

Registered No: 02615887

Petrofac Engineering Limited

Report and Financial Statements

31 December 2016



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COMPANIES HOUSE

Registered No: 02615887

Directors

U Darr
J Scott
D Stephen

Auditors

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Bankers

Royal Bank of Scotland plc
Queens Cross Branch
40 Albyn Place
Aberdeen
AB10 1YN

Solicitors

Charles Russell & Co
Buryfields House
Bury Fields
Guildford
Surrey
GU2 4AZ

Registered office

Brook House
88-100 Chertsey Road
Woking
Surrey
GU21 5BJ

Petrofac Engineering Limited

Registered No: 02615887

Strategic report

The directors present their strategic report for the year ended 31 December 2016.

Principal activities and review of the business

Petrofac Engineering Limited (the Company) provides field development engineering for the oil and gas industry, including consultancy, studies, conceptual engineering, front end engineering and design (FEED), detailed design, procurement support, risk, safety and environmental services.

On 27th February 2016, the majority of the trade and assets of Petrofac Engineering Limited with a value of £34,500,467 were transferred to Petrofac Facilities Management Limited.

This forms part of the rationalisation of Petrofac's UK operations and is part of a wider initiative to achieve efficiencies across the organisation.

The company's key financial and other performance indicators during the year were as follows:

	2016 £000	2015 £000	Change %
Turnover	19,753	86,716	(77%)
Operating profit	3,234	10,227	(68%)
Profit for the financial year	2,228	9,223	(76%)
Shareholder's equity	35,121	32,761	7%
Current assets as a percentage of current liabilities ('quick ratio')	6.93	1.83	
Average number of employees	39	276	

The Company's revenue is earned from contracts which can range significantly in value, supporting projects in several countries around the world. In 2016, the Company continued to support fellow subsidiary undertakings with sub-contracted work. The 2016 figures represent the period from 1 January to 27th February for the majority of contracts before they were transferred to Petrofac Facilities Management Limited, a small number of contracts were retained, predominantly in the branches of Petrofac Engineering Limited.

Future developments

The trade has now transferred to a fellow subsidiary, Petrofac Facilities Management Limited, where it is expected the business will continue to focus on its core markets and manage its cost base.

Principal risks and uncertainties

The company's key risks and uncertainties are described below. This list does not purport to be exhaustive. Additional risks and uncertainties not presently known to the company, or that the company currently deems to be immaterial, may also impact on the performance of the business.

Strategic report (continued)

Principal risks and uncertainties (continued)

- **Health and Safety**

The company conducts its operations within a strict health and safety regime. Failure to comply with the relevant regulations could adversely affect its reputation and future revenues. The culture of health and safety within the company is a key element of its operational and business activities. Effective health and safety management is vital to the system of business management and is integral to the delivery of quality and business excellence.

- **Financial risk**

The Company operates in a competitive market and is subject to the pressure of oil price movements. Projects are typically shorter than one year and, where this is not the case, mechanisms are often introduced in contracts to allow for changes in prices during the course of projects. Additionally, as far as possible, the timing of cash generated from projects is matched to the cash spent on delivering those projects. Foreign currency projects are usually hedged to minimise the exchange movement risk if the project value is significant.

- **Credit risk**

The Company trades ideally with recognised, creditworthy third parties, and intercompany customers which are predominantly wholly owned subsidiaries of the Petrofac consolidated group. For external customers, management will evaluate the creditworthiness of each individual third party at the time of entering into new contracts, where possible, or seek an advance payment if credit risk is considered high. Limits have been placed on the approval authority of the various levels of management when entering into new contracts. Receivable balances are monitored on an ongoing basis with appropriate follow up action taken where necessary.

On behalf of the board



D Stephen
Director
11 December 2017

Petrofac Engineering Limited

Registered No: 2615887

Directors' report

The directors present their report and financial statements for the year ended 31 December 2016.

Results and dividends

The profit for the year, after taxation, amounted to £2,228,000 (2015 – profit of £9,223,000). The company has not paid a dividend in respect of the year ended 31 December 2016 (2015 - £nil).

Foreign branches

The Company has active branches in Italy, Korea, Mexico and United Arab Emirates. The branches did not migrate to Petrofac Facilities Management Limited on the 27th February 2016.

Events since the balance sheet date

During October 2017, the business vacated the Dukes Court premises in Woking, relocating all employees to its premises in Brooke House in Woking.

Directors

The directors who served the company during the year were as follows:

U Darr
J Scott
R Smith (resigned 31st March 2016)
D Stephen (appointed 26th February 2016)

Going concern

On 27th February 2016, the trade and assets of Petrofac Engineering Limited with a value of £34,500,467 were transferred to Petrofac Facilities Management Limited, with the exception of the branches and a property lease. The only other balances remaining within Petrofac Engineering Limited are intercompany, and group relief payable. The company has been provided with a letter of support from a fellow subsidiary, and therefore will continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to the auditors

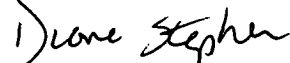
The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company.

On behalf of the board



D Stephen
Director

11 December 2017

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

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

In preparing these financial statements, the directors are required to:

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

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

Independent auditors' report

to the members of Petrofac Engineering Limited

We have audited the financial statements of Petrofac Engineering Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatement or inconsistencies we consider the implication for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 – Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Ernst & Young LLP

Moira Ann Lawrence (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

13. December 2017

Income statement

For the year ended 31 December 2016

		Continuing Operations 2016	Discontinued Operations 2016	Total 2016	Continuing Operations 2015	Discontinued Operations 2015	Total 2015
	Notes	£000	£000	£000	£000	£000	£000
Turnover	3	2,579	17,174	19,753	17,747	68,969	86,716
Cost of sales		(2,720)	(15,233)	(17,953)	(16,398)	(55,140)	(71,538)
Gross (Loss)/Profit		(141)	1,941	1,800	1,349	13,829	15,178
Administrative (expenses)/income		(296)	1,730	1,434	(802)	(4,149)	(4,951)
Operating(Loss)/ Profit	4	(437)	3,671	3,234	547	9,680	10,227
Other income		-	-	-	178	1,149	1,327
Interest receivable	8	-	73	73	-	-	-
Interest payable	9	-	(36)	(36)	(1)	(366)	(367)
(Loss)/Profit on ordinary activities before taxation		(437)	3,708	3,271	724	10,463	11,187
Tax credit/(charge) on (loss)/profit on ordinary activities	10	126	(1,169)	(1,043)	(139)	(1,825)	(1,964)
(Loss)/Profit for the financial year		(311)	2,539	2,228	585	8,638	9,223

Statement of comprehensive income

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Profit for the financial year	2,228	9,223
Exchange difference on retranslation of net assets of branches	132	(11)
Total comprehensive income for the year	2,360	9,212

Statement of changes in equity

For the year ended 31 December 2016

	<i>Share capital £000</i>	<i>Translation reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total Equity £000</i>
At 1 January 2015	3,225	37	20,287	23,549
Profit for the financial year	-	-	9,223	9,223
Share based payments expense	-	-	360	360
Funding of share based payments expense	-	-	(360)	(360)
Currency translation adjustment	-	(11)	-	(11)
At 31 December 2015	3,225	26	29,510	32,761
Profit for the financial year	-	-	2,228	2,228
Currency translation adjustment	-	132	-	132
At 31 December 2016	3,225	158	31,738	35,121

Translation reserve


The translation reserve arises as a result of translating the financial statement items of branches from the functional currency using the exchange rate at the statement of financial position date, which differs from the rate in effect at the last measurement date of the respective item.

Statement of financial position

at 31 December 2016

		2016	2015
	Notes	£000	£000
Fixed assets			
Tangible assets	11	147	1,158
Intangible assets	12	5	4
		<u>152</u>	<u>1,162</u>
Current assets			
Trade and other receivables	13	31,496	49,404
Cash at bank and in hand		<u>9,365</u>	<u>23,299</u>
		40,861	72,703
Creditors: amounts falling due within one year			
Trade and other payables	14	<u>5,892</u>	<u>39,771</u>
Net current assets		<u>34,969</u>	<u>32,932</u>
Total assets less current liabilities		35,121	34,094
Provisions for liabilities	18	-	1,333
Net assets		<u>35,121</u>	<u>32,761</u>
Capital and reserves			
Share capital	19	3,225	3,225
Profit and loss account		31,738	29,510
Translation reserve		<u>158</u>	<u>26</u>
Equity shareholder's funds		<u>35,121</u>	<u>32,761</u>

The financial statements were approved for issue by the board on 11 December 2017.


D Stephen
Director

Notes to the financial statements

at 31 December 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The separate financial statements of Petrofac Engineering Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the board of directors on 11 December 2017 and the statement of financial position was signed on the board's behalf by Diane Stephen. Petrofac Engineering Limited is incorporated and domiciled in England.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The results of Petrofac Engineering Limited are included in the consolidated financial statements of Petrofac Limited which are available from the Petrofac Limited Registered Office, 44 Esplanade, St Helier, Jersey, JE4 9WG.

The principal accounting policies adopted by the Company are as set out in note 2.

2. Accounting policies

2.1 Basis of preparation

The separate financial statements have been prepared on a historical cost basis.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share based payment*, provided that for a qualifying entity that is :
 - a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity;
 - an ultimate parent, the share-based payment concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group,and in both cases, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- The requirements of IFRS 7 *Financial Instruments: Disclosures*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- The requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement* provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - paragraph 118(e) of IAS 38 *Intangible Assets*;
 - paragraphs 76 and 79(d) of IAS 40 *Investment Property*; and
 - paragraph 50 of IAS 41 *Agriculture*.
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*.
- The requirements of IAS 7 *Statement of Cash Flows*.
- The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- The requirements of paragraph 17 and 18A of IAS 24 *Related Party Disclosures*.
- The requirements of IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of Assets*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Deferred Tax Asset

A deferred tax asset is recognised for tax losses to the extent that there are suitable future taxable profits forecast. The Company recognised deferred tax in respect of tax losses of nil (2015: £1,054,000).

2.3 Significant Accounting Policies

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Tangible fixed assets

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis at the following rates:

Furniture	- over 4 years
Leasehold improvements	- over the lease term
Office equipment	- over 3 years

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the income statement when the item is derecognised. Gains are not classified as revenue.

Intangible Assets

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the administrative expenses line of the income statement, at the following rates:

Computer software	- 3 years
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The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment wherever there is an indication that the asset may be impaired.

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Financial Assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within other operating income/expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. This category generally applies to trade and other receivables.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Financial Liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. No liabilities have been designated at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Impairment of assets (excluding goodwill)

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to assess whether there is an indication that those assets may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Provisions

Provisions are recognised when the entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as a finance cost.

Foreign currencies

The company's financial statements are presented in Sterling, which is also the company's functional currency.

Sterling is the currency of the primary economic environment in which the entity operates. This is the currency that primarily influences sales prices for goods and services, labour, material and other costs of providing goods and services.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income taxes

Income tax expense represents the sum of the current income tax and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset, only if a legal enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position.

Notes to the financial statements

at 31 December 2016

2. Accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Income taxes (continued)

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Leases

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and the finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions to this scheme are recognised in the income statement in the period in which they become payable.

Share-based payment transactions

Employees (including directors) of the company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions") of the parent entity, Petrofac Limited.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the Income Statement.

Notes to the financial statements

at 31 December 2016

3. Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Turnover recognised in the income statement is analysed as follows:

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Continuing operations		
Rendering of services	2,579	17,747
Turnover from continuing operations	<u>2,579</u>	<u>17,747</u>
Discontinued operations		
Rendering of services	17,174	68,969
Turnover from discontinued operations	<u>17,174</u>	<u>68,969</u>

The company's turnover and profit on ordinary activities before taxation are derived principally from the operations of the company in the United Kingdom.

An analysis of turnover by geographical market is shown below:

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Africa	1,386	16,591
Americas	3,052	7,971
Australasia	-	33
Europe	10,009	47,537
Former Soviet Union and Asia	348	823
Middle East	4,958	13,761
	<u>19,753</u>	<u>86,716</u>

Notes to the financial statements

at 31 December 2016

4. Operating (Loss)/Profit

This is stated after charging/(crediting):

	Continuing Operations 2016 £000	Discontinued Operations 2016 £000	Total 2016 £000	Continuing Operations 2015 £000	Discontinued Operations 2015 £000	Total 2015 £000
Amortisation of intangible assets	-	9	9	-	1,066	1,066
Depreciation of owned fixed assets	-	183	183	-	708	708
Operating lease rentals						
- land and buildings	245	49	294	-	1,378	1,378
- plant & machinery	-	-	-	-	9	9
Net gain on foreign currency translation	-	(67)	(67)	-	(484)	(484)

5. Auditors remuneration

The company paid the following amounts to its auditors in respect of the financial statements and for other services provided to the Company.

	2016 £000	2015 £000
Audit of the financial statements	23	135

The company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its parent Petrofac Limited.

6. Staff costs

	2016 £000	2015 £000
Wages and salaries	2,785	20,998
Social security costs	328	3,377
Staff pension contributions (note 15)	164	1,133
	3,277	25,508

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

	2016 No.	2015 No.
Administration	2	26
Operations	37	248
Sales	-	2
	39	276

Wages and salaries include nil for share-based payments (2015 - £360,000).

Notes to the financial statements

at 31 December 2016

7. Directors' remuneration

D. Stephen and U. Darr, the company directors are also directors of fellow group subsidiaries. The remuneration of D. Stephen and U. Darr was paid in full by Petrofac Facilities Management Limited. J. Scott and R. Smith were also paid in full by Petrofac Facilities Management Limited. It is not practicable to apportion their remuneration between their services as directors of this company and their services as directors of fellow subsidiary companies.

8. Interest receivable

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Other group undertakings	73	-
	<u>73</u>	<u>-</u>

9. Interest payable

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Bank overdraft	-	10
Other group undertakings	36	357
	<u>36</u>	<u>367</u>

Notes to the financial statements

at 31 December 2016

10. Taxation

(a) Tax credit/charge / (credit) in the income statement

	<i>Continuing Operations 2016</i>	<i>Discontinued Operations 2016</i>	<i>Total 2016</i>	<i>Continuing Operations 2015</i>	<i>Discontinued Operations 2015</i>	<i>Total 2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Current Income Tax:</i>						
UK corporation tax	(102)	862	760	151	2,365	2,516
Foreign tax	-	-	-	11	175	186
Current income tax	(102)	862	760	162	2,540	2,702
(credit)/charge						
Amounts						
(over)/under	(24)	307	283	(23)	(356)	(379)
provided in						
previous years						
Total current						
income tax	(126)	1,169	1,043	139	2,184	2,323
(credit)/charge						
<i>Deferred Tax:</i>						
Origination and						
reversal of	-	-	-	-	(240)	(240)
temporary						
differences						
Impact of change	-	-	-	-	73	73
in tax laws and						
rates						
Tax over	-	-	-	-	(192)	(192)
provided in						
previous years						
Total deferred	-	-	-	-	(359)	(359)
tax						
Tax (credit)/	(126)	1,169	1,043	139	1,825	1,964
expense in the						
income statement						

Of the charge to current tax, £1,169,000 (2015: £1,825,000) related to profits arising in Petrofac Engineering Limited, which were transferred to Petrofac Facilities Management Limited during the year. No tax charge or credit arose on the transfer of trade and assets.

(b) There is no tax relating to items charged or credited to other comprehensive income.

Notes to the financial statements

at 31 December 2016

10. Taxation (continued)

(c) Reconciliation of the total tax charge

The tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are reconciled below:

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Profit before taxation	3,271	11,187
Tax calculated at UK standard rate of corporation tax of 20% (2015: 20.25%)	654	2,265
Expenses not deductible/(income not taxable)	106	(19)
Foreign tax	-	186
Tax under/(over) provided in previous years	283	(571)
Change in tax laws and rate	-	103
Total tax expense reported in the income statement	1,043	1,964

(d) Change in Corporation Tax rate

The standard rate of corporation tax in the UK remains at 20% for 2016. As announced in the Summer 2015 UK Budget, the main rate of corporation tax will reduce to 19%, effective from 1 April 2017, and 18%, effective from 1 April 2020. The 2016 UK Budget subsequently introduced a further 1% reduction, to 17%, effective from 1 April 2020.

The change in the UK rate to 19% does not create an adjustment in the current year because the 18% rate was substantively enacted in the prior year and hence all brought forward assets are recognised at that rate.

The further 1% reduction in the UK rate, to 17%, was substantively enacted prior to the reporting date and therefore the impact of the change is reflected within the current year charge.

(e) Deferred tax

The deferred tax included in the company statement of financial position is as follows:

	<i>2016</i> <i>£000</i>	<i>2015</i> <i>£000</i>
<i>Deferred tax asset</i>		
Decelerated capital allowances	-	729
Other temporary differences	-	177
Share-based payment	-	148
	-	1,054
<i>Disclosed on the statement of financial position</i>		
Deferred tax asset	-	1,054
	-	1,054

The deferred tax was valued at 17% (2015: 18%).

Notes to the financial statements

at 31 December 2016

11. Tangible fixed assets

	<i>Leasehold improvements</i>	<i>Furniture and office equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Cost:</i>			
At 1 January 2016	2,159	3,103	5,262
Foreign currency adjustment	-	(71)	(71)
Additions	7	38	45
Transfer of assets to Petrofac Facilities Management	(2,166)	(2,742)	(4,908)
At 31 December 2016	-	328	328
<i>Depreciation and impairment:</i>			
At 1 January 2016	1,641	2,463	4,104
Foreign currency adjustment	-	(92)	(92)
Provided during the year	38	145	183
Transfer of assets to Petrofac Facilities Management	(1,679)	(2,335)	(4,014)
At 31 December 2016	-	181	181
<i>Carrying amount:</i>			
At 31 December 2016	-	147	147
At 1 January 2016	518	640	1,158

Notes to the financial statements

at 31 December 2016

12. Intangible assets

	<i>Computer software £000</i>	<i>Total £000</i>
<i>Cost:</i>		
At 31 December 2015	21	21
Additions	10	10
Transfer of Petrofac Facilities Management Limited	(19)	(19)
At 31 December 2016	<u>12</u>	<u>12</u>
<i>Depreciation and impairment:</i>		
At 31 December 2015	17	17
Amortisation during the year	9	9
Transfer of Petrofac Facilities Management Limited	(19)	(19)
At 31 December 2016	<u>7</u>	<u>7</u>
<i>Carrying amount:</i>		
At 31 December 2016	<u>5</u>	<u>5</u>
At 1 January 2016	<u>4</u>	<u>4</u>

13. Trade and other receivables

	<i>2016 £000</i>	<i>2015 £000</i>
Trade receivables	117	2,947
Amounts due by group undertakings	30,592	23,682
Unbilled revenue	-	19,531
Advances to suppliers	-	232
Prepayments and rent deposits	241	1,189
Foreign tax receivable	117	125
VAT recoverable	429	644
Deferred tax asset	-	1,054
	<u>31,496</u>	<u>49,404</u>

Notes to the financial statements

at 31 December 2016

14. Trade and other payables: amounts falling due within one year

	2016 £000	2015 £000
Trade payables	50	4,636
Amounts owed to group undertakings	4,501	18,273
Other taxation and social security costs	47	754
Other payables	143	654
Accruals	689	11,607
Corporation tax	462	3,847
	<u>5,892</u>	<u>39,771</u>

Petrofac Limited, the company's ultimate parent company, has a bank facility with the Royal Bank of Scotland, with drawn balances cross guaranteed by the company. On a net basis, no funds were drawn on the overdraft as at 31 December 2016 (2015: nil).

15. Pensions

The pension cost charge (note 6) represents contributions payable by the company to the group defined contribution scheme and employees' personal pension arrangements. Contributions totalling nil (2015-£153,000) were payable to the scheme at the year-end.

16. Share Based Payment Plans

Performance Share Plan (PSP)

Under the PSP, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market based performance conditions. The 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the Group compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules. The Company has taken advantage of IFRS 2 *Share based payment* disclosure exemptions under FRS 101, per note 2.

Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Award'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares'), typically using a 1:1 ratio. Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

Notes to the financial statements

at 31 December 2016

16. Share Based Payment Plans (continued)

Deferred Bonus Share Plan (DBSP) (continued)

At the year end, the values of the bonuses settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for the share-based payments. The costs relating to the Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge adjusted to reflect the expected vesting rate of the plan. The Company has taken advantage of IFRS 2 *Share based payment* disclosure exemptions under FRS 101, per note 2.

Share Incentive Plan (SIP)

All UK employees, including UK directors, are eligible to participate in the SIP. Employees may invest up to £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in Petrofac Limited. There is no holding period for these shares.

Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period. The Company has taken advantage of IFRS 2 *Share based payment* disclosure exemptions under FRS 101, per note 2.

Value Creation Plan (VCP)

During 2012 the Company introduced a new one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Company. VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will vest to the extent of satisfying Group and divisional profit after tax targets, together with various other performance underpins and risk/malus provisions that can be imposed at the discretion of the Remuneration Committee. The share options vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant.

During 2016, the vesting conditions attached to the VCP were not met, therefore all outstanding shares under the plan were forfeited.

17. Obligations under leases

(a) Future minimum rentals payable

Future minimum rentals payable under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Operating leases which expire:	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Not later than one year	99	-	-	108
After one year but not more than five years	2,367	4,071	-	24
After five years	1,383	5,200	-	-
	<u>3,849</u>	<u>9,271</u>	<u>-</u>	<u>132</u>

Notes to the financial statements

at 31 December 2016

17. Obligations under leases (continued)

(b) Land and building leases

The land and building lease is subject to re-negotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs relating to the properties.

18. Provisions for liabilities

	<i>Dilapidation provision £000</i>	<i>Total £'000</i>
At 1 January 2016	1,333	1,333
Transferred to Petrofac Facilities Management	(1,333)	(1,333)
At 31 December 2016	-	-

The provision is to allow for repairs to the office premises, which have to be reinstated to an acceptable level at the end of the lease term, in accordance with the conditions of the lease.

19. Share capital

		<i>Authorised</i>	
		<i>2016</i>	<i>2015</i>
		<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each		3,225	3,225

		<i>Allotted, called-up and fully-paid</i>	
		<i>2016</i>	<i>2015</i>
		<i>No.</i>	<i>No.</i>
		<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	3,225,000	3,225	3,225

20. Ultimate group undertaking

The company is an immediate subsidiary undertaking of Petrofac UK Holdings Limited, a company incorporated in England.

Petrofac Limited, the ultimate parent company and controlling party, is a company incorporated in Jersey, and heads the smallest and largest group in which the results of the company are consolidated.

Copies of the Petrofac Limited financial statements can be obtained from the Petrofac Limited Registered Office, 44 Esplanade, St Helier, Jersey, JE4 9WG.