markets in the nearby countries; through communicating and interacting with Oil & Gas sector; Sinotharwa has been participated in OMC Conference & Exhibition for Oil & Gas in a very strong unique booth, which was held on March 2011 at Ravenna -Italy.



**The Best is yet to come...**

*Building  
Relationships*



QHSE



# QHSE

Committed to the very best

## **QHSE Management Framework**

To ensure that all aspects of quality, health, safety and environmental management are carried out successfully and consistently across the drilling and work over rigs, SinoTharwa has established a centralized framework of operational standards against which compliance is mandatory.

These standards provide a comprehensive cover of drilling industry activities with distinct HSE risks or impacts, and their requirements adhere to Egyptian Laws and IADC best practices.

The operational standards are collectively known as SinoTharwa's QHSE standard operating procedures (SOP). These latest SOP and associated work instructions were launched in 2010 and new guidance documents continue to be produced, in keeping with emerging industry best practice and as necessary to support SinoTharwa's expansion.

## **QHSE Management Systems**

SinoTharwa's Standard Operating Procedures (SOP) and other work instructions provide structured guidance for the development of a comprehensive

System (QHSEMS), covering all aspects of company employees and sub-contractors activities. The QHSEMS is intended to serve as an engine driving SinoTharwa policy implementation and continuous improvement in performance.

## **HSE Impact Assessments**

At SinoTharwa, we place great emphasis on the identification and mitigation of HSE risks at every stage of our operations.

Company activities, including new project developments and major modifications to existing facilities, are subjected to compulsory HSE Impact Assessments.

## **Work Injury Statistics**

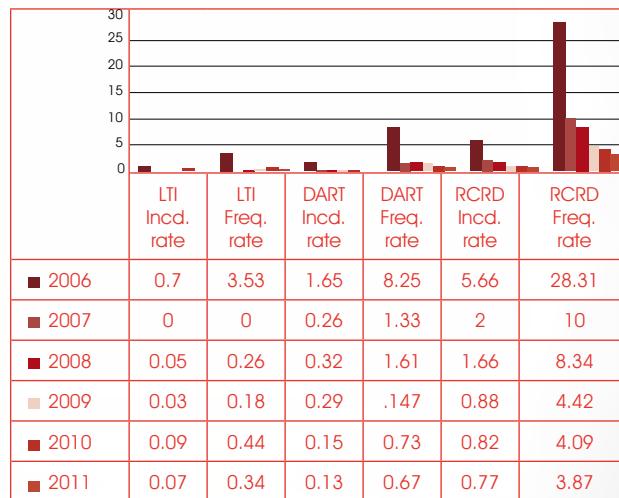
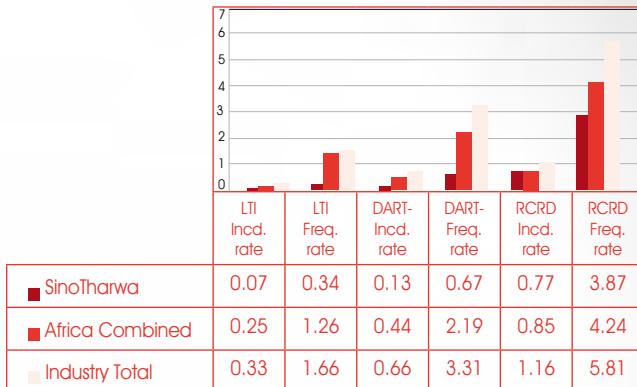
Providing a safe working environment for our employees and sub contractors is of fundamental importance to SinoTharwa. Occupational safety across our operations is managed at an organizational level through the relevant SinoTharwa's QHSE MS.

The responsibility for ensuring the proper implementation of these operational standards and the availability of trained and suitably qualified.

personnel rests with senior company management. Third parties and top management also conducts periodic site visits and audits. The responsibility for safety extends to all our employees, who are required to ensure that all governing safety rules and operating procedures are followed.

Occupational safety is also managed at a corporate level by the individual HSE committees that are in place across SinoTharwa's sites and operations. The majority of these committees have joint management /labour representation. Our overall safety performance with regard to work injuries over the last six years is shown in the table below. No permanent or partial disabilities were reported across SinoTharwa workforce in 2011. Regrettably however, there were 2 lost time incidents we had in 2011.

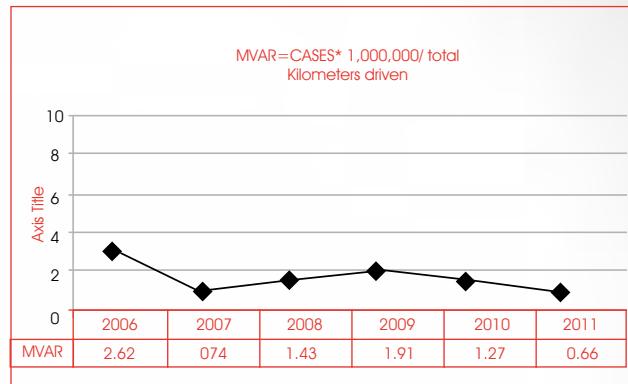
SinoTharwa's 2011 Total Recordable Incident Rate (TRIR) of 0.77 reflects a recognized decrease from that reported in 2010, and is the lowest achieved on record. Furthermore, our TRIR is lower than the industry benchmark of 2010 (the International Association of Drilling Contractor). As shown also below.



## Road Safety

Resulting from the considerable efforts of SinoTharwa's to improve road safety, a total of only 5 road-traffic accidents were reported in 2011 corresponding to approximately 7 million kilometers driven.

Compared to 2009 and 2010, the accidents reported have massively reduced. SinoTharwa will continue to work to improve road safety for our staff and sub contractors by trying to change the behavior of the workforce to comply with the strict company rules regarding speed limits and the use of seat belts. Below figure represents our history records for vehicle accidents.

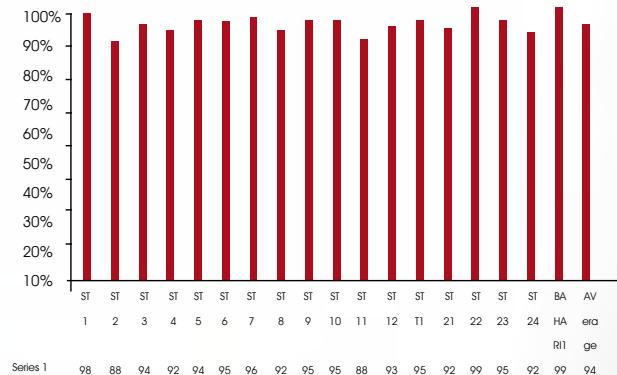


## QHSE PERFORMANCE

With the very strict QHSE targets planned to be achieved during 2011 complying with the company continual trend toward the target of Zero harm.

Plus having a better standard of customer satisfaction, our rigs succeeded to achieve a general QHSE performance average of 93 %.

2011 Average QHSE Performance



## Events

The reality of the responsibilities incumbent on senior management commitment in the continued improvement of the level of our staff's awareness and familiarize them with all matters pertaining to the potential hazards, which have a close relationship with oil & gas industry led us to hold sustained awareness campaigns for specific topics are as follows:

### • Lifting operation and safe practices

As a mean of strengthening and encouragement of our staff to select and inspect of lifting gears properly with enhance the lifting procedures to ensure that work is carried out safely. This is why; to conduct of this campaign in September 2011 in the presence of senior management under the slogan of "Success is no accident"

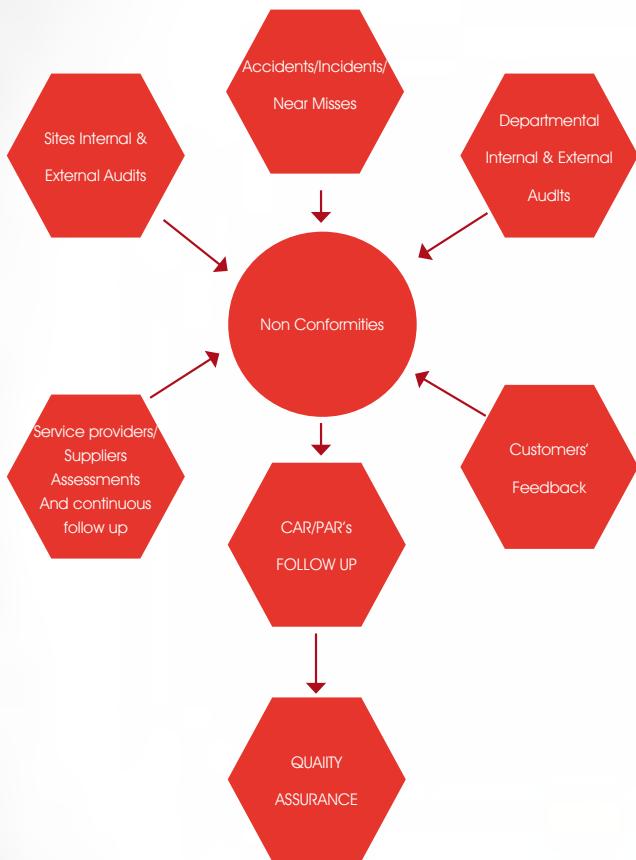
### • Hand injury prevention

Has been held on the Abordes site in the presence of the top management representatives and followed by many sessions in order to transfer its objectives on to all rig sites, which working for other clients through the company's safety engineer and came under the slogan of "These tools came with no spare parts see

yours, last a life time", this campaign was covered all aspects and negative impact that could result in serious accident or loss a part of hand....etc.

## Achievements

- ◆ ST-1 Achieved 5 years without LTI on November 30th 2011.
- ◆ ST-2 Achieved 5 years without LTI on August 23rd 2011.
- ◆ ST-3 Achieved 2 years without LTI on August 15th 2011.
- ◆ ST-5 Achieved 1 year without LTI on March 17th 2011.
- ◆ ST-6 Achieved 3 years without LTI on April 2nd 2011.
- ◆ ST-7 Achieved 3 years without LTI on June 11th 2011.
- ◆ ST-8 Achieved 3 years without LTI on May 1st 2011.
- ◆ ST-9 Achieved 1 year without LTI on July 11th 2011.
- ◆ ST-10 Achieved 3 years without LTI on June 25th 2011.
- ◆ ST-11 Achieved 1 year without LTI on February 18th 2011.
- ◆ ST-12 Achieved 3 years without LTI on January 2nd 2011.
- ◆ ST-21 Achieved 4 years without LTI on January 8th 2011.
- ◆ ST-22 Achieved 4 years without LTI on November 2nd 2011.
- ◆ ST-23 Achieved 3 years without LTI on March 19th 2011.
- ◆ ST-24 Achieved 3 years without LTI on August 5th 2011.



## Quality Assurance

Quality assurance became an essential and integral part of the QHSE department scope of work since the company was awarded by ISO 9001 certificate, based on the department took over shoulder the assurance of compliance with the company's standard operating procedures, work instructions in addition to all the applicable industry standards, codes, guidelines as well as regulatory requirements in line with our customers' demands. And this have been verified through accurate & effective cycle of proactive measures focusing on product realization, in addition to customer expectations as to come up with required high quality service to be introduced. Also reactive measures played an important role once the appropriate corrective actions were raised, responsibilities identified, communicated and following up to remedy within the appropriate time frames.

### A- Customer survey

As it was mentioned earlier that in line with ISO 9001 requirements the QA department started to establish

formal procedures for recording and tracking 100 % of our customers' feedbacks for analysis and immediate remedy, something which was fully covered by the continuous monitoring for customers requirements in order to successfully and effectively meet their satisfaction.

### **B- Internal audits**

To maintain keeping all the company units on the top form and meeting the international standards the QA department succeeded in implementing & exceeding 100 % of the yearly audit schedule planned through technical inspection & QHSE-MS Audit process which covered the company rigs and departments, this to ensure that they are all up to standards and adequately meets the company approved standard operating procedures & work instructions through conducting 32 site inspection/Audit visits in addition to conducting 10 departmental audits as well.

### **C- Corrective Actions and Non-Conformity requests**

Corrective and preventive actions were raised during the year 2011 as a result of the above mentioned inputs, description of non-conformities, root causes followed by corrective/preventive actions to be taken were in place, this process were controlled through identifying and allocating responsibilities for performing within a reasonable time frame. For easy access, monitoring and follow up the CAR/PAR register was maintained and was updated on weekly basis. By the end of term the QHSE department succeeded in maintaining 94 % closure of the total outstanding CAR/PAR's.

## D-Suppliers & Services provider Assessment

Sinotharwa Drilling Company used to have big number of suppliers and service providers to execute sort of services on its behalf, that's why it was a must to ensure that all the services being provided in addition to the supplies were introduced by the required high quality through the suppliers/service providers assessment process which covered the legal, technical and QHSE aspects in addition to the capabilities to handle such services effectively, also investigating services or supplies non conformities as a result of claims being raised. This process was maintained during the year 2011 through conducting 30 assessment surveys which covered most of the company services required (machine shops, transportation services, projects execution, recruitment services...etc).



SinoTharwa Drilling Co.



# Operations

Caring for people, well & environment

## Our vision and Mission

we aim to operate in a manner that provides a safe working environment for our employees while protecting the environment and our assets, we will be united by our commitment to our vision and mission of SinoTharwa **OPERATIONS**, which stands for:

**O**perations in an incident-free workplace, all the time, everywhere.

**P**eople and teams: Everything we achieve is the result of teamwork. We build teams with our personal and professional qualifications in mind. We encourage professional and personal development. We respect each other, our time and work.

**E**ffective planning and communication: using the Scientific and logic Planning Process is the foundation of all Company risk management processes.

**R**espect for Employees, Customers and Suppliers: Our employees will be developed and motivated to meet the challenges ahead. Our relationship with suppliers will reflect respect, understanding and sound business practice.

**A**dhere to carry out all operations with due diligence in a safe and workman like manner in compliance with all approvals, permits, instructions and policies of operator Company consistent which includes, but is not limited to Drilling, Well control, safety instruction, protection of the environment.

**T**echnical Leadership: Our competitive advantage is based on continually improving our processes and finding innovative solutions to the technical challenges in meeting the needs of our customers.

**I**ntegrity and Honesty: Our actions will be conducted following the highest standard of ethics, honesty and personal integrity. This will foster and maintain trust and confidence of our employees, customers and suppliers.

**O**pen and direct dialogue: Good, open communication is the basis for all our activity. Once a decision has been made, we respect it. We distinguish between personal and professional matters, and are concerned with tolerance in all our dialogues.

**N**on productive time: zero percentage for non productive time is our main target by implementing preventive, predictive and corrective maintenance programs to keep equipment running with maximum efficiency.

**S**afety: Personal safety and employee health is our greatest responsibility, followed by the protection of our environment and company property.

## Sinoharwa Rigs Fleet

### 1- Land Drilling Rigs:

Rig	Manufacturer	Year of Built	HP	Max.Drilling Depth, ft	Top drive	Operator	Location, Field	Status
ST-1	Bomco, China	2002	2000	20,000	Available	Petrobel	Abu rudeis	Active
ST-2	Bomco, China	2001	1500	16,000	Available	without	Badr yard	Under project
ST-3	Bomco, China	2006	2000	20,000	Available	Petrobel	Abu rudeis	Active
ST-4	Bomco, China	2007	2000	20,000	Available	GPC	Ras Gharb	Active
ST-5	Bomco, China	2007	1500	16,000	Available	Khaldha	Kalabsha	Active
ST-6	Bomco, China	2007	1500	16,000	Available	Khaldha	Abu Elgharadik	Active
ST-7	Bomco, China	2008	1000	12,000	Without	Petrodara	Ras Gharb	Active
ST-8	EPHH	2008	1500	16,000	Available	Agiba	Meleiha	Active
ST-9	EPHH	2007	2000	20,000	Available	Petro Amir	Zeit bay	Active
ST-10	EPHH	2008	1500	16,000	Available	Khaldha	Abu Elgharadik	Active
ST-11	Bomco, China	2008	2000	20,000	Available	Nafto Gas	Abu Sannan	Active
ST-12	Bomco, China	2008	2000	20,000	Available	Petrobel	Abu rudeis	Active
Tanmia-1	EPHH	2011	1500	16,000	Available	Zeitco	Zeit bay	Active

### 2- Land Work over Rigs:

Rig	Manufacturer	Year of Built	HP	Max.Work over Depth, ft	Operator	Location, Field	Status
ST-21	SJ Petroleum, China	2006	650	12,000	Agiba	Meleiha	Active
ST-22	SJ Petroleum, China	2007	650	12,000	Qarun	Karama	Active
ST-23	SJ Petroleum , China	2007	650	12,000	Petrobel	Abu Rudes	Active
ST-24	SJ Petroleum, China	2008	650	12,000	Bapetco	Bed-3	Active

### 3- Offshore Drilling Rigs:

Rig	Builder	Year of Built	HP	Max.Drilling Depth, ft	Max.water Depth, ft	Operator	Location, Field	Status
ST Bahari-1 Jack Up	Dalian Ship- ping Offshore Co .LTD, China	2010	3200	30,000	400	Zeitco	Gulf of Suez	Active

### Sinotharwa vs Drilling Contractors in Egypt:

Company	Onshore Rigs		Offshore Rigs		Total
	Drilling	Work Over	Drilling	Work Over	
EDC	33	22	6	2	63
Sinotharwa	13	4	1	0	18
Transocean	0	0	9	0	9
ECDC	4	3	0	0	7
Dasco	0	6	0	0	6
SBDC	4	1	0	0	5
Weatherford	4	1	0	0	5
Gharib	1	3	0	0	4
Diamond	0	0	3	0	3
Pyramid	2	0	1	0	3
Saipem	0	0	3	0	3
Others	3	2	1	0	6
Total	64	42	24	2	132

## Fleet Development:

The following table summarizes the development of our active fleet of drilling units, based on the dates when the units began operations:

Unit type	Land Rigs				Offshore Rigs	Total
	2000 HP	1500 HP	1000 HP	650 HP		
2005	1	-	-	-	-	1
2006	-	1	-	-	-	1
2007	2	-	-	2	-	4
2008	2	4	1	2	-	9
2009	1	-	-	-	-	1
2010	-	-	-	-	-	-
2011	-	1	-	-	1	2
	6	6	1	4	1	18

## Factors Affecting our Results of Operations:

The principal factors which have affected our results since 2005 and are expected to affect our future results of operations and financial position include:

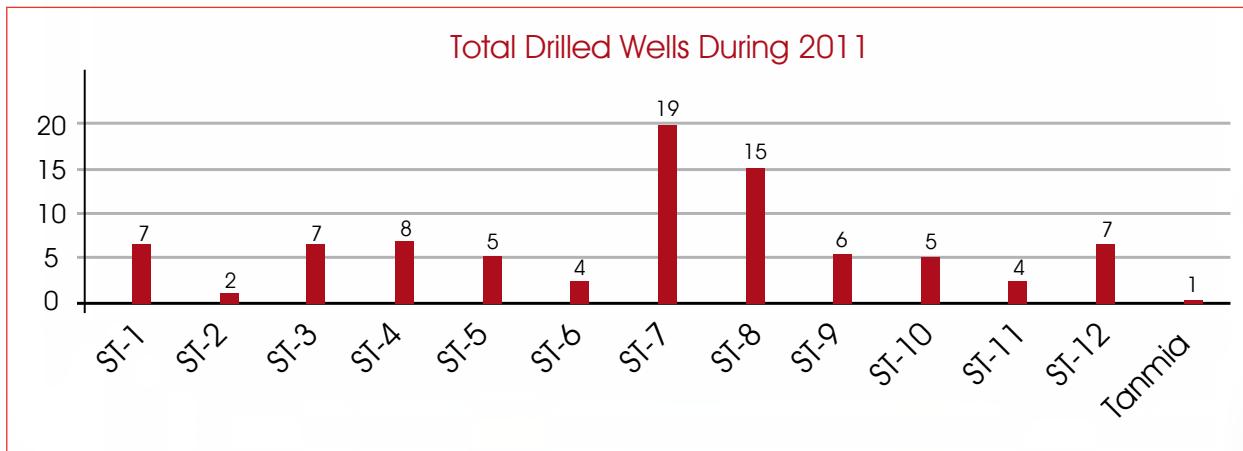
- 1- The number and availability of our drilling units.
- 2- The daily rates obtainable of our drilling units.
- 3- The daily operating expenses of our drilling units.
- 4- Administrative expenses.
- 5- Interest and other financial items.

## BUSINESS STRATEGY

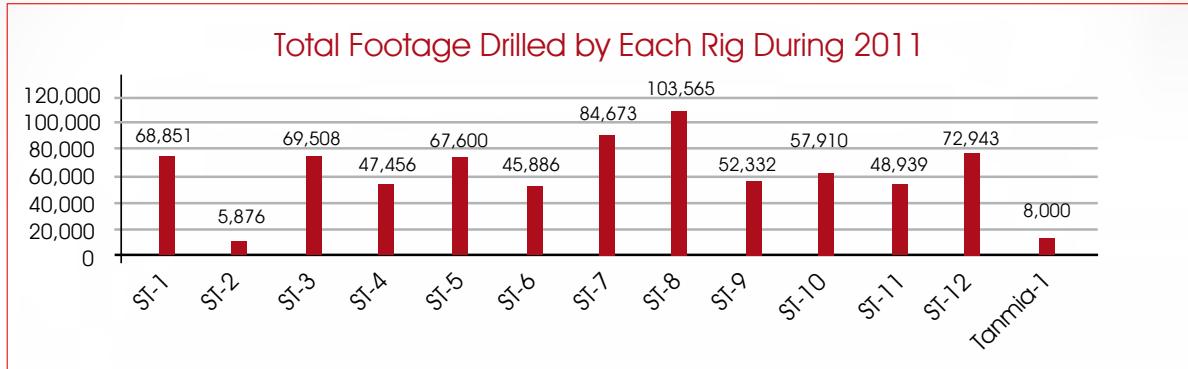
### 2011 Strategic Measurements.

In 2011 the following actions, among others, were the direct result of implementing our strategy:

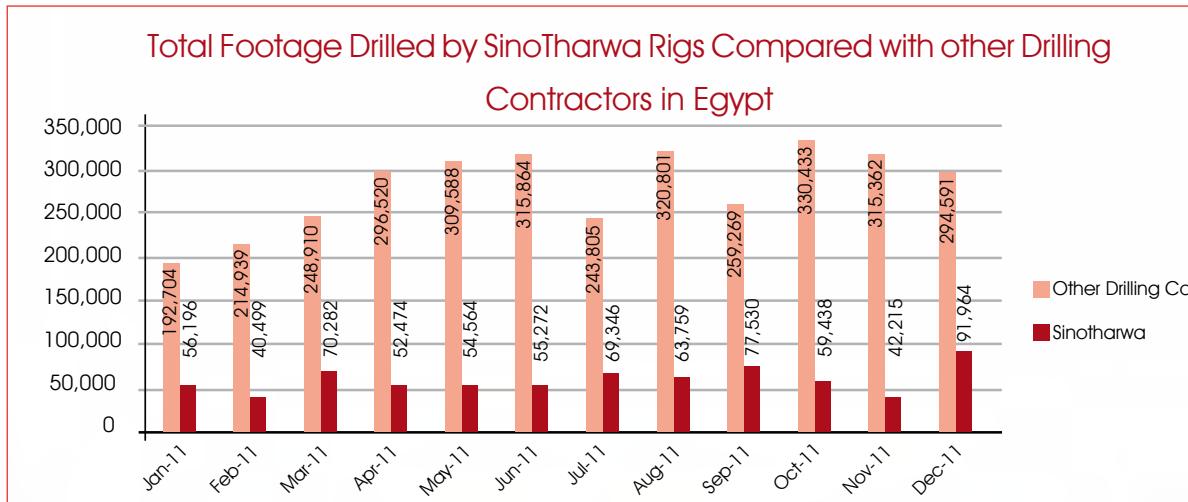
- 1- Average rigs utility 99.00 % in 2011.
- 2- Total working (operating) days increased from 5580 days in 2010 to be 5676 days in 2011.
- 3- Total drilled wells during 2011 = 90 wells.



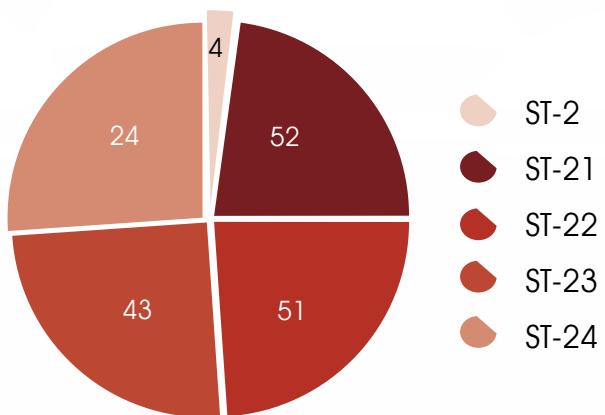
4-Total drilled footage during 2011 = 733,539 ft.



5-Sinotharwa drilled 18% of total onshore drilled footage in Egypt.



6-Total work over wells during 2011= 174 wells.



7-provide training in a wide range of drill rig operations and procedures.

Our long-standing business strategy is the active expansion of our onshore & offshore rig fleet through acquisitions, upgrades and modifications. We have also actively expanded our onshore & offshore drilling rigs in recent years through the construction of new rigs. In 2011, we continued our expansion strategy as indicated by the following developments and activities:

- a- We Received the new built offshore drilling rig ST Bahari-1 Jack up, close all issues, moved to first well location on platform A- Zeitco concession on Zeit bay and started Operations during December 2011.
- b- We started to convert rig ST-2 from Mechanical rig to Electrical rig (driven by VFD system), the rig up-graded, refurbished and equipped with Top drive, expect to finish this project and start operations by mid of February 2012.
- c- We received one new build 1500 HP land drilling Rigs (Tanmia-1), moved to Zeitco first well location at Zeit bay area and started operations on December 2012.

## 2011 Rigs utilities:

Rig	Work periods, days	Rig utility		Repair time %	Rig move time %	No. of rig moves	Average move day/move
		Excluding move time %	Including move time %				
ST-1	365	99.77	96.82	0.23	2.95	7	7.45*
ST-2	197**	99.58	99.32	0.42	0.25	5	6.01
ST-3	365	98.17	96.80	1.04	1.38	7	6.62
ST-4	365	100.00	96.31	0.00	3.69	8	7.61
ST-5	365	95.94	91.37	4.06	4.57	5	9.28
ST-6	365	96.95	95.78	3.05	1.18	3	8.11
ST-7	365	99.89	99.66	0.11	0.23	19	4.21
ST-8	365	99.58	95.80	0.42	3.78	15	6.58
ST-9	365	99.54	93.98	0.46	5.57	6	9.52***
ST-10	335	99.24	97.70	0.76	1.54	5	8.17
ST-11	365	99.79	98.26	0.21	1.54	4	7.2
ST-12	365	99.36	98.04	0.64	1.31	7	6.66
Tanmia-1	22	100.00	100.00	0	0	0	0
ST-21	365	99.81	97.40	0.19	2.40	52	1.12
ST-22	365	99.24	96.44	0.76	2.80	51	1.19
ST-23	365	95.63	93.74	4.37	1.89	43	0.96
ST-24	365	99.65	90.61	0.35	9.04	24	3.95****
ST-Bahari-1	12	100.00	100.00	0	0	0	0

Notes on 2011 rigs utilities table:

- \* 167 hrs waiting on repair draw works brake rim during rig move on ST-1.
- \*\* ST-2 stacked for project to be converted from mechanical rig to electrical rig driven by VFD system since Sept 18th 2011.
- \*\*\* 179.5 hrs wait on repair TDS during rig move on ST-9.
- \*\*\*\*Bapetco requires to test BOP and all well control equipment after rig move and before acceptance on ST-24.

## Stacking Time & Mechanical down time VS operating time in all Sinotharwa rigs:

Total stacking period= 198 days (ST-2 = 168 days, ST-10 = 30 days).

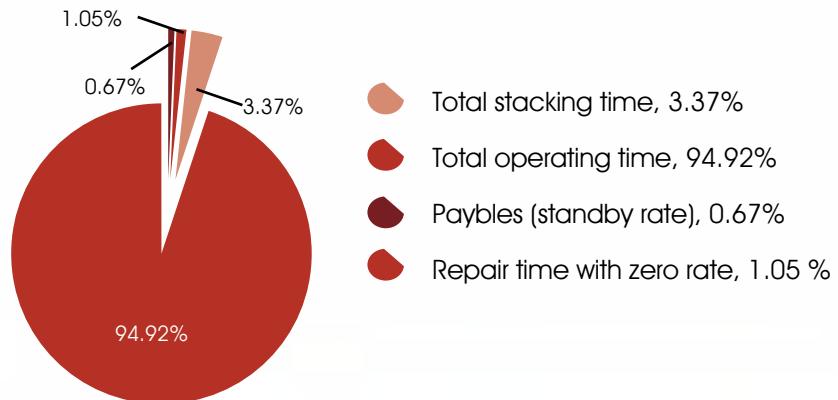
Operating time = 5676 days.

Total Time = 5874 days.

Total stacking period / Total Time= 3.37 %.

Total Time, hrs	Total Stacking Time, hrs	Total Working Time, hrs	Total Operating time, hrs	Total repair time, hrs	Payable (stand by rate), hrs	Repair time with zero rate, hrs
140,991.0	4,746.0	136,245.0	133,833.5	2,411.5	938.0	1,473.5
3.37%	96.63%	94.92%	1.71%	0.67%	1.05%	

### Stacking Time & Mechanical Down time Vs operating Time

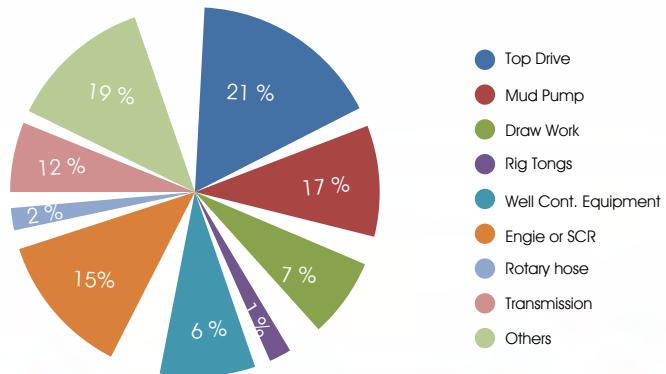


## Repair time analysis during 2010:

Rig	Top Drive	Mud pump	Draw works	Rig tongs	Well Cont. Equipment	Engine or SCR	Rotary hose	Transmission	Others	Total
ST-1	13	5	21.5		2	7			11	59.5
ST-2			2						32	34
ST-3	54	65.5	0.5		5	2	16.5		12	155.5
ST-4	11.5	2.5	6	1		1			7	29
ST-5	150	72	45		52	158.5			36	513.5
ST-6	142.5	36.5	4	1	88.5		29.5		59.5	361.5
ST-7		13.5	14.5			9.5			35.5	73
ST-8	24	76	1			4			5	110
ST-9	21.5	22.5	26						29.5	99.5
ST-10	63.5	40		4		0.5			18.5	126.5
ST-11	8.5	9.5							25.5	43.5
ST-12	15	57	2.5	16.5	0.5	40	7		44.5	183
Tanmia-1	1					1			1	3
ST-21		1.5	24			5			23.5	54
ST-22		9		1.5		10			82.5	103
ST-23				1		105*		277*	24.5	407.5
ST-24		4	9	1	6	19			16.5	55.5
Bahari-1										
<b>Total</b>	<b>504.5</b>	<b>414.5</b>	<b>156</b>	<b>26</b>	<b>154</b>	<b>362.5</b>	<b>53</b>	<b>277</b>	<b>464</b>	<b>2411.5</b>

\*382 hrs wait on Transmission and repair engine on ST-23

## Repair time analysis during 2011



**Actions taken to realize the above achievements:**

1. Follow up maintenance schedule to minimize rig repair.
2. Visit and auditing all rigs to improve maintenance and close gaps.
3. Optimizing cost by transfer material and spare parts from rig to another and minimize orders.
4. Rig superintendent attend his assigned rigs move to Improve move time.
5. Cover all rig needs (material and spare parts).
6. Technical training for key personnel on job and training center (Stuck pipe prevention, drill string design and advanced drilling practice).
7. IWCF for all key personnel on all rigs train and recertified expired ones.
8. Basic drilling technology courses for floor and derrick men on all rigs.
9. Follow up & close third party auditing items, tracking system, started with critical and major items.
10. Move ST-Bahari-1 from China to Egypt, Soft Pin and jacking up in waiting area, close all gaps and make the rig ready for operations on Dec 2011.
11. Project for converting ST-2 from mechanical rig to Electrical one driven by VFD system started in Oct 2011 and expect to start operations by mid of Feb 2012.
12. Receive rig Tammia-1, move it to Zeitco first well location, close all gaps and make the rig ready for operations on Dec 2011.
13. Accident investigation training for all key personnel.
14. Defensive drive courses for all drivers and office employees to prevent or at least keep cars accident very minimal.

# Engineering

Aim your target



SinoTharwa Drilling Co.



## Engineering Activities

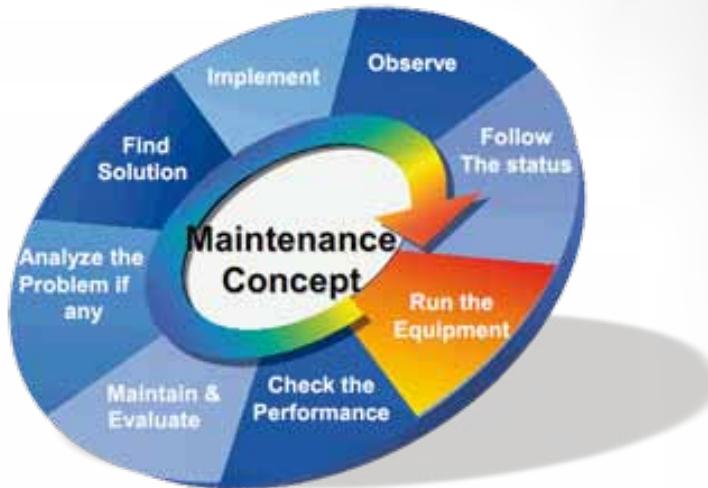
Engineering Activities mainly divided into the following:

1. Maintenance (Preventive, Corrective, Predictive).
2. Projects ( Mechanical, Electrical, Civil).
3. Major overhauls in the workshop. Building new rigs.
4. New equipment evaluation. External repair.
5. Steel fabrication.



## Maintenance

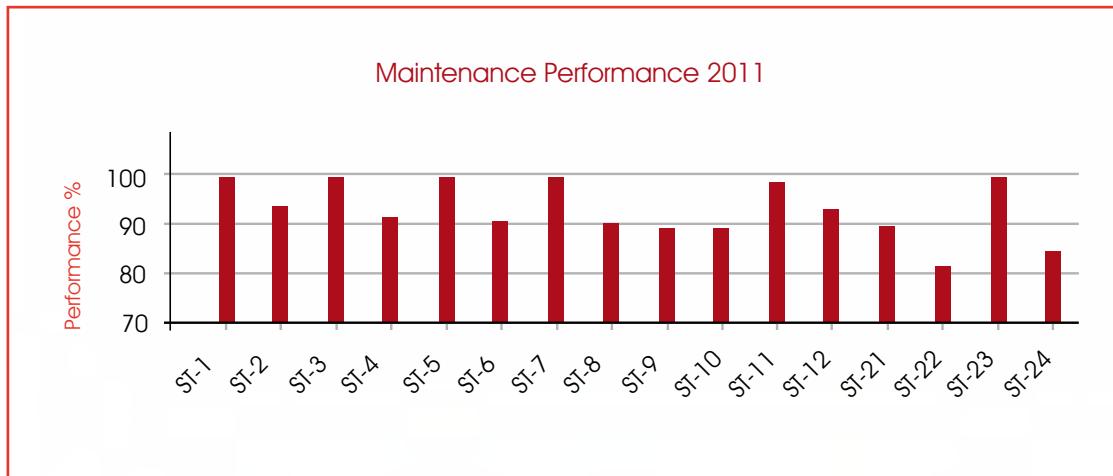
1-concept and goals:



- Optimization of the Maintenance Organization structure.
- Analysis of repetitive equipment failures.
- Estimation of maintenance costs and evaluation of alternatives.
- Forecasting of **needed** spare parts.
- Assessing the needs for equipment replacements and establish replacement programs when due.
- Application of scheduling and project management principles to replacement programs.
- Assessing required maintenance tools and skills for efficient maintenance of equipment.
- Assessing **required maintenance skills for the concerned personnel**.
- Reviewing personnel transfers to and from maintenance organizations.
- Assessing and reporting safety hazards associated (maintenance alerts).

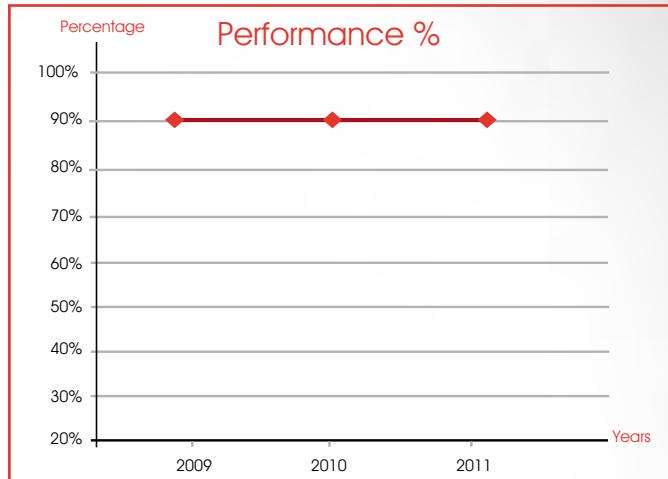
## 2-Preventive Maintenance performance in 2011

	ST 1	ST 2	ST 3	ST 4	ST 5	ST 6	ST 7	ST 8	ST 9	ST 10	ST 11	ST 12	ST 21	ST 22	ST 23	ST 24
Total Tasks required	2097	998	2215	2191	2300	2098	2422	2649	2251	2547	2241	2244	926	744	956	855
Done	2095	955	2204	2055	2289	1934	2418	2425	2020	2280	2208	2116	847	632	955	740
Outstanding	2	43	11	136	11	162	4	224	231	266	33	124	64	112	1	115
Performance	99.9	95.69	99.5	93.7	99.5	92.1	99.8	91	89.7	89.5	89.5	94.2	91.4	84.9	99.8	86.5



### 3-Preventive maintenance performance over 3-years

YEAR	Year 2009	Year 2010	Year 2011
Number of tasks required $S_T$	26810	28495	29734
Outstanding $S_O$	1206	954	1539
Done	25604	27531	28173
US	3606	3246	3777
Performance	90 %	91%	92%



Preventive maintenance target is to eliminate the corrective maintenance and measured as below: Performance % = ST-US / ST-SO

### Work Instruction Status

Total number of equipment	320
WI Finished and reviewed	160
WI under reviewing	160

### EAM-Enterprise Asset Management:

Oracle Enterprise Asset Management (EAM) is a part of oracle's e-business suite, providing organizations with the tools to create and implement maintenance procedures for both assets and rebuildable inventory items. Maintenance procedures are an integral part of an organization's complete asset lifecycle management strategy, enabling an organization to optimize asset utilization. EAM enables users to optimally plan and schedule maintenance activities with minimal disruption to an organization's operations or production.

Importantly, it improves resource efficiency, enhances maintenance quality, tracks work history, and records all maintenance costs.

#### 4-Corrective Maintenance:

##### Maintenance Alerts:

Engineering Dept. sent 24 -maintenance alerts to all Rigs to correct the maintenance action and improve equipment performance and life time

##### -Main Gen. Set 3512 Alert (over greasing)

Monitor repeated vibration which related to damage in alternator bearing in main Gen Set So the Corrective actions Stop greasing front & rear bearing in 3512 main diesel Gen Sets alternator.

##### -Top Drive, MP and DWS Alert (change the oil type)

Monitor the oil sample Alert for above equipment during the cold weather and high temperature for more than half of the year and to save the equipment so we study the oil and take the corrective actions to change Mobil oil gear from 600 XP 100 to 600 XP 320 .

#### 5-Predictive maintenance

Predictive maintenance techniques help determines the condition of in-service equipment in order to predict when maintenance should be performed. This approach offers cost savings over routine or time-based preventive maintenance. The main value of Predictive Maintenance is to allow convenient scheduling of corrective maintenance, and to prevent unexpected equipment failures. The key is "the right information in the right time". By knowing which equipment that needs maintenance.

### Measuring and adjusting:

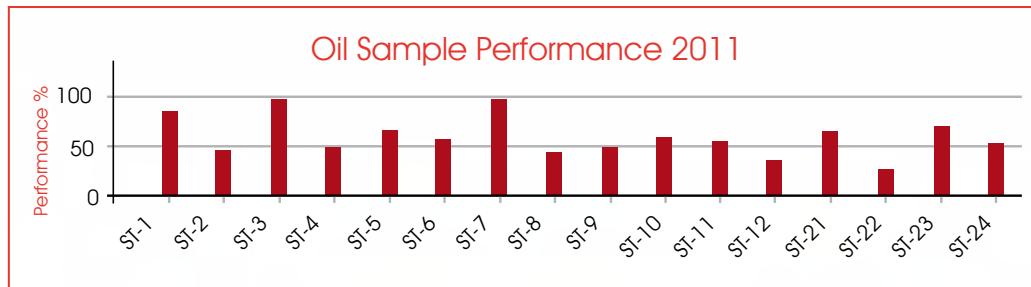
1-SCR system, measure all wave forms and check **the manufacturer** standard and replace some faulty components (st#4, 5, 6, 7).

2-Aux. Brake (Eaton), check **the manufacturer** recommendation to adjust the brake and follow the issue to extend the life time and minimize the repair (All rigs).

### Oil sample program analysis:

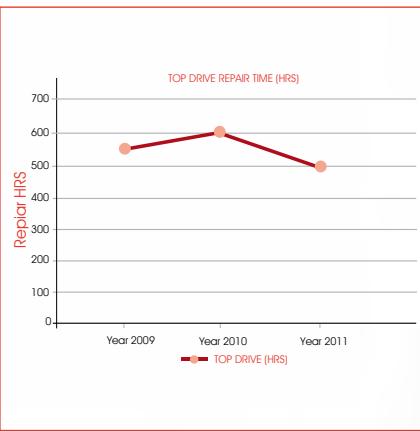
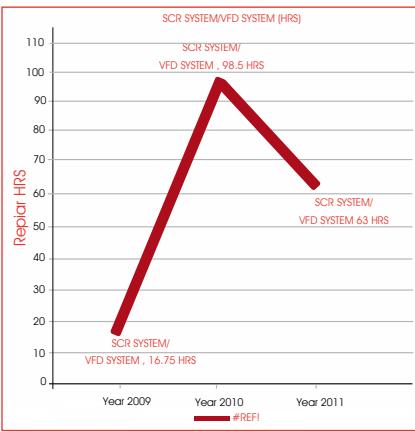
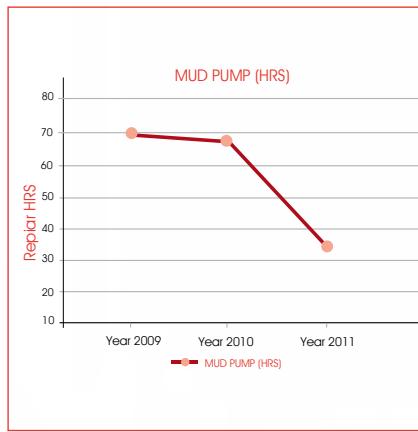
Indicates the presence and number of different materials in the oil to determine sources of wear and help in performing the predictive maintenance and advance or delay the corrective action.

	ST 1	ST 2	ST 3	ST 4	ST 5	ST 6	ST 7	ST 8	ST 9	ST 10	ST 11	ST 12	ST 21	ST 22	ST 23	ST 24
Total Tasks required	117	54	85	145	122	151	92	114	139	179	98	124	73	52	38	34
Done	97	25	85	72	86	92	92	50	66	121	55	50	51	16	27	19
Outstanding	20	19	0	68	36	53	0	64	73	58	43	74	22	36	11	15
Performance	82.9	46.3	100	49.7	70.5	60.9	100	43.9	47.5	67.6	56.1	40.3	69.9	30.8	71.1	55.9

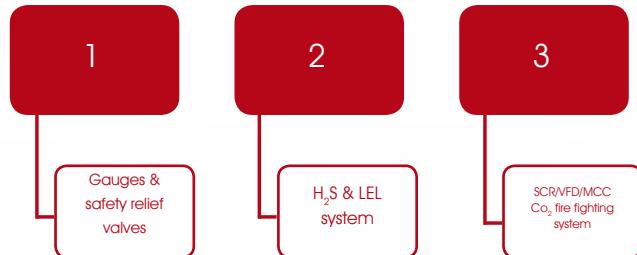


## 6-Equipment down time

Equipment	2009(Hrs)	2010(Hrs)	2011(Hrs)
Top Drive (11-units )	553.75	606.55	502
Mud Pump	71	68	34
Engines	93	112.5	344
Instrumentation and gauges	28	54	8.5
Block Control System	10.75	4.5	1.5
Well control equipment	73.5	60	31.5
SCR / VFD System	16.75	98.5	63



## 7- Instrumentations and gauges



### 1-Gauges & safety relief valves

All gauges and safety relief valves are calibrated and recertified every 6-months To ensure accurate reading.



### 2-H2S & LEL System

- H2S and flammable system is calibrated every 6-months.



- Upgrade: New Wireless system installed in ST-Tanmia-1 rig to replace the ordinary wires To reduce the running cost and the corrective maintenance required.

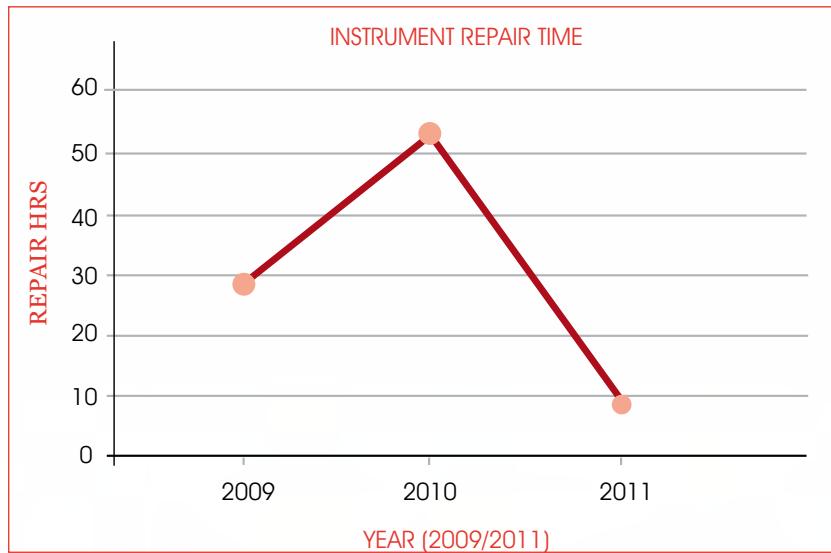


### 3-SCR/VFD/MCC Co2 fire fighting system:

System activated in case of burn or smoke occurred inside SCR/VFD/MCC ,And recertified every year.



### Instrumentation Performance over 3-years



Rig	ST-1	ST-2	ST-3	ST-4	ST-5	ST-6	ST-7	ST-8	ST-9	ST-10	ST-11	ST-12	ST-21	ST-22	ST-23	ST-24	ST-Tanmia-1
certificates of gauges & SRV	30	16	39	35	40	23	40	28	46	41	35	39	32	32	26	37	26
certificates of LEL	1	2	1	1	2	1	1	1	1	2	2	0	0	0	0	1	1
certificates of H2S	1	2	1	1	2	1	1	1	1	2	2	0	0	0	0	1	1
certificates of CO2	1	0	1	1	2	1	1	1	1	1	0	0	0	0	0	0	0
Total record	33	20	42	38	46	26	43	31	49	46	40	39	32	32	26	38	28

### Calibration certificates during 2011



## 8-Overhauls done at Badr Work shop

Top Drive : 2 ea Tesco ECI 900

1 ea Varco TDS -11



1 ea Drawwork Model JC70DB



4 ea Auxiliary Brake Model 436 WCB2



2 ea BOP Double Ram model 2FZ 35-35

1 ea Mud Pump Model HHF-1600

Engines: 7 ea Engine Model 3406  
5 ea Engine model 3512



### Other Equipment :

1 ea Degasser Model FIC 2000 SA-45A

1 ea Ezy Torque Model YM16

1 ea Hook Model DG 315

1 ea screw air compressor Model SA-45A

1 ea Swivel model SL450

5 ea Air Hoist Model QJ5 SERIES

### Work over well control equipments recertification

4 ea sets of well control equipments (BOP Stack, Chock Manifold, Bop Control Unit) had been recertified by Manufacture representative and Badr work shop team for ST21,ST22,ST23 And ST24



## 9-External Repair

The external repair is an important part of the maintenance dept. ,the external repair finds the solutions for most damaged equipments.

### 1-Equipment repair

The different **equipment** is being repaired in specialized and certified workshops with high potential experience, tools and safety in the repair of this equipment Such as (DC &AC Motor ,Generator ,pistons ,compressors ...etc).



### 2- Camp Repair

This section is providing the necessary equipment and materials required to repair all camps on all rigs To raise the efficiency of all caravans by SinoTharwa Team (ST#2 , ST#4 ,ST#7 ...etc).

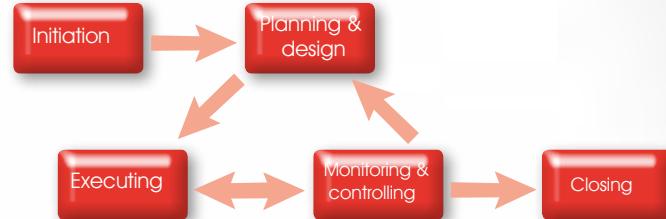


## II-Projects

### The Engineering project approach:

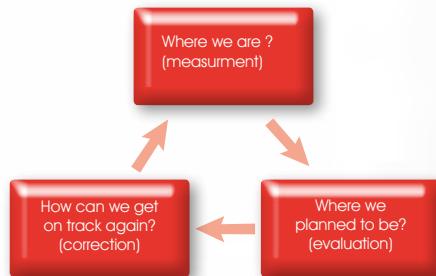
#### Typical development phases of an engineering project

- initiation
- planning and design
- execution and construction;
- monitoring and controlling systems;
- Completion



#### Monitoring and controlling includes:

- Measuring the ongoing project activities ('where we are').
- Monitoring the project variables (cost, effort, scope, etc.) against the project management plan and the project performance baseline (where we should be).
- Identify corrective actions to address issues and risks properly (How can we get on track again).
- Influencing the factors that could circumvent integrated change control so only approved changes are implemented.



## 1-Projects achieved

### JACK UP BAHARI 1:

- Spud In and start Drilling on Dec, 2011.
- Max operating depth 122 m (400 ft), Max drilling depth 9150 m (30000 ft).
- Overall capacity 8000 kW, Operation temperature -20°C to 50°C.
- Cantilever longitudinal movement 22.86m (75 ft) Drill floor transverse movement 4.57 m (15 ft).
- Variable load at drilling condition 3766 ton, Variable load at survival condition 2995 ton.



### Projects & Jobs done :

- Testing & commissioning of all rig **equipment**.
- Co-operated with procurement department to locate & expedite all project required Materials especially critical ones. Contacting with different vendor/local agent to Sort any outstanding issues also to build up strong locally support in case of troubles.
- Build up work instructions for all **equipment** and P.M system.
- Add extra fuel filtration system to protect engines.
- Improvement of HVAC system (air conditioning system) efficiency.
- The **engineering project team** finished all the related items as follow:
  - JIB crane Installation: accomplished according to drawings sent by project division.
  - Drip Pan: Fabrication and installation accomplished.
  - Secondary tension pad eye installation: Fabrication and installation accomplished according to standard drawing and welding procedure.

- Mixing tank relocation and piping modification, Unit relocation done according to rig recommendations and all piping modification already done.
- Accomplished of Hoppers piping modification
- Accomplished of Diverter network modification.
- Accomplished of stand pipe modification.
- Installation of all required isolation valves inside mud pump room.
- Modification & commissioning of V-Door & manual catwalk.
- Welding additional required Pad eyes inspected and certify same.
- Extend the port side deck crane safety guard.
- Install required 8 inch butterfly valves for flow line.
- Extend deluge /sprinkler system in rig floor & moon pool area.
- Install /secure required drain line hoses.

#### Tanmia-1 Rig :

Manufacturer: EPHH (1500 HP) Electrical

- Rig up all **equipment** ,do all fabrication and modification Required to start drilling  
**Install** new Top Drive TDS-11SA
- Rig up the main and fly camps (28-units)
- Spud in date Dec.,2012



## 2-Projects in progress

### ST# 2

- Conversion project from Mechanical rig to Electrical
- Sand blast and paint all equipment.
- Replace the mech. Dws by 1500 hp DWS Drive by 2x600 kW ac motors.
- Replace mech. Rotary table by 37.5" drive by 1X600 KW a.c motor.
- Replace the 2- MP by 2X 1600 hp ,each drive by 1200 KW a.c motor.
- Replace all Mud system cables and lights Estimated to **be finalized by the end** of January,2012.



### III-Badr Yard Activities

- Build up the concrete area for rigging up projects and rigs modification.
- **Finished** the grading, leveling, squeezing and Compaction of Drill pipe & Storage Equipments area (6,000 m<sup>2</sup>).



#### Short term future plan

- Classification rigs junk material and prepare their inventory.
- Build new ware house and workshop in free zone area.
- Extend warehouse (vertically) by adding shelves.
- Prepare area for heavy equipment storage.

#### Long term future Plan

- Preparing for steel fabrication area and save all required accessories.
- Empty work shop #2 from materials to be as workshop with new activities.
- **Activate** the Administration building as training center.
- Establish new instrumentations work shop.



SinoTharwa Drilling Co.



## IT & Telecommunication

Let's make informations linked

## IT & Telecommunication Technologies anywhere

### The Objective:

IT & Telecommunication is a service provider department that provides quality, innovative technology to better serve our employees in 20 different locations (Head Office, Warehouses, Badr Yard and Rig Sites). The department is not only a significant part of the company's strategy, but also a major driver for best practices. The main objective of the IT & Telecommunications department is to provide total solutions including hardware and software information systems and technologies that enable other departments to accomplish their respective objectives through:

- Ensuring stable, reliable and secure network operations in a user friendly environment while have positive impact on user's productivity and day to day business operations.
- Providing fully integrated and reliable services which impact on user's productivity and day to day business operations.
- Provide technical support that meets the employees requirements while adhering to department standards and policy.
- Providing a fully integrated and seamless end-to-end ERP suite for running the business that offers a solution that incorporates the entire company.



### The Challenge:

Our main challenge is balancing ongoing operations and strategic initiatives with contingency and expansion needs, within a continuously evolving business in the Information Age.

Practically, budgets and capital are not growing correspondingly, which leave no choice for us other than being selective in our pursuit of solutions and programs that need IT/ERP support Teams; these teams should provide support effectively and efficiently to fulfill high expectations while facing tight budgets.

## Telecommunication, Systems & Networking

Connectivity Anywhere



### Mission:

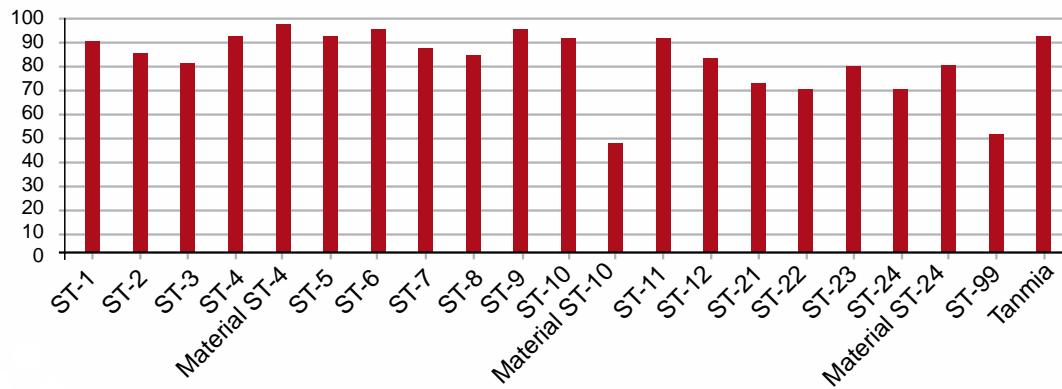
Responsible for providing users within Head Office and Remote Sites with the communication methods like internet connectivity, PTP connectivity, satellite connectivity, wireless connectivity, phones, mobiles, public address and VSAT systems to ensure that they can communicate with each other 24/7 anywhere. Also responsible for providing the company infrastructure with the latest technologies and keep it up and running in healthy environment 24/7. Also responsible for keeping Hardware, Software and Services up-to-date and meet the most efficient levels of security and availability for the network.

### 2011's Achievements:

- Successfully link Head Quarter infrastructure with Badr Yard and Jack-Up infrastructures to provide fully integrated services with Badr and Bahari-1 users.
- Implement required servers and services for internal network in Badr Yard.
- Re-organize active directory and group policies to include Badr Yard and Jack-Up users to secure entire infrastructure.
- Successfully implement Badr Yard attendance system and link both systems in head office and Badr Yard.
- Install surveillance system to cover head office parking areas.
- Install a new leased line with bandwidth 3 Mbps and upgrade existing one to 2 Mbps to serve all users by 5 Mbps.
- Install Surveillance system in Badr Yard to allow the permitted persons to monitor all zones.
- Upgrade Service desk Application from version 6.00 to version 8.0.0 Build 8012, which provide more stable DB and better performance.

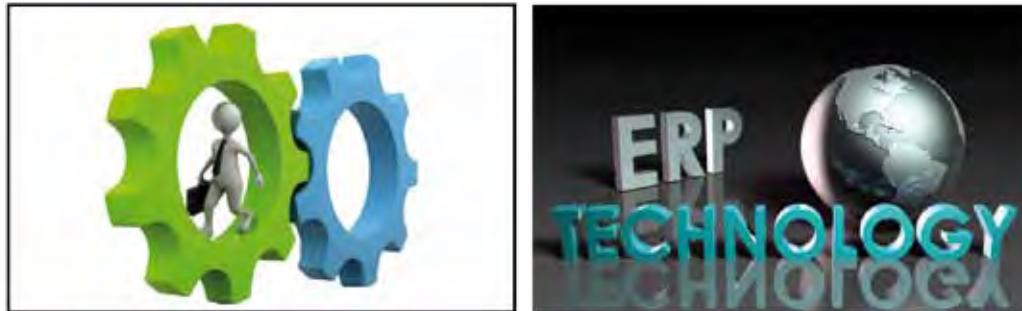
- Upgrade Symantec Endpoint Protection to latest version 11.0.6300.8.3.
- Implement Exchange RPC/HTTP to allow all users to access company e-mail anywhere through outlook client.
- A license enterprise agreement with Microsoft to be able to legally use all Microsoft products.
- Keeping all rigs connected with head office through internet and voice services.

Connectivity Status for All Rigs During 2011



## Enterprise Resource Planning

Pushing Limits



### Mission:

Responsible for automating business processes through implementing applications and/or functionalities and providing timely and effective functional assistance to end-users of ERP Applications.

### Objectives (Achieved /Planned):

Although ERP system requires a lot of investment, however successful implementation provides lots of benefits too and saves both time and money on the long run.

We implemented ERP system to achieve the core objectives of the ERP that include implementing the best practices of business and integrating the data. Also, it aims to reducing the redundancy and the labor intensive manual processes used. This streamlines the tasks and thereby increases the productivity. By eliminating the multiple systems, the organization can store and share data in a standardized way.

### Core objectives:

1. Streamlining the information: ERP consists of modules that help in streamlining the flow of information between our various departments. The data of all our departments is in one database so as to ease information exchange. As one of the core objectives of the ERP, it integrates our data and provides for our employees to work as a team to achieve the same goal. The automation of the business process helps managing our resources in a better fashion.

### Achievements:

- Successfully implemented Release 11.

2. Return on investment or ROI: Another one of the core objectives of the ERP is to make our business more profitable. We always look after the latest technology to keep up with the competition and realize better profits. ERP is the ideal platform for our employees to utilize their resources and time in the most optimum way and contribute positively to the profits of our organization.

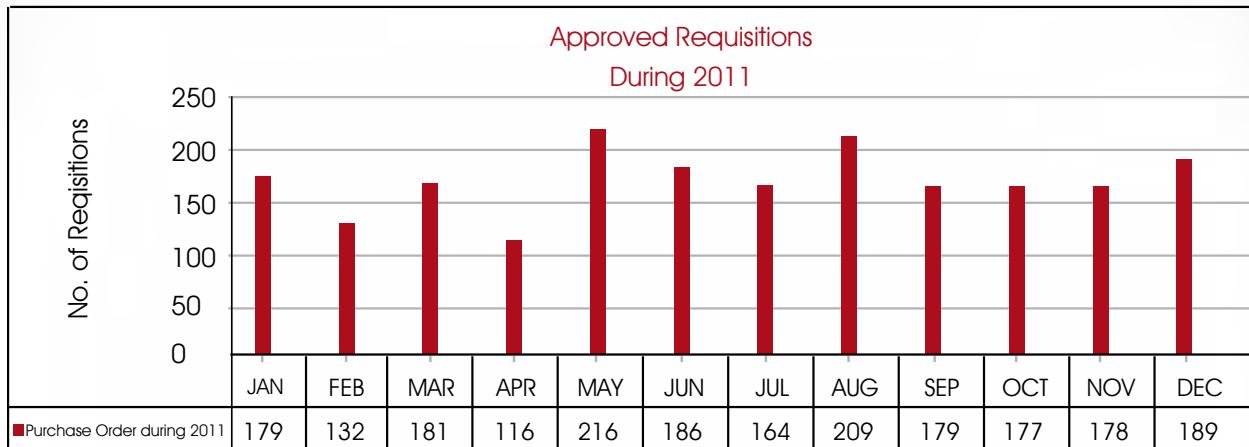
- Added new functionalities in the existing Release.

3. Decision Support System: ERP provides our management with real time data easily at any time. It is easy to access up-to-date data and take timely decisions. One of the core objectives of the ERP is to provide the right data at the right time so as to enable our management to take quick and correct decisions. This allows for better decision making and therefore ERP acts like a decision support system.

## Achievements:

- Producing KPIs reports on weekly and monthly basis for Top Management.

### Requisitions KPIs for 2011



### Purchase Orders KPIs for 2011



## Technical Support

We are ready!



### Mission:

Responsible for providing timely and efficient technical support to end-users within the Head Office and remote sites.

### 2011's Achievements:

- Total number of tickets done during 2011 is 4797 tickets including Service desks, e-mails and phone calls support.
- Keep SinoTharwa Web-site ([www.sinotharwa.com.eg](http://www.sinotharwa.com.eg)) updated on weekly basis.
- Enhance and enrich solutions' knowledge base.



SinoTharwa Drilling Co.



**Finance**  
Where vision gets built

Finance

## Independent Auditor's Report

To the Quota Holders of SinoTharwa Drilling Company  
"A Limited Liability Company Private Free Zone"

### Report on the Financial Statements

We have audited the accompanying financial statements of SinoTharwa Drilling Company "A Limited Liability Company Private Free Zone", which comprise the balance sheet as of December 31, 2011, and the related statements of income, changes in Quota holders' equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Egyptian Accounting Standards. And in light of Egyptian governing laws this responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SinoTharwa Drilling Company "A Limited Liability Company Private Free Zone", as of December 31, 2011, of its financial performance and its cash flows for the year then ended in accordance with Egyptian Accounting Standards.

## Emphasis of a Matter Paragraph

Without qualifying our opinion, we draw attention to Note 17 to the accompanying notes of the financial statements in that, it was not possible for information to be made available to enable management to disclose the impact of the current events in Arab Republic of Egypt on the values of some of the assets and liabilities and results of operations during future financial periods, as these values and results might vary substantially over the future periods, had reliable indicators been available to determine the extent and magnitude of the events on the values of the assets and liabilities included in the balance sheet.

## Report on Other Legal and Regulatory Requirements

The company maintains its accounting records as required by law and the Statutes of the company which are in agreement with the accompanying financial statements.

The financial information included in the Board of Managing Directors' report, prepared according to the requirements of Law No. 159 for 1981, and its executive regulations, is in agreement with the company's records to the extent that such information is normally recorded.



**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Financial Statements  
For the year Ended December 31st 2011  
Together with the Financial Auditor's Report

Balance Sheet as of 31 December 2011  
(Amounts Expressed in US Dollar)

Long Term Assets	Note	31/12/2011	31/12/2010
Fixed assets	3-2f	483,093,880	179,476,156
Projects under construction	4-2g	3,224,478	259,512,669
<b>Total Long Term Assets</b>		<b>486,318,358</b>	<b>438,988,825</b>
<hr/>			
Current Assets			
Inventory	5-2h	27,834,462	24,358,356
Accounts receivables	6	18,154,369	18,112,721
Debtors and other debit balances	7	12,575,921	6,608,602
Cash and cash equivalent	8	6,130,630	11,763,784
<b>Total Current Assets</b>		<b>64,695,382</b>	<b>60,843,463</b>
<hr/>			
Current Liabilities			
Bank Overdrafts	9	36,897,376	36,069,691
Loans annuities due within a year	15	45,802,112	41,195,910
Creditors and other credit balances	10	21,303,306	11,052,367
Transaction with Related Parties	11	13,818,160	2,097,996
Provisions	12	25,000	20,761
<b>Total Current Liabilities</b>		<b>117,845,954</b>	<b>90,436,725</b>

**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Balance Sheet as of 31 December 2011

(Amounts Expressed in US Dollar)

Long Term Assets	Note	31/12/2011	31/12/2010
Working capital		(53,150,572)	(29,593,262)
Total Investments – Financed as Follows:		433,167,786	409,395,563
Quota Holders Equity:			
Capital	13	80,000,000	80,000,000
Legal reserve	14	2,991,703	2,632,496
Retained earnings		20,659,307	19,640,424
Net Profit for the year		4,163,312	3,592,070
Total Quota Holders Equity		107,814,322	105,864,990
Long Term Liabilities			
Long term loans	15	325,353,464	293,296,917
Long term loan from related parties	11	--	10,233,656
Total Long Term Liabilities		325,353,464	303,530,573
Total Investment and Long Term assets		433,167,786	409,395,563

- The accompanying notes are an integral part of these financial statements.
- Auditors' report attached.

**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Income Statement For The Year Ended 31, December, 2011  
 (Amounts Expressed in US Dollar)

Description	Attach	Note	31/12/2011	31/12/2010
Operating revenue		(1)	79,186,449	75,453,818
Deduct:				
Operating expenses		(2)	60,130,008	57,629,188
Gross Profit			19,056,441	17,824,630
Add:				
Net Capital Gain (Loss)			377,662	355,666
Credit Interest			7,874	114,248
Provisions no longer required			--	149,603
Other revenue			308,840	--
Deduct:				
General & administrative expenses			7,736,671	6,337,680
Financing expenses			6,872,177	7,686,631
Board of directors' allowances			111,232	184,618
Provisions made during the year		(12)	4,239	14,705
Decline in account receivable			863,186	628,443
Net Profit for the year			4,163,312	3,592,070

- The accompanying notes are integrated part of these financial statements.

**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Cash Flow Statement For The Year Ended 31, December, 2011  
 (Amounts Expressed in US Dollar)

Cash Flow from Operating Activities:	Note	31/12/2011	31/12/2010
Net profit for the year		4,163,312	3,592,070
Adjustments			
Fixed assets depreciation		20,409,473	21,316,320
Provisions made during the year		4,239	14,705
Decline in account receivable		(62,843)	176,877
Provisions no longer required		--	(149,605)
Capital(gain)		(377,662)	(355,666)
Operating Profit before changes in working capital		24,136,519	24,594,701
Working Capital Changes			
(Increase) in inventory		(3,476,107)	(9,444,772)
Decrease (Increase) in accounts receivable		21,196	(296,513)
(Increase) in debtors and other debit accounts		(5,967,319)	(5,438,834)
Increase (Decrease) in creditors and other credit accounts		10,250,939	(30,320)
Increase (Decrease) in Transaction with Related Parties		1,486,508	(2,360,482)
Net Cash Flow from operating activities		26,451,736	7,023,780
Cash Flow from Investing activities			
Proceed from sale of fixed assets		684,501	772,735
(Payments) for purchase of fixed assets		(66,280,277)	(8,905,970)
(Payments) for projects under construction		(1,765,570)	(36,969,525)
Net Cash Flow (used) for Investment Activities		(67,361,346)	(45,102,760)

**SinoTharwa Drilling Company**  
**“Limited Liability Company Private Free Zone”**

Cash Flow Statement For The Year Ended 31, December, 2011  
 (Amounts Expressed in US Dollar)

Cash Flow from Operating Activities:	Note	31/12/2011	31/12/2010
Cash Flow from Financing Activities			
(Payment) from long term loan		(41,195,910)	(3,803,628)
Proceed from long term loan from related parties		--	10,233,656
Proceed from (Payment) of Installment for long term loan		77,858,661	22,106,298
Paid profit dividends		(2,213,980)	(1,214,169)
Net Cash Flow from Financing Activities		34,448,771	27,322,157
Net decrease in cash and cash equivalent		(6,460,839)	(10,756,823)
Cash and cash equivalent beginning balance		(24,305,907)	(13,549,084)
Cash and cash equivalent ending balance		(30,766,746)	(24,305,907)
Cash and Cash equivalent represent :			
Cash and cash equivalent	(8)	6,130,630	11,763,784
Bank overdrafts	(9)	(36,897,376)	(36,069,691)
		(30,766,746)	(24,305,907)

- The accompanying notes are integrated part of these financial statements.

**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Changing in Quota Holders Equity Statement  
For The Year Ended 31, December, 2011  
(Amounts Expressed in US Dollar)

Description	Capital	Legal Reserve	Retained Earnings	Net Profit	Total
Quota holders equity as at 1 January, 2010	80,000,000	2,027,952	15,413,698	6,045,439	103,487,089
Dividends of profit 2009	--	--	(1,214,169)	--	(1,214,169)
Transferred to legal reserve & Retained Earning	--	604,544	5,440,895	(6,045,439)	--
Net profit for the year	--	--	--	3,592,070	3,592,070
Quota holders equity as at 31 December 2010	80,000,000	2,632,496	19,640,424	3,592,070	105,864,990
Quota holders equity as at 31 December 2010	80,000,000	2,632,496	19,640,424	3,592,070	105,864,990
Dividends of profit 2010	--	--	(2,213,980)	--	(2,213,980)
Transferred to legal reserve & Retained Earning	--	359,207	3,232,863	(3,592,070)	--
Net profit for the year	--	--	--	4,163,312	4,163,312
Quota holders equity as at 31 December 2010	80,000,000	2,991,703	20,659,307	4,163,312	107,814,322

- The accompanying notes are integrated part of these financial statements.

**SinoTharwa Drilling Company**  
**"Limited Liability Company Private Free Zone"**

Notes to financial statements

As of December 31st, 2011

(Amounts Expressed in US Dollar)

**1- The Company:**

SinoTharwa Drilling Company "Limited Liability Company Private Free Zone" was established in the Arab Republic of Egypt on 29th August 2005 based on the free zone system according to Investment Incentives and Guarantees Law No. 8 for the Year 1997 and taking into consideration Law No. 95 for the year 1992. The company was registered in the Commercial Register on 29th August 2005 with commercial registration No. 12235.

The purpose of the company is to drill and maintain oil wells and perform other related activities, establish workshops for the maintenance of drilling, production, serving equipment, transportation, renting the equipment to serve the drilling of wells, exclusively working with drilling and exploration companies, which enjoy an exemption from customs duties, and companies working outside Egypt.

**2- Significant Accounting Policies:**

A summary of the significant accounting policies, all of which have been applied consistently throughout the period, is as follows:

**a. Accounting Basis:**

The accounts were prepared in accordance with the Egyptian Accounting Standards and in compliance with relevant Egyptian laws and regulations.

**b. Measurement Basis:**

The financial statements were prepared using the historical cost convention method. The financial assets and liabilities were evaluated using the fair value convention.

**c. Functional and Reporting Currency:**

The financial statements were prepared in U.S dollar which is the functional and reporting currency.

**d. Use of Estimate:**

The preparation of the financial statements in conformity with Egyptian Accounting Standards requires the use of estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Although, these estimates are based on management's best knowledge of current event and actions, actual results may ultimately differ from those estimates.

- Estimates and related assumptions are reviewed on a regular basis.
- In case of any change in estimates relating to the current period, it is recognized therein. If it relates to this year and future years, it is recognized in both.

**e. Foreign Currency Transactions:**

The company maintains its accounts in US Dollars. All transactions denominated in any other currencies are translated to US Dollar using the exchange rates published by EGPC, in the first day of each month in which the expenses is recorded.

At the period end the company reevaluates monetary assets and liabilities. Translation differences are included in the statement of Income.

**f. Fixed Assets:**

**i. Initial Recognition:**

- Fixed assets are stated at historical cost and presented in the Balance Sheet net of accumulated depreciation and impairment loss.
- Fixed assets value includes all direct cost for acquiring the asset. Assets that are internally produced, the cost includes material costs, direct labor cost and other overhead cost necessary to make the asset ready for use in its intended place and purpose. It also includes costs of removing the asset and the rearrangement of the asset's location.
- The special component is accounted as independent item of the fixed assets that differs in their useful life

**ii. Subsequent Cost:**

The fixed assets book value includes the cost of replacing part or a component of those assets, when future economic benefits of this cost are expected and could be reliably measured. Other costs are recognized in the income statement as incurred.

### iii. Depreciation:

Fixed assets are stated at historical cost and are depreciated using the straight line depreciation method based on their estimated useful lives using the following annual rates:

Asset	Depreciation Rate
Rigs and Drilling Equipment	8 - 6.25 %
Drill Strings	33%
Buildings and Constructions	5-10-15%
Transportation	10-20%
Furniture and Office Supplies	10%
Computers	33%

The company commences depreciation from the month immediately proceeding the date the assets are utilized and operational.

### g. Projects Under Construction:

Projects under construction are recognized at cost according to the initial recognition. Cost includes all expenditures necessary for bringing the asset to a working condition and for its intended purpose. Projects under construction are transferred to fixed assets, when rendering ready for use for its intended purpose.

### h. Inventory:

Materials inventories are priced at cost or net realizable value whichever is the lower. Cost includes the purchase acquisition costs and the incidental until delivered to the company's warehouse .Cost is determined according to Weighted Average Cost method.

Drilling equipment Parts are priced at a cost of acquisition and converted to fixed asset item, when used.

Inventory In-Transit is priced using the purchase cost and all incidentals up to December 31st 2011.

### i. Cash and Cash Equivalents:

For the purpose of preparing the statement of cash flows, the company considers all cash, bank current accounts, demand deposits and bank overdrafts that are part of the company's cash management system to be cash and cash equivalent.

**j. Impairment:**

**i. Financial assets:**

- The financial asset is considered to be which may if there is subjective evidence showing that there is one or more event negatively affect the estimated future cash flow to be generated by that asset.
- Impairment loss on financial asset is measured at amortized cost which is calculated at the net of the book value and the fair value of the estimated cash flow as discounted using the effective interest rate.
- Impairment loss on financial assets available for sale is calculated with reference to the current fair value.
- Impairment loss is measured independently for each asset. The value of other financial assets is estimated for each groups that common credit risk characteristics.
- All impairment losses are stated in the Statement of Income. The accumulated losses related to the financial asset available for sales which are previously included in the quota holders' equity is transferred to the Statement of Income.
- The impairment loss is shown in the Statement of Income if it is objectively related to an event after recognizing it. The financial assets available for sale, which is considered as an equity tool is recognized directly in the quota holders' equity.

**ii. Non-financial assets:**

- The carrying amounts of the company's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.
- Goodwill and the intangible assets with a non determinable life or that is not available for use, the recoverable amount is estimated at each balance sheet date.
- An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.
- The unit generating the cash flow is represented in the smallest group of the assets that generate cash inflow. Impairment losses are recognized in the income statement.
- The recoverable amount of the assets or its cash-generating unit represents its value in use or its fair value after deducting selling cost, whichever is higher. To realize the current value, the estimated cash flow is discounted using the discount rate before tax that reflects the current market evaluation of the time money value and risks related to the asset.

- Impairment loss related to the goodwill is not reversed. For other assets, the impairment loss recognized in the previous period is reviewed on the balance sheet date to be determining if there is any indication of loss decrease. In such case, impairment loss is reversed to the extent that the book values of the asset does not exceed its realizable value after depreciation had the impairment not occurred.

k. Accounts Receivable:

Customers balance is shown at expected net realizable value. Accounts are written off, when it is estimated that they would not be collected. Doubtful accounts are assessed based on a comprehensive review of all balances on the financial statements date.

l. Suppliers and other credit Account :

Suppliers and other credit balances are stated at cost.

m. Dividends:

Dividends are recorded as a liability during the period dividends are declared.

n. Expenses:

i. Rent expense

Paid rent is recognized in the income statement on a pro-rate temporaries. Incentives for rent collection are recognized in the income statement as part of the rent expenses.

o. Provisions:

Provisions for liabilities are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation and the liability can be reliably estimated.

Provisions are estimated by deducting the future cash inflow with the rate before tax which reflects the current market evaluation of the money value and risks related to the liability (when necessary).

p. Revenue Recognition:

Revenues are measured using the fair value of the amount due based on the agreements. Revenue is recognized when economic future benefit is expected and reliably measured.

q. Borrowing Cost :

Cost of loans is charged as an expense during the period in which the company incurred such cost excluding the interest directly related to the acquisition and construction of the new rigs, which is capitalized over the entire cost of the rig and depreciated throughout the estimated lifetime of the Rig. Capitalizations cease upon the completion of the preparation of the rigs and are rendered for use.

r. Employees' Pension System:

The Company contributes to the governmental social insurance system for the benefit of its employees in accordance with the Social Insurance Law No. 79 for 1975, as amended. Such contributions are charged as an expense in the income statement as incurred.

**3. Fixed Assets:**

Fixed assets amounted to US \$ 483,093,880 as of December 31, 2011 and comprised the following:

Description	Land	Rigs & Drilling Equipment	Drill String	Building	Transp. Units	Furniture	Computer	Total
Assets Cost as of January 1st 2011	2,098,826	194,320,306	22,687,565	17,698,945	1,405,871	865,487	1,570,731	240,647,731
Additions during the year	--	319,401,142	4,524,145	58,749	--	32,676	317,326	324,334,038
Disposals during the year	--	(24,374)	(2,419,393)	--	(187,919)	(403)	(21,876)	(2,653,965)
Assets Cost as of Dec. 31st 2011	2,098,826	513,697,074	24,792,317	17,757,694	1,217,952	897,760	1,866,181	562,327,804
Accumulated Depreciation as of January 1 2011	--	39,093,318	16,915,939	3,235,044	873,951	262,105	791,219	61,171,576
Depreciation of the year	--	13,600,304	4,722,387	1,388,831	237,905	87,811	372,235	20,409,473
Accumulated Disposals Depreciation	--	(4,625)	(2,166,968)	--	(154,348)	(144)	(21,040)	(2,347,125)
Accumulated Depreciation as of Dec. 31st 2011	--	52,688,997	19,471,358	4,623,875	957,508	349,772	1,142,414	79,233,924
Net Assets as of Dec. 31st 2011	2,098,826	461,008,077	5,320,959	13,133,819	260,444	547,988	723,767	483,093,880
Net Assets as of Dec. 31st 2010	2,098,826	155,226,988	5,771,626	14,463,901	531,920	603,382	779,513	179,476,156

- Rigs as of December 31, 2011 amounted to 17 (seventeen) rigs.
- The value of fully depreciated fixed assets and still in use as of December 31, 2011 amounted to US \$ 14,381,567
- The company fully paid all installments under the value of land number (A), of 47 Acres, Badr City, which has been purchased pursuant to an Allocation Decree issued by Authority of Badr City. The company is in the process of registering the land in the name of the company.
- The additions during the year include 36 637 238 US \$ is the Jack Up (Bahari) share from the loans interests used to finance it, including amount of US \$ 13 293 910 for 2011.

#### 4. Projects Under Construction:

The balance of Projects under construction amounted to US \$ 3,224,478 on December 31st, 2011 consist of:

Description	31/12/2011	31/12/2010
Jack Up (Bahari 1)	--	258,053,761
Down Payment for drill string and tools	--	1,164,992
Project of developing Drill String No (ST2)	3,036,253	237,271
Head Office	188,225	--
Badr Building Project	--	56,645
	3,224,478	259,512,669

- Capital commitment as of December 31st 2011 amounted to US \$ 3,750,100 representing purchase pipes and upgrade the Rig project St No(2).

#### 5. Inventory:

The balance of inventory on December 31st, 2011 amounted to US \$ 27,834,462 comprised the following:

Description	31/12/2011	31/12/2010
Rig equipment spare parts	6,917.650	8,334,180
Tools and spare parts	18,315.086	14,414,083
Goods in transit	2,601.726	1,610,093
	27,834,462	24,358,356

## 6. Account Receivables:

Accounts Receivables balances as of December 31st, 2011 amounted to US\$ 18,154,369 is represented as follows:

Description	31/12/2011	31/12/2010
Balayeim Petroleum Company – Petrobel	2,429,715	2,879,437
Agiba Petroleum Company	1,502,939	1,292,758
Khalda Petroleum Company	1,865,034	911,262
Petrodara Petroleum Company	2,220,433	2,099,471
Wastani Petroleum Company	2,642,895	300,000
El Hamra Oil Company	5,303,682	6,312,034
West Bakr Petroleum Company	--	98,886
Qarun Petroleum Company	202,487	788,442
Badr El Din Petroleum Company- Bapetco	182,026	377,990
Nafto Gas	1,968,684	2,443,710
East Ziet Petroleum Company	350,000	1,256,018
Borg Elarb petroleum company	279,505	293,658
General Petroleum Company	1,973,380	645,997
Sinopec	--	880,719
Dana Gas	167,335	2,023,359
Petro Amir Company	1,057,406	1,125,538
Tanmya petroleum company	1,407,929	--
Marina petroleum company	288,505	--
Ground star petroleum company	159,015	--
Pyramids for drilling company	261,110	261,110
Other Customers	1,693	294,579
	24,263,773	24,284,968
Impairment in accounts receivable	(6,109,404)	(6,172,247)
	18,154,369	18,112,721

## 7. Debtors and Other Debit Balances:

Debtors and other debit balances amounted to US\$ 12,575,921 on December 31st 2011 as follows:

Description	31/12/2011	31/12/2010
Prepaid Expenses	229,383	347,314
Deposits with others	55,334	55,966
Accrued revenues *	10,889,183	5,768,894
Advances paid to suppliers	1,287,198	248,273
Other debit balances	114,823	188,155
<b>Total</b>	<b>12,575,921</b>	<b>6,608,602</b>

\*The balance of Accrued Revenues includes amount of US \$ 6,849,268 is invoices issued and have not been delivered to clients until December 31, 2011 and have been delivered January 2012

## 8. Cash and cash equivalent:

Cash and cash equivalent amounted to US\$ 6,130,630 On December 31st 2011 consist of:

Description	31/12/2011	31/12/2010
Current accounts	2,433,349	3,955,422
Time deposits	1,153,086	7,549,362
Letter of guarantees cover	2,544,195	259,000
<b>Total</b>	<b>6,130,630</b>	<b>11,763,784</b>

## 9. Bank Overdrafts :

Bank Overdrafts balance amounted to US\$ 36,897,376 on December 31st 2011 and consists of:

Description	31/12/2011	31/12/2010
Credit Agricole Egypt	14,824,179	14,909,026
Alex Bank	9,850,907	13,309,630
National Development Bank	8,899,105	7,851,035
HSBC	3,323,185	--
<b>Total</b>	<b>36,897,376</b>	<b>36,069,691</b>

- Credit limit from Credit Agricole Bank amounted to US \$ 15,000,000 pursuant to the agreement dated June 4th, 2009. This bears interest of 1.5% above LIBOR.
- Credit limit from Bank of Alexandria amounted to US \$ 15,000,000 pursuant to the agreement dated March 2nd, 2010. This bears interest of 1.25% above LIBOR.
- Credit limit from the National Development Bank amounted to US \$ 10,000,000 pursuant to the agreement dated April 20th, 2010. This bears interest of 1. 5% above LIBOR.
- Credit limit from HSBC amounted to US \$ 9,000,000 pursuant to the agreement dated August 31st, 2011. This bears interest of 1.25% above LIBOR , and 500,000 L.E by the interest rate of the bank.

#### 10. Creditors and Other Credit Balances:

Creditors and other credit balances amounted to US\$ 21,303,306 on December 31st, 2011, comprised the following:

Description	31/12/2011	31/12/2010
Suppliers	15,758,921	8,321,439
Accrued expenses	4,509,683	2,551,267
Tax Authority – withholding tax	301,874	177,098
Other Credit Balances	521,161	2,563
Income Tax	211,667	--
<b>Total</b>	<b>21,303,306</b>	<b>11,052,367</b>

#### 11. Transactions with Related Parties:

Below is a description of transactions conducted with related parties during the period:

## 11-1 Transaction with Related Parties

Name of Related Party	Nature of Relationship	Nature of Transaction	Balance on 1/1/2011 Credit	Transaction Value		Balance on December 31st 2011 Credit
				Debit	Credit	
Sinopec Star Petroleum Co. China	50% Quota Holder	Purchase of drilling rigs, sustaining Wells, spare parts and technical consultancy.	2,097,996	2,942,640	4,459,373	3,614,729
Sinopec Century Bright Capital Investment Middle East Limited	Common Indirect ownership	Loan bears interest of 2.55% above LIBOR	10,233,656	372,026	341,801	10,203,431
			3,314,666	4,801,174	13,818,160	

## 12. Provisions:

Provisions balance as at December 31st, 2011 amounted to US \$ 25,000 and represented as follow:

Description	Balance on 1/1/2011	Made During the Year	Provisions no longer required	Balance on 31/12/2011
Legal provision.	20,761	4,239	--	25,000
Total	20,761	4,239	--	25,000

## 13. Capital:

Description	Balance on 1/1/2011	Made During the Year	Provisions no longer required
Sinopec Star Petroleum Co. China	4,000	40,000,000	50%
Tharwa petroleum Co.	2,450	24,500,000	30.625%
E-Gas Co.	1,550	15,500,000	19,375%
Total	8,000	80,000,000	100%

## 14. Legal Reserve:

According to the company statutes, the company must deduct 10% of its Net profit to form a legal reserve until it reaches 50% of the paid up capital and whenever it decreases. Deductions are resumed. No dividends are allowed out of this reserve.

## 15. Loans annuities due within a year and long term loans:

Loans annuities due within a year and Long term Loans amount as of December 31st, 2011 amount of US\$ 45,802,112 and US\$ 325,353,464 respectively comprised of the following:

Bank Name	Loan Date	Loan End	Grace Period	Loan Financing Purpose	Collateral	Loan amount	Payment Method	2011 Installment Due		2010 Installment Due	
								Short Term	Long term	Short Term	Long term
NBE	07 / 06 /2006	Dec-2016	One year from loan date	Purchase of land Drilling ST 3	Deposit of revenues arising from the rig	18,000,000	Semi-annual Basis Installment	1,800,000	7,199,745	1,800,000	9,000,000
NBE	01 / 08 /2006	Jul-2017	One year from loan date	Purchase of land Drilling ST 4 & ST 21	Deposit of revenues arising from the rig	18,000,000	Quarterly Basis Installment	1,800,000	8,550,000	1,800,000	10,350,000
NBE	15 / 11 /2007	Nov-2017	One year from loan date	Purchase of land Drilling ST 8 & ST 9 & ST 10	Deposit of revenues arising from the rig	58,500,000	Quarterly Basis Installment	6,500,000	32,496,039	6,500,000	39,000,000
NBE	18 / 02 /2008	Dec-2018	One year from loan date	Purchase of Onshore land Drilling ST 11 & ST 12 & ST 24	Deposit of revenues arising from the rig	50,000,000	Quarterly Basis Installment	5,000,000	29,999,375	5,000,000	35,000,000
NBE	Jul - 2008	Dec-2020	Two year from loan date	Purchase of Jack up Offshore Drilling Rig	Deposit of revenues arising from the rig	220,991,700	Quarterly Basis Installment	23,900,000	197,091,700	22,106,298	175,506,648
Arab bank	11 / 12 /2006	Sep-2016	One year from loan date	Purchase of Onshore land Drilling ST 5& ST 22	Deposit of revenues arising from the rig	20,000,000	Quarterly Basis Installment	1,989,612	9,450,671	1,989,612	11,440,269
Arab African Bank	14 / 06 /2007	Jun-2018	15 month from loan date	Purchase of Onshore land Drilling ST 6 & ST 7.	Deposit of revenues arising from the rig	20,000,000	Quarterly Basis Installment	2,000,000	11,000,000	2,000,000	13,000,000
HSBC	21 / 09 /2011	Sep-2017	One year from loan date	Refinancing the bank debt short term which finance the Rig-The remaining payment for suppliers	Deposit the generated Revenue of st1,st2,st23	30,000,000	Quarterly Basis Installment	1,500,000	27,628,536	--	--
HSBC	29 / 05 /2011	May- 2016	One year from loan date	Update and maintenance the rig st2.	Deposit the generated Revenue	7,000,000	Quarterly Basis Installment	1,312,500	1,937,398	--	--
<b>Total</b>								<b>45,802,112</b>	<b>325,353,464</b>	<b>41,195,910</b>	<b>293,296,917</b>

\* The amount of unused bank credit facilities as of December 31st, 2011 is US\$ 4,621,565

## 16. Tax Status:

- The company was established according to the private free zone system; hence, it is tax exempted in accordance with the provisions of Article 35 of law (8) of 1997. This article states that companies with free zone systems are not subject to tax laws or duties applicable in Egypt for all their durations. The exemption applies for activities mentioned in the tax card pursuant to the establishment decree issued by the General Investment Authority.



**a) Payroll Tax:**

The company settles 2011 salary tax.

Salary tax inspection was completed for 2010 and resulted in no differences.

The company settles 2011 salary tax on a timely basis. It also files the quarterly tax returns on due course.

**b) Withholding Tax:**

The company applies the withhold tax deduction system in transactions with others and legal institutions which are subject to corporate income tax. The company prepares tax forms according to the Tax Authority's instructions and submits them together with the quarterly deducted amounts on a regularly basis until December 31, 2011.

**17. Major events in 2011**

Egypt have passed through a major political events in January 2011 have affected the activities of the state as a whole and then displays the performance and profitability of most of the economic units of the negative impact of such events in future periods as it may be established by the volatility of unexpected factors in the market.

These events have affected the activity of the company during the period, which could affect the values of many assets and liabilities of financial statements in future periods. This administration has been unable to assess the potential impact of these events on the financial statements of the company in future periods where it is not available at this time sufficient data and information can be relied upon for disclosure of this impact.

**18. Financial Instrument and Risk Management:**

The company's financial instruments are represented as assets and financial commitments. Financial assets include cash at banks, debtors and bank loans. Disclosures to the financial statements include the accounting principles used for recording and measuring the most important financial instruments and all related revenues and expenses.

- The following shows the risks related to the financial instruments and the procedures followed to mitigate the effort of such risks:

**18/1 - Credit Risk:**

Credit risk is represented by the ability of the company debtors to pay back the loan taken from the company and the majority of company debtors represent amounts due on the clients and advances paid suppliers.

#### 18/2 - Foreign Currency Risk:

The foreign currency risk results from foreign currency exchange rates fluctuations which could affect payments in currency other than US Dollar. Management assesses such risk and handles it on an accounting basis when there is no means for covering it.

#### 18/3 - Liquidity Risk:

The liquidity risk represents certain factors that could affect the pay back of part or total amount of the company's commitment. It is worth mentioning that the company has a negative working capital.

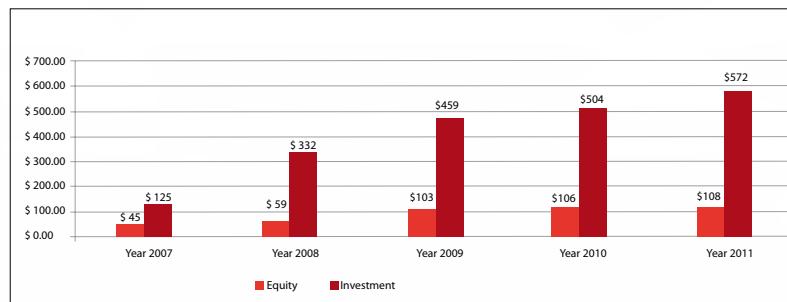
#### 18/4 - Market Risk:

Market risk represents future changes in the value of financial instruments as a result of changes in market conditions. The company does not undertake any future hedging contracts.

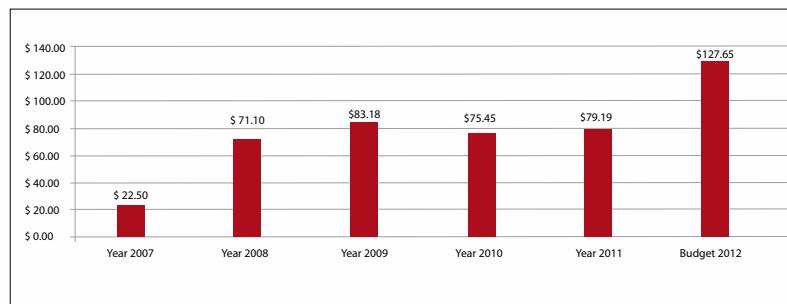
#### 18/5 - Financial Instruments Fair Value:

According to the applied measurements of the company's assets and liabilities balances as per the notes to the financial statements, most assets and liability balances are carried at amounts, which approximate their fair values.

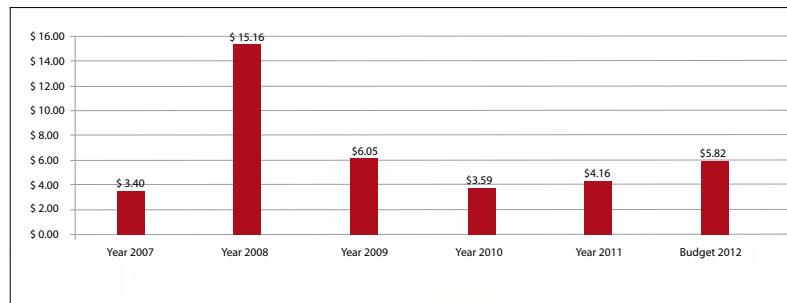
## Company's Development – Equity Vs. Investment



## OPERATING REVENUE



## COMPANY PROFIT





**Procurement**  
The only way of Development is together

Procurement

## **The only way of development is achieving together**

- During the last six years our focus was on improving the responsiveness, finding out the solutions and asking the right questions in order to reach the best way for achieving our goals because our mission is not only for the well-fare of our department and our company but also for the well-fare of our clients.
- Procurement team develops new integrated supply chain strategies to fit and align with the business competitiveness due to the challenging goals set by the company and the business dynamics that always create the need for develop new strategies to do job in more effective and efficient way. And that is the real challenge.



## Materials planning

Executing company requirements is our plan

- The planning process seeks the improvement of responsiveness and effectiveness of supply chain and demand forecasting through aggregate planning strategies and additional applicable methods in order to improve the business performance.



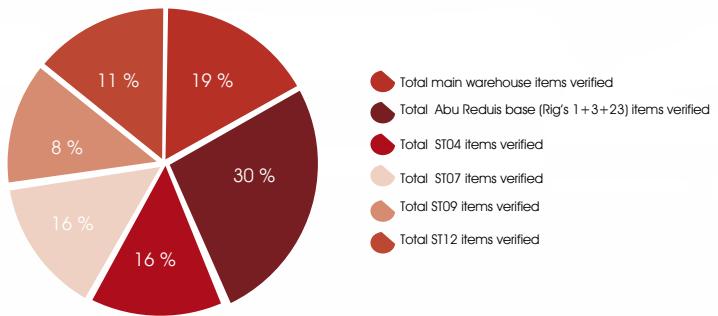
In 2011 planning team had several major challenges as follows:

- Building up Bahari-1 data base which started up with more than 4000 items.
- Setup of demand forecasting for Bahari-1.
- Improving our current technical database for on-shore rigs through data verification .

As shown in the below table which were completed on the 1st phase and in 2012 the 2nd and 3rd phase will be completed

### Verified Items

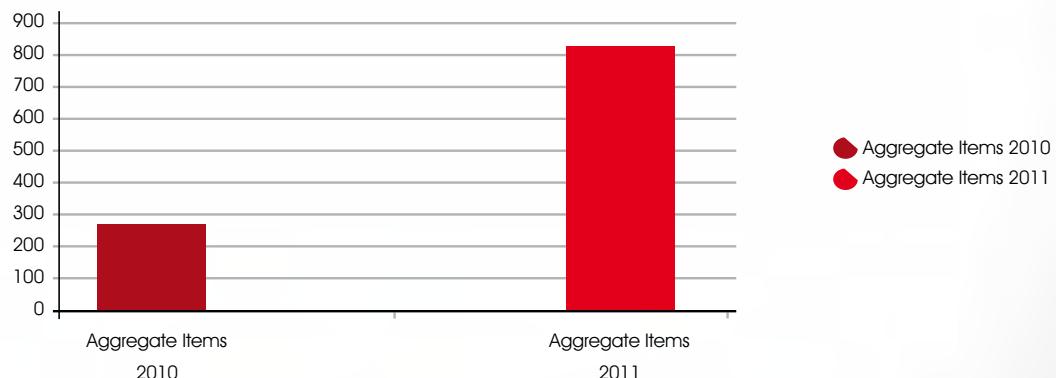
Site	Items verified
Total main warehouse items verified	2000
Total Abu Reduis base ( Rig's 1+3+23) items verified	3070
Total ST-4 items verified	1700
Total ST-7 items verified	1661
Total ST-9 items verified	790
Total ST-12 items verified	1189



Developing the demand forecasting is one of the crucial focuses to improve fill rate and support rig utilization thus increase customer satisfaction by increasing aggregate items found in 2011 which is nearly 4 times as the aggregate items found in 2010.

### Aggregate Planned Items

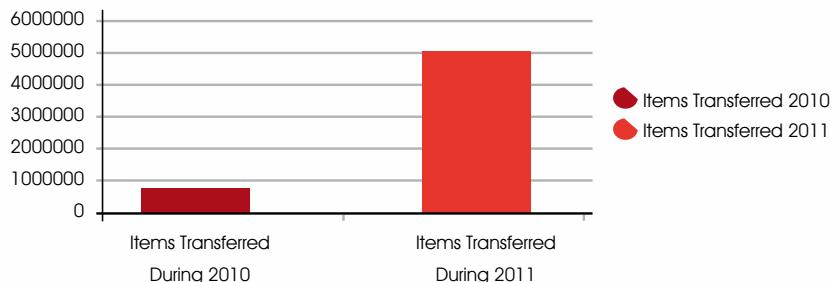
Aggregate Items 2010	260
Aggregate Items 2011	810



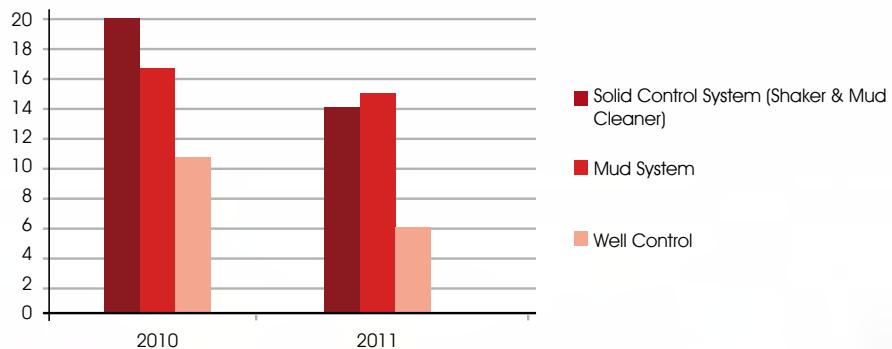
Improvement in demand forecasting resulted in increase of the main yard utilization as shown in the below transfers value & frequency which contributed in the cost reduction by focusing on the major categories.

### Transferred Transaction Between Rigs

Status	Lines	value
Items Transferred 2010	378	815,871.80
Items Transferred 2011	5281	5,019,654.90



### Transferred Transaction for mud system and well control



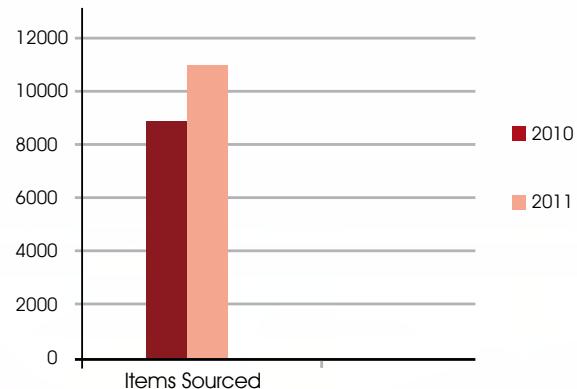
## Purchasing

We can save cost with high quality

In 2011 purchasing process focused on supporting the operating rigs and adding new project as Bahrai-1 and Tanmia-1 which was reflected on the increase of the items required to be sourced as shown below in addition to the increase in number of agreements with vendors to be eight agreements in order to avoid the price increase during that period and also to make material available on time.



Sourced Items



## Logistics

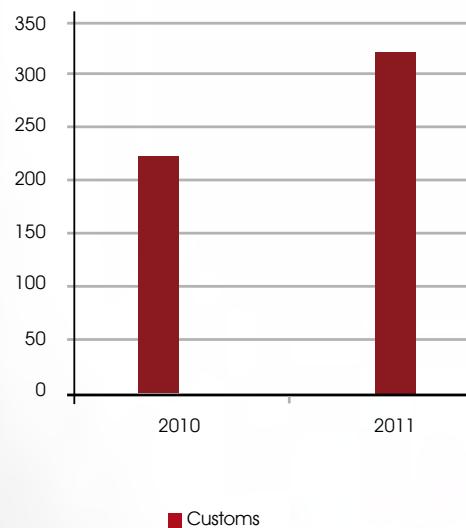
### We can logistics everywhere

In the align with supply chain strategies to improve responsiveness we always focus on logistics timing although business had been increased as shown in the below tables and graph.



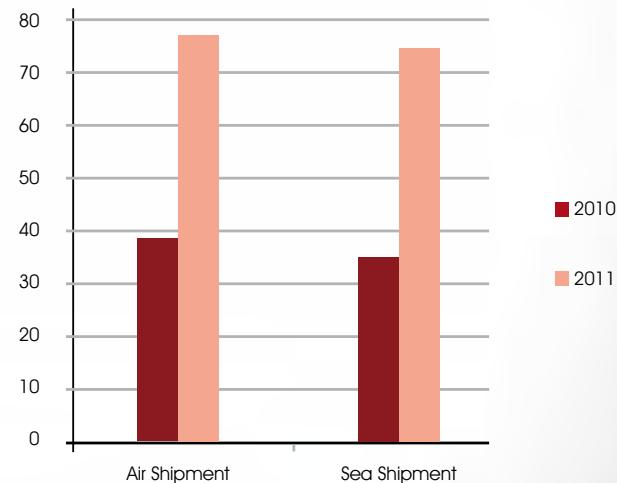
Customs Declaration Per Years

Year	2010	2011
Customs declaration	234	318



Types of Shipment Per Years

Type of shipment / Year	2010	2011
Air shipment	38	77
Sea shipment	35	74



## Follow up

Our mission to follow your requirements

The follow up role is to express the efficiency and effectiveness of procurement activities by regular follow up for vendors and team performance to give special focus on the new projects and urgent orders with quick response.

The main goal of follow up team is to make supply chain cycle under continuous monitor and control to assure targets achievement.

In 2011 we succeeded in closing more than 86% of our items and the reason for the delay of closure of the rest is uncontrollable conditions and we will try to increase the closure in the next year.



2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
All	1135	1580	752	435	926	1630	1073	1197	971	1162	597	648
Closed	1107	1455	656	376	806	838	850	608	575	382	350	225

The Jack-Up project had a special focus being our first offshore project in addition to its size as shown below.

Number of Total Lines	2198
Number of Closed Lines	1881
Number of Opening lines not due	317

## Inventory and warehousing

We can achieve our plans for the next step

- In 2011 there were many important milestones for the inventory management; we focused on improving the whole performance and our top priority as to continue the improvement of our team members' capabilities through on job training and workshops as shown below in the results of the last 2 years of training.
- Improving manpower competency in the sites.
- In 2011 and still in the coming years continuous training programs to be introduced for all material men working as below



- total hours for work shops training in head office in 2011 is 208 hours of lectured by procurement supervisors
- total hours for site training during 20% audit in 2011 is 1857 hours

#### Material men on job training 2010

Month	Feb	Mar	Apr	May	Jun	Aug	Sep	Total
Total hours 2010	144	204	360	144	264	204	180	1116
Persons	4	4	4	4	3	4	5	28

#### Material men on job training 2011

Month	Feb	Mar	Apr	May	Jun	Aug	Sep	Oct	Total
Total hours 2011	192	192	192	192	192	192	192	360	1706
Persons	4	4	4	6	4	4	4	5	28



■ Material men on job training

## Rearranging Badr yard

In 2011 after launching company main yard in badr city a strong need were found for development of the main yard which required redesign and adjust of location for more than 2000 ERP system items which improved supply time.



During 2011, the procurement team concentrated on boosting the performance, full activation for measurements & developments.

And our mission in 2012 is to identify supply chain break down risks & set alleviation strategies



# Contracts

Committed to the best deal

The main target during 2011 was to secure the validation of the existing contracts and the extension of the expired ones with the best rates, terms and conditions available in the market despite the interrupted political situation which accordingly affects the country's economic conditions in all fields including the Oil and Gas.

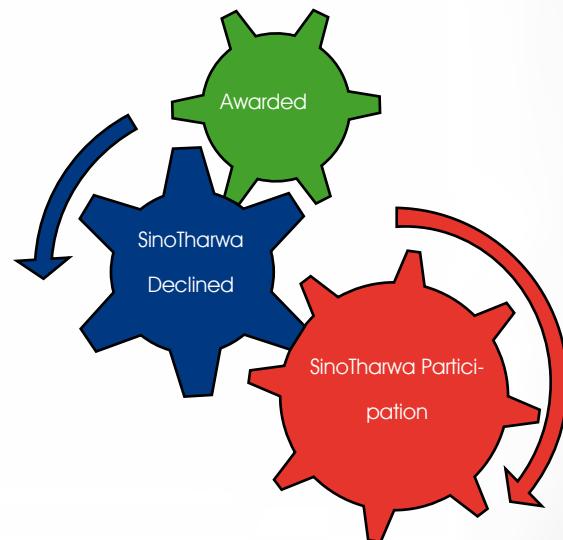
Our strategy was to adopt plans that help in the improvement of business excellence and profitability of the company by keeping reliable, secured rates, terms, and conditions which enable the Company to compete in the drilling market and ensuring that any agreement entered by SinoTharwa is fair and balanced for both parties.

## **OnShore:**

### **Tenders & Inquiries:**

Handling tenders and preparing competitive offers is one of the crucial objectives for the contracts department.

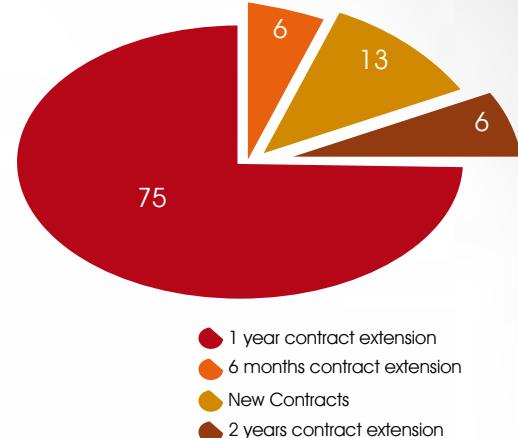
During 2011, we participated in 38 tenders and we declined to bid in 30 tenders due to the non availability of the required rigs, as we do succeed in securing full year contracts for our fleet.



## Drilling Contracts:

As the contracts team fully understand that establishing the right structure and relationships between our clients enable us the flexibility for our business especially when the economic situation is not stable, our mission was to achieve the balance between the market situation and the upside opportunities.

We keen to increase the company profitability through studying the market as well as efficient negotiations and effective contract management which leads to the stability of our contracts and being solicited by new operators.



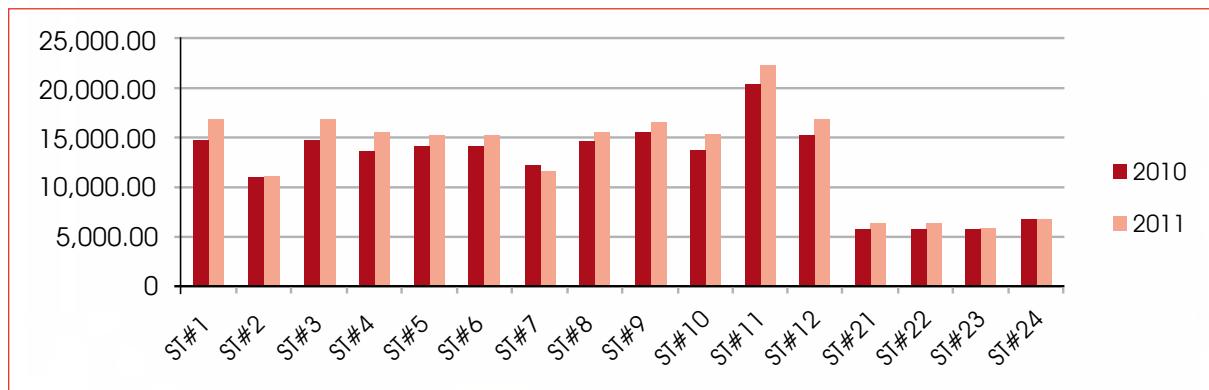
## Extended Contracts:

Rig	Company	Contract Extension
ST-1	Belayim Petroleum Company	One year firm
ST-3	Belayim Petroleum Company	One year firm
ST-4	General Petroleum Company	Two years firm
ST-5	Khalda Petroleum Company	One year firm
ST-6	Khalda Petroleum Company	One year firm
ST-7	Dara Petroleum Company	One year firm
ST-8	Agiba Petroleum Company	One year firm
ST-9	PetroAmir Company	One year firm
ST-11	NaftoGaz Company	Six months firm
ST-12	Belayim Petroleum Company	One year firm
ST-21	Agiba Petroleum Company	One year firm
ST-22	Qarun Petroleum Company	One year firm
ST-23	Belayim Petroleum company	One year firm
ST-24	Badr El Din Petroleum Company	One year firm

## New Contracts:

Rig	Company	New Contract
ST-2	Marina Petroleum Company	4 work-over wells (It's currently under upgrade project to be converted from mechanical to electrical rig with top drive)
ST-10	Khalda Petroleum Company	One year firm

In spite of the instability of the market, we succeed to extend the existed contracts and enter into new Contracts with higher rates than 2010, in the mean time with the best terms and conditions.



## **Offshore:**

### **Tenders and Offers :**

By launching our 1st Offshore Rig (BAHARI-1), SinoTharwa continued its progress and expanded its expertise to the offshore market and compete in the global market by participating in four tenders.

Our efforts in preparing competitive technical and commercial bids have been rewarded by being solicited by East Zeit Petroleum Company as the successful bidder to enter into a contract for a duration of two wells firm and one well optional.

In order to pave the way for BAHARI-1 to start its operations in the offshore market , the Contracts Department implement and conclude several contracts as "Tug Boats, Marine surveyor, recruitment, and catering services" with qualified Contractors who provide efficient services to keep the operations process secured, professional and free of any obstacles that may hinder the rig Operations.

### **New Services:**

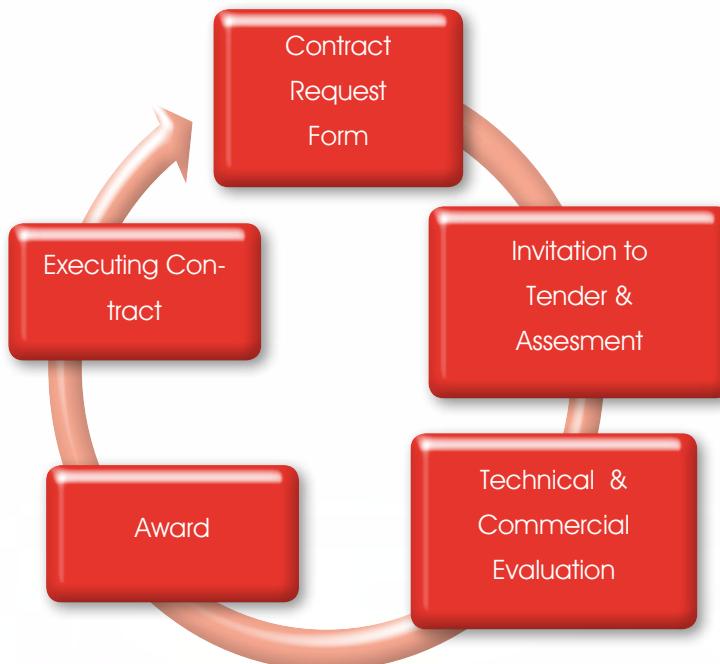
Although, the existence of SinoTharwa in the market is less than seven years, we succeed to gain the trust of our Operators and to have our special reputation in the market, which paved the way for SinoTharwa to start its new services for "Marketing and Management" of non-owned Rigs.

In the light of the above, we have entered into a contract with Tammia Petroleum Company for the provision of Marketing and Management service for its Rig (T-1), and succeed to sign a contract with East Zeit Petroleum Company based on the best rates in the Market.

## Service Tenders:

The quotation and tender process are both used to obtain written offers from Service provider for the provision of the required service. The quotation process is normally used for relatively low value and low risk services. For higher values, which require greater accountability, the more formal tendering process we adopted.

In order to ensure that the required services will be performed with the best quality as well as the best prices in the market, during 2011 the Contracts Department has issued 15 tenders for contracting the most qualified service providers with the best prices in the market.

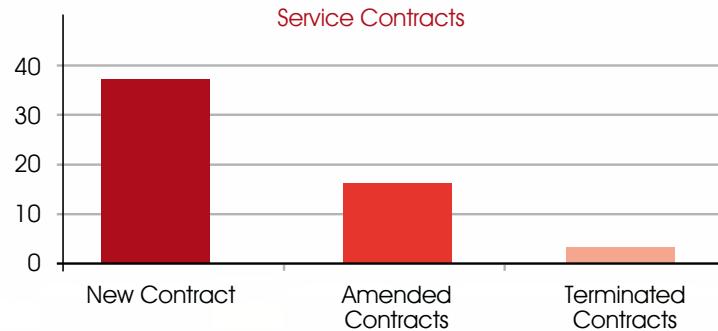


## Service contracts:

Satisfaction of each department in the company with the services that are being provided by contractors is so much related to the contract process starting from requesting the service till signing the contract. For this reason, contracting process must be in the right quantity, quality, price and delivery time.

Since the cost optimization was one of the company's main targets in 2011, we succeed to implement fixed rates during the whole year and avoid any kind of increase in most of the services.

Through the year Thirty two contracts have been signed with different service providers after being accepted by our QHSE department as well as the user department.



## Insurance:

Ensuring that all risks related to SinoTharwa assets as well as operations are mitigated through appropriate and adequate insurance coverage is the top priority in renewing our insurance coverage policy.

Our Zero claim records enable us to get the best rates available in the insurance market as well as giving us the benefit of being a distinguished and preferable client to the insurance underwriters.

Based on the above, we succeed to get the best rates in the Oil and Gas market and keep our coverage rates for our rig fleet included Bahari-1 as well as Bard Yard reasonable and within our budget figures, despite of the increase in the insurance rates.