

Registered No: 02615887

Petrofac Engineering Limited

Report and Financial Statements

31 December 2018



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COMPANIES HOUSE

Petrofac Engineering Limited

Registered No: 02615887

Directors

U Darr
R McKnight
C Thompson

Auditors

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

Registered office

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

2017-2018
Annual Report
Petrofac Engineering Limited

Petrofac Engineering Limited

Registered No: 02615887

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

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.

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

	2018 £000	2017 £000	Change %
Turnover	635	923	(31%)
Operating Profit / (Loss)	302	(555)	(154%)
Profit / (Loss) for the financial year	4	(1,117)	(100%)
Shareholder's equity	<u>34,141</u>	<u>34,019</u>	0%
Current assets as a percentage of current liabilities	539%	1,382%	
Average number of employees	2	2	

In 2018, the Company continued to support fellow subsidiary undertakings with sub-contracted work predominantly through the branches of Petrofac Engineering Limited

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.

- 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.

Petrofac Engineering Limited

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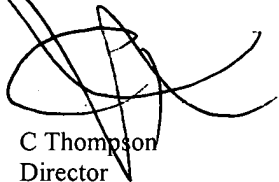
Strategic report (continued)

Principal risks and uncertainties (continued)

- 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



C Thompson
Director

23 September 2019

Petrofac Engineering Limited

Registered No: 02615887

Directors' report

The directors present their report and financial statements for the year ended 31 December 2018.

Results and dividends

The profit for the year, after taxation, amounted to £4,000 (2017 – loss of £1,117,000). The Company has not paid a dividend in respect of the year ended 31 December 2018 (2017 - £nil).

Foreign branches

The Company has active branches in Italy, Mexico and United Arab Emirates. There was a branch in Korea which ceased trading in November 2018.

Future Developments

The directors remain committed to a strategy of providing engineering and management services to the onshore and offshore oil and gas industry, provided through the branches.

Directors

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

U Darr	
R McKnight	(appointed 1 st February 2018)
J Scott	(resigned 1 st February 2018)
D Stephen	(resigned 8 th March 2019)
C Thompson	(appointed 4 th July 2019)

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

Ernst & Young LLP, having expressed their willingness to act, are deemed to continue in office as the Company's auditors.

On behalf of the board

C Thompson
Director

23 September 2019

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

Opinion

We have audited the financial statements of Petrofac Engineering Limited for the year ended 31 December 2018 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 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Y. H. [Signature]

[Signature]

Independent auditors' report

to the members of Petrofac Engineering Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Ernst & Young LLP

Kevin Weston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

30 September 2019

Income statement

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Turnover	3	635	923
Cost of sales		(296)	(452)
Gross Profit		339	471
Administrative expenses		(38)	(1,026)
Operating Profit / (Loss)	4	301	(555)
Interest receivable	9	118	64
Exceptional items	6	(262)	(1,007)
Profit / (Loss) on ordinary activities before taxation		157	(1,498)
Tax (charge) / credit on loss on ordinary activities	10	(153)	381
Profit / (Loss) for the financial year		4	(1,117)

Statement of comprehensive income

For the year ended 31 December 2018

	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Profit / (Loss) for the financial year	4	(1,117)
Exchange difference on retranslation of net assets of branches	118	15
Total comprehensive income for the year	122	(1,102)

Statement of changes in equity

For the year ended 31 December 2018

	<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 2017	3,225	158	31,738	35,121
Loss for the financial year	-	-	(1,117)	(1,117)
Currency translation adjustment	-	15	-	15
At 31 December 2017	3,225	173	30,621	34,019
Profit for the financial year	-	-	4	4
Currency translation adjustment	-	118	-	118
At 31 December 2018	3,225	291	30,625	34,141

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 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	15	130
		<u>15</u>	<u>130</u>
Current assets			
Trade and other receivables	13	41,544	37,304
Cash at bank and in hand		592	315
		<u>42,136</u>	<u>37,619</u>
Creditors: amounts falling due within one year			
Trade and other payables	14	7,821	2,723
Net current assets		<u>34,315</u>	<u>34,896</u>
Total assets less current liabilities		<u>34,330</u>	<u>35,026</u>
Provisions for liabilities	17	189	1,007
Net assets		<u>34,141</u>	<u>34,019</u>
Capital and reserves			
Share capital	18	3,225	3,225
Profit and loss account		30,625	30,621
Translation reserve		291	173
Equity shareholder's funds		<u>34,141</u>	<u>34,019</u>

The notes on pages 11 to 29 are an integral part of these financial statements.

The financial statements on pages 8 to 10 were authorised for issue by the board of directors on 23 September 2019.

.....
C Thompson
Director

Notes to the financial statements

at 31 December 2018

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

The separate financial statements of Petrofac Engineering Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 23 September 2019 and the statement of financial position was signed on the board's behalf by Carl Thompson. Petrofac Engineering Limited is a private Company limited by shares and is incorporated and domiciled in England and Wales.

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

Going Concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2. Summary of significant accounting policies

2.1 Basis of preparation

The separate financial statements have been prepared on a historical cost basis in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

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

- 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.
- 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*.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- 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 Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting standards

The Company adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 January 2018. The nature and effect of the changes are described below.

IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, which the Company applied prospectively, the Company applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, without adjusting comparative information. As a result of adopting IFRS 9, an assessment was carried out and the balance was deemed immaterial and there was no impact to these financial statements for the year ended 31 December 2018.

Classification and measurement

There was no impact to the balance sheet resulting from the Company applying the classification and measurement requirements of IFRS 9.

Impairment

The adoption of IFRS 9 fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Company to measure and recognise ECLs on all applicable financial assets and contract assets arising from IFRS 15 'Revenue from Contracts with Customers' (e.g. trade receivables, contract assets, loans and receivables and bank balances), either on a 12-month or lifetime expected loss basis.

The adoption of the ECL requirements of IFRS 9 resulted in no loss allowance being recognised relating to Company's financial assets and contract assets.

Notes to the financial statements

at 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.2 Adoption of new financial reporting standards, amendments and interpretations *(continued)*

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 using the modified retrospective method and elected to apply this method to those contracts held at the date of initial application. Under this method there was no impact to the financial statements and comparative information was not restated. No adjustments were required in the statement of changes in equity for the year ended 31 December 2018.

Principal versus agent considerations

The Company concluded that it operates as principal in all its contracts with customers. There is no transition impact at 1 January 2018.

Presentation and disclosure requirements

The company discloses revenue recognised from contracts with customers disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each operating segment. Refer to note 3 for the disclosure on disaggregated revenue.

2.3 Financial reporting standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below and include only those standards and amendments that are likely to have an impact on the financial performance, position and disclosures of the Company at a future date. The Company intends to adopt these standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company will implement IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method, whereby the Company will measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.3 *Financial reporting standards, amendments and interpretations issued but not yet effective (continued)*

A right-of-use asset will be recognised at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, provision for onerous operating leases and rent-free period adjustments relating to that lease recognised in the balance sheet immediately before the date of initial application.

The Company will elect to apply IFRS 16 to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. Comparative information will not be restated. The Company will use the applicable exemptions of IFRS 16 and IFRS 16 will be applied to all non-cancellable leases except for those with low value assets or with a lease term of 12 months or less containing no purchase options.

On 1 January 2019, the Company expects to recognise right-of-use assets of approximately £0.8m, the net of the right-of-use asset of £2.8m and the offsetting credit of £2m in relation to the sub lease, within non-current assets in the balance sheet. These assets will be depreciated on a straight-line basis over the remaining term of each individual lease. There will be a lease liability of approximately £2.8m and a finance lease receivable of £2.5m recognised at 1 January 2019, the majority of which will be recognised as a non-current liability in the balance sheet. Onerous operating leases of £0.4m at 31 December 2018 and a rent-free period liability of £0.5m at 31 December 2018 will be offset against right-of-use asset as at the date of initial application.

The preliminary estimated impact of implementing IFRS 16 on the Company 2019 financial statements is as follows:

- An increase to reported net profit by approximately £491k and increase in finance expense by approximately £82k;
- With the exception of changes in classification, IFRS 16 will have no impact on the Company reported total net cash flows; and
- An increase in EBITDA by approximately £573k.

Implementation of IFRS 16 will depend on the classification of leases as either short term or long term and enforceability of leases as either cancellable or non-cancellable, which will be determined by reference to the contractual terms of each individual lease and is dependent on several factors which may change in future periods. The estimated 2019 financial statements impact is computed based on the information available to date and the actual impact of IFRS 16 on the Company 2019 financial statements may differ from the estimates provided above.

Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17 'Leases'. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

2.4 *Significant accounting judgements and estimates*

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

- Revenue recognition on fixed-price engineering, procurement and construction contracts: The Company measures progress and recognises revenue on fixed-price engineering, procurement and construction contracts using the input method, based on the actual cost of work performed at end of the reporting period as a percentage of the estimated total contract costs at completion. The input method faithfully depicts the Company performance in transferring control of goods and services to the customer, provides meaningful information in respect of satisfied and unsatisfied performance obligations towards the customer.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.4 Significant accounting judgements and estimates *(continued)*

Judgements (continued)

Impairment of assets

An assessment is made on tangible assets measured at cost, for possible impairment if there are events or changes in the circumstances that indicate the carrying values of the assets are not recoverable. Such indicators include changes in commodity price or land, changes in the Company's business plan leading to unprofitable performance. Determination as to whether and how much an asset is impaired by, involves management estimates on highly uncertain matters such as the outlook for global or regional market supply, the effects of inflation, future commodity prices and the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset which the estimates of future cash flows have not been adjusted.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Deferred tax assets:** deferred tax assets are recognised on all applicable temporary differences where it is probable that the tax assets estimated are realised and future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the interpretation of tax laws and regulations as they apply to events in the period and the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits which are estimated from management assumptions with respect to the outcome of future events.
- **Income tax:** the Company is routinely subject to tax audits and assessments including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of tax provisioning required for amounts where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, professional external advice and consideration of the progress on, and nature of, current discussions with the tax authority concerned. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amount provided.
- **Other taxes payable:** the Company accrues indirect taxes, such as value added tax, to the extent it is probable that there will be an associated tax payment or receipt in respect of relevant income and expenses. This requires management to make judgements and assumptions on the application of tax laws and regulations to events in the period. The ultimate outcome may result in materially higher or lower payments or receipts.

2.5 Significant accounting policies

Revenue from contracts with customers

The principal activity was the provision of 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. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Engineering & Production Services (EPS)

The contracts with customers for the provision of reimbursable EPS include distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. The services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Company, using the input method for measuring progress towards complete satisfaction of the performance obligation.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Engineering & Production Services (EPS) *(continued)*

Variable consideration, e.g. incentive payments and performance bonuses will be estimated at contract inception and at the end of each reporting period using the single most likely amount approach, where the outcome is expected to be binary and where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenues from fixed-price contracts are recognised using the input method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

The Company does not generally receive advances from customers for its reimbursable EPS contracts. If advances are received these will only be short term. In such cases the entity applies the practical expedient provided in IFRS 15 'Revenue from Contracts with Customers', and will not adjust the promised amount of the consideration for the effects of a significant financing component in the contracts, where the entity expects at contract inception that the period between the entity transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Accordingly, for short-term advances, the entity will not account for a financing component even if it is a significant amount.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment charges. 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 over the period as follows:

Furniture	- over 4 years
Office equipment	- over 3 years

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at the end of the reporting period. No depreciation is charged on land or 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 from its use. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the other operating income line item in the income statement when the asset is derecognised.

Intangible assets

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 of intangible assets is included in the selling, general and administration expenses line item 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 whenever there is an indication that the asset may be impaired.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Impairment of non-current assets (excluding goodwill)

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the entity makes an estimate 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. The entity uses pre-tax discount rate to discount pre-tax cash flows and post-tax discount rate to discount post-tax cash flows.

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 charge 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 reporting periods. 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.

Contract assets and contract liabilities

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Fixed-price engineering, procurement and construction contracts are presented in the balance sheet as follows:

- For each contract, the revenue recognised at the contract's measure of progress using input method, after deducting the progress payments received or receivable from the customers, is presented within the contract assets line item in the balance sheet as work in progress. The amounts recognised as work in progress are adjusted for any expected credit loss allowance using the probability of default of the counter party. The probability of default data for the counter party is sourced from a third-party provider.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier).

Contract liabilities are recognised as revenue when the Company performs under the contract.

Fixed-price engineering, procurement and construction contracts are presented in the balance sheet as follows:

- Where the payments received or receivable for any contract exceed revenue recognised, the excess is presented within the contract liabilities line item in the balance sheet as billings in excess of cost and estimated earnings

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Incremental costs of obtaining a contract

The Company recognises an asset in respect of the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. Such capitalised costs are expensed over the life of the contract. The Company also applies the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less. At 31 December 2018, there were no such incremental costs recognised as an asset in the balance sheet.

Trade receivables

A trade receivable represents the entities right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less, including expected credit loss allowance calculated based on the probability of default data for the counterparty sourced from a third-party provider. For the purpose of the statement of cash flow, cash and cash equivalents consists of cash and cash equivalents as defined above, including outstanding bank overdrafts.

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 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 expense.

Financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, and subsequently measured at amortised cost, fair value through profit or loss, 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, transaction costs that are attributable to the acquisition of the financial asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the entity business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers'.

In order for a financial asset to be classified and measured at amortised cost it needs to give rise to cash flows that are 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.



Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

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

- Amortised cost; and
- Financial assets at fair value through profit or loss.

Amortised cost

This category is the most relevant to the entity and generally applies to trade and other receivables. The entity measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ('EIR') method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

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, or financial assets mandatorily required to be measured at fair value. 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. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with net changes in fair value recognised in the income statement. The fair value changes to undesignated forward currency contracts are reported within the other operating income/ expenses line item in the income statement.

Impairment of financial assets

The Company recognises an allowance for expected credit losses ('ECLs') for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the entity applies a simplified approach in calculating ECLs (a lifetime ECL). Accordingly, the entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date subject to the entities established policies and procedures. The probability of default data for the counterparty is sourced from a third-party provider. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The expected credit loss calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and where possible, forecasts of future economic conditions. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs are sensitive to changes in circumstances and of forecast economic conditions. The entity historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Financial assets and financial liabilities *(continued)*

The Company considers a financial asset to be in default when internal or external information indicates that the entity is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off only when there is no reasonable expectation of recovering the contractual cash flows, based on contractual position agreed with the customer, contract close-out negotiations and objective evidence of the customer's inability to pay.

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 trade and other payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

- Financial liabilities at fair value through profit or loss; and
- 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. This category also includes derivative financial instruments entered that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

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 IFRS 9 'Financial Instruments' are satisfied. The entity has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This category generally applies to interest-bearing 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 the other operating income/expenses line item in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering 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 expense in the income statement. This category generally applies to interest-bearing loans and borrowings.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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.

Income taxes

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

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting 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 tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward tax credits or tax losses can be utilised.

Notes to the financial statements

at 31 December 2018

2. Summary of significant accounting policies *(continued)*

2.5 Significant accounting policies *(continued)*

Income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

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

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Company at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expense in the income statement and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. The Company entered various operating leases the payments for which are recognised as an expense in the income statement on a straight-line basis over the lease terms.

Foreign currency translation

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

Each company determines its own functional currency and items included in the financial statements of each company are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the Company operates. Sterling is the currency of the primary economic environment in which the Company operates.

Transactions and balances

Transactions in foreign currencies are initially recorded at the Company's functional currency by applying the spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates 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 is determined.



Notes to the financial statements

at 31 December 2018

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:

	2018 £000	2017 £000
Continuing operations		
Rendering of services	635	923
Turnover from continuing operations	<u>635</u>	<u>923</u>

The Company's turnover and profit on ordinary activities before taxation are derived principally from the operations of the Company in Europe (2017 – the Americas).

An analysis of turnover by geographical market is shown below:

	2018 £000	2017 £000
Americas	59	616
Europe	<u>576</u>	<u>307</u>
	<u>635</u>	<u>923</u>

4. Operating Loss

This is stated after charging/(crediting):

	2018 £000	2017 £000
Amortisation of intangible assets	-	5
Depreciation of owned fixed assets	33	46
Operating lease rentals		
- land and buildings	(327)	476
Net (gain) / loss on foreign currency translation	<u>(114)</u>	<u>146</u>

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.

	2018 £000	2017 £000
Audit of the financial statements	<u>29</u>	<u>26</u>

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 ultimate parent, Petrofac Limited.

Notes to the financial statements

at 31 December 2018

6. Exceptional items

	2018 £000	2017 £000
Recognised in exceptional items:		
Onerous lease costs	262	1,007
	<u>262</u>	<u>1,007</u>

During the year, the Company provided for an onerous lease on their leased property, amounting to £262,000 (2017 £1,007,000).

7. Staff costs

	2018 £000	2017 £000
Wages and salaries	312	43
Social security costs	53	7
Staff pension contributions (note 15)	17	4
	<u>382</u>	<u>54</u>

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

	2018 No.	2017 No.
Operations	2	2
	<u>2</u>	<u>2</u>

Wages and salaries include nil for share-based payments (2017 - £nil).

8. Directors' remuneration

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

9. Interest receivable

	2018 £000	2017 £000
Other Group undertakings	118	64
	<u>118</u>	<u>64</u>

Notes to the financial statements

at 31 December 2018

10. Taxation

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

	2018 £000	2017 £000
<i>Current Income Tax:</i>		
Group relief receivable	-	(142)
Foreign tax	11	85
Current income tax credit	11	(57)
Amounts under / (over) provided in previous years	142	(324)
Total current income tax charge / (credit)	153	(381)
<i>Deferred Tax:</i>		
Origination and reversal of temporary differences	213	-
Tax over provided in prior periods	(213)	-
Total deferred tax	-	-
Total current income tax charge / (credit)	153	(381)

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

(c) Reconciliation of the total tax charge

The tax charge / (credit) in the income statement for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018 £000	2017 £000
Profit / (Loss) on ordinary activities before taxation	157	(1,498)
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25%)	30	(288)
Adjustments to tax charge in respect of prior periods – deferred tax	(213)	-
Adjustments to tax charge in respect of prior periods – current tax	142	(324)
Deferred tax not recognised – tax losses	143	-
Exempt foreign branch losses	48	146
Change of tax rates	(8)	-
Foreign tax	11	85
Total tax expense reported in the income statement	153	(381)

(d) Change in Corporation Tax rate

The standard rate of Corporation Tax in the UK for the year is 19% and will reduce to 17% from 1 April 2020. As the rate change was substantively enacted in a prior period there is no further impact as a result of the future rate change.

Notes to the financial statements

at 31 December 2018

10. Taxation (continued)

(e) Unrecognised tax losses

A deferred tax asset is recognised for tax losses to the extent that there are suitable future taxable profits forecast. The Company did not recognise deferred tax in respect of tax losses of approximately £843,000 (2017: £1,136,000).

11. Intangible assets

	<i>Computer software</i> £000
Cost at 1 January 2018	12
Disposals	(12)
At 31 December 2018	-
<i>Amortisation and impairment:</i>	
At 1 January 2018	12
Disposals	(12)
At 31 December 2018	-
<i>Carrying amount:</i>	
At 1 January 2018 and 31 December 2018	-

12. Tangible fixed assets

	<i>Furniture and office equipment</i> £000
<i>Cost:</i>	
At 1 January 2018	328
Disposals	(76)
At 31 December 2018	252
<i>Depreciation and impairment:</i>	
At 1 January 2018	198
Disposals	(76)
Foreign currency adjustment	82
Provided during the year	33
At 31 December 2018	237
<i>Carrying amount:</i>	
At 31 December 2018	15
At 1 January 2018	130
	26

Notes to the financial statements

at 31 December 2018

13. Trade and other receivables

	2018	2017
	£000	£000
Trade receivables	514	1,060
Amounts due by Group undertakings	40,350	35,215
Other debtors	41	89
Prepayments and rent deposits	16	234
Foreign tax receivable	145	188
Group relief receivable	-	89
VAT recoverable	478	429
	<u>41,544</u>	<u>37,304</u>

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

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

	2018	2017
	£000	£000
Trade payables	291	65
Amounts owed to Group undertakings	5,239	683
Other taxation and social security costs	95	57
Accruals	1,324	1,344
Bank overdraft	820	574
Group relief payable	52	-
	<u>7,821</u>	<u>2,723</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 2018 (2017: nil).

15. Pensions

The pension cost charge (note 7) represents contributions payable by the Company to the Group defined contribution scheme and employees' personal pension arrangements. Contributions totalling nil (2017-£nil) were payable to the scheme at the year-end.

Notes to the financial statements

at 31 December 2018

16. 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>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire:		
Not later than one year	399	409
After one year but not more than five years	133	1,637
After five years	-	657
	<u>532</u>	<u>2,703</u>

(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.

17. Provisions for liabilities

	<i>Onerous Lease Provisions £000</i>
At 1 January 2018	1,007
Charged in the year	262
Utilised in the year	(1,080)
At 31 December 2018	<u>189</u>

Onerous lease provisions of £189,000 were recognised in the year in relation to rental properties.

18. Share capital

	<i>2018 Number of shares</i>	<i>2017 Number of shares</i>	<i>2018 £000</i>	<i>2017 £000</i>
Ordinary shares of £1 each	<u>3,225,000</u>	<u>3,225,000</u>	<u>3,225</u>	<u>3,225</u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	<u>3,225,000</u>	<u>3,225,000</u>	<u>3,225</u>	<u>3,225</u>

Notes to the financial statements

at 31 December 2018

19. Ultimate Group undertaking

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

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 or can be downloaded at www.petrofac.com.