

# **Petrofac Services Limited**

## **Report and Financial Statements**

31 December 2018



# **Petrofac Services Limited**

Registered No: 04842802

## **Directors**

A Asfari  
A Cochran

## **Secretary**

A Broughton

## **Auditors**

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

## **Registered office**

4<sup>th</sup> Floor  
117 Jermyn Street  
London  
SW1Y 6HH

## Petrofac Services Limited

Registered No: 04842802

### Strategic report

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

#### Principal activities and review of the business

The principal activity of Petrofac Services Limited is the provision of management services to other companies within the Petrofac Limited Group, in order to assist those companies in the pursuit of the Group's global business objectives.

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

	2018 £000	2017 £000	Change %
Turnover	55,758	49,695	12%
Operating Profit	1,118	3,266	(66%)
Profit after tax	22	2,165	(98%)
Shareholder's funds	<u>21,255</u>	<u>21,849</u>	(3%)
Current assets as a percentage of current liabilities	108%	122%	
Average number of employees	100	104	

Headcount further reduced in 2018 by 4% (2017:13%). However, overall costs increased predominantly due to increases in externally and internally sourced services. Consequently, turnover also increased, with the operating profit margin, excluding the impact of foreign exchange, remained broadly in line with prior years. 2018 has seen a deterioration in the Sterling-US dollar exchange rate, resulting in a 66% reduction in margin (2017: 188% increase).

#### Future developments

The directors remain committed to a strategy of providing the services of skilled personnel to other Group companies to assist them in executing the Group's strategic plans.

#### 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.

# Petrofac Services Limited

Registered No: 04842802

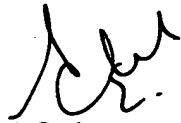
## Strategic report (continued)

### Principal risks and uncertainties (continued)

- Ability to attract and retain skilled personnel

The company remains confident that its efforts to promote and reward on merit, its continued employee share ownership, management and technician training programmes and recruitment strategies, involvement in world-class projects and its exciting prospects will enable it to retain and attract the necessary skilled personnel to achieve its growth targets.

On behalf of the board



A Cochran  
Director

Date: 16 September 2019

# Petrofac Services Limited

Registered No: 04842802

## 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 £22,000 (2017 profit of £2,165,000). The directors do not recommend the payment of any dividends (2017 - £nil).

### Directors

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

Ayman Asfari  
Alastair Cochran  
Roger Harwood (resigned 19 October 2018)

### 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



A Cochran  
Director

Date: 16 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 Services Limited**

### **Opinion**

We have audited the financial statements of Petrofac Services 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 18, 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.

# **Independent Auditors' report**

## **to the members of Petrofac Services 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 the Directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report 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

26 September 2019



Petrofac Services Limited

## Income statement

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018 £000</i>	<i>2017 £000</i>
<b>Turnover</b>	3	55,758	49,695
Cost of sales		<u>(54,640)</u>	<u>(46,429)</u>
<b>Operating Profit</b>	4	1,118	3,266
Interest payable and similar costs	7	<u>(490)</u>	<u>(301)</u>
<b>Profit on ordinary activities before taxation</b>		628	2,965
Tax charge on profit on ordinary activities	8	<u>(606)</u>	<u>(800)</u>
<b>Profit for the financial year</b>		<u>22</u>	<u>2,165</u>

All activities relate to continuing operations.

## Statement of comprehensive income

For the year ended 31 December 2018

	<i>2018 £000</i>	<i>2017 £000</i>
<b>Profit for the financial year</b>	<u>22</u>	<u>2,165</u>
<b>Total comprehensive income for the year</b>	<u>22</u>	<u>2,165</u>

## Statement of changes in equity

For the year ended 31 December 2018

	Share capital £000	Other Reserves £000	Profit and loss account £000	Total Equity £000
At 1 January 2017	-	21	18,988	19,009
Profit for the financial year	-	-	2,165	2,165
Tax on share-based payments	-	675	-	675
Share-based payment expense	-	-	2,508	2,508
Funding of share-based payment expense	-	-	(2,508)	(2,508)
At 31 December 2017	-	696	21,153	21,849
Profit for the financial year	-	-	22	22
Tax on share-based payments	-	(616)	-	(616)
Share-based payment expense	-	-	2,170	2,170
Funding of share-based payment expense	-	-	(2,170)	(2,170)
At 31 December 2018	-	80	21,175	21,255

Petrofac Services Limited

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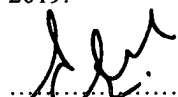
**Statement of financial position**

As at 31 December 2018

	Notes	2018 £000	2017 £000
<b>Fixed assets</b>			
Intangible assets	9	9,099	4,454
Tangible fixed assets	10	5,303	5,273
Deferred tax	11	1,251	2,016
		<u>15,653</u>	<u>11,743</u>
<b>Current assets</b>			
Trade and other receivables	12	73,471	53,541
Cash at bank		-	1,540
		<u>73,471</u>	<u>55,081</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	13	67,869	44,975
<b>Net current assets</b>		<u>5,602</u>	<u>10,106</u>
<b>Net assets</b>		<u>21,255</u>	<u>21,849</u>
<b>Capital and reserves</b>			
Called up share capital	17	-	-
Other reserves		80	696
Profit and loss account		21,175	21,153
<b>Total equity</b>		<u>21,255</u>	<u>21,849</u>

The notes on pages 11 to 27 are in integral part of these financial statements.

The financial statements on pages 8 to 10 were authorised for issue by the board of directors on 16 September 2019.



A Cochran  
Director

# Notes to the financial statements

For the year ended 31 December 2018

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

The financial statements of Petrofac Services Limited (the “Company”) for the year ended 31 December 2018 were authorised for issue by the board of directors on 16 September 2019 and the statement of financial position was signed on the board’s behalf by Alastair Cochran. Petrofac Services 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 that 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 paragraphs 45(b) and 46 to 52 of IFRS 2 *Share based payment*, provided that for a qualifying company that is:
  - a subsidiary, the share-based payment arrangement concerns equity instruments of another Group company;
  - 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 Company 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 Company 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

For the year ended 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 IFRS 7 *Financial Instruments: Disclosures*, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the Company is consolidated.
- 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 Company is consolidated.
- The requirement of second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.

#### 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.

##### **Classification and measurement**

There was no impact to the statement of financial position resulting from the Company applying the classification and measurement requirements of IFRS 9.

##### **Impairment**

IFRS 9 requires the Company to measure and recognise expected credit losses on all applicable financial assets, amounts owed by Group undertakings and bank balances, either on a 12-month or lifetime expected loss basis. The Company applied the simplified approach and record lifetime expected losses on all amounts owed by Group undertakings, and bank balances.

The adoption of impairment requirements under IFRS 9 had no impact on the opening reserves nor on the financial performance or position of the Company.

##### **Hedge accounting**

The Company had no designated hedges at 31 December 2018, hence the IFRS 9 hedge accounting requirements had no impact on the financial performance or position of the Company.

## Notes to the financial statements

For the year ended 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 the Company expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15, at the date of initial application, using the modified retrospective method. IFRS 15 had no impact on the financial performance or position of the Company.

#### 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 accounting model similar to the accounting for finance leases under IAS 17.

The Company will implement IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method i.e. comparative information will not be restated, 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. 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, and rent-free period adjustments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

On 1 January 2019, the Company expects to recognise right-of-use assets of approximately £1,050,000, within non-current assets and majority of the total lease liabilities of approximately £1,050,000 will be classified under current liabilities in the statement of financial position.

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

- A reduction to reported net profit by approximately £2,000, an increase in depreciation expense by approximately £836,000 and an increase in finance expense by approximately £14,000;
- 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 £850,000

## Notes to the financial statements

For the year ended 31 December 2018

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

#### 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:

##### **Impairment of assets**

An assessment is made on intangible assets and tangible fixed 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. The carrying amount of deferred tax assets at 31 December 2018 was £1,251,000 (2017: £2,016,000).
- **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 of the Company is provision of management services to other companies within the Group. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the services before transferring them to the customer.

## Notes to the financial statements

For the year ended 31 December 2018

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

#### 2.5 Significant accounting policies (continued)

##### **Tangible fixed assets**

Tangible fixed assets are measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises the purchase price and any costs directly attributable to making that asset capable of operating as intended. The purchase price 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: -

Leasehold improvements      - over the lease term

Plant and equipment          - 1 to 5 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.

##### **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 cost of sales line item of the income statement is provided over the period as follows: -

Software                              - 3 to 5 years

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.

##### **Impairment of non-current assets (excluding goodwill)**

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

##### **Provisions**

Provisions are recognised when the Company 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 company and a financial liability or equity instrument of another company.



## Notes to the financial statements

For the year ended 31 December 2018

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

#### 2.5 Significant Accounting Policies (continued)

##### *Financial assets and financial liabilities (continued)*

###### *Initial recognition and measurement*

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets. A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Amortised cost is the only category relevant to the Company and generally applies to trade and other receivables.

Financial assets at amortised cost are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

###### *Subsequent measurement*

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.

###### *Impairment of financial assets*

The impairment requirements for expected credit losses are applied to financial assets measured at amortised cost. If the credit risk on the financial asset has increased significantly since initial recognition, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses. In other instances, the loss allowance for the financial asset is measured at an amount equal to the twelve month expected credit losses (ECLs). Changes in loss allowances are recognised in profit and loss. For trade debtors that do not contain a significant financing component, the simplified approach is applied recognising expected lifetime credit losses from initial recognition.

##### *Financial liabilities*

###### *Initial recognition and measurement*

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL, such as instruments held for trading, or the Company has opted to measure them at FVTPL. Trade creditors are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost. The Company has not designated any financial liability that is required to be measured at fair value through profit or loss.

###### *Subsequent measurement*

For purposes of subsequent measurement, the only category relevant to the Company is loans and borrowings. This category generally applies to trade creditors and amounts owed to Group undertakings. After initial recognition, trade creditors and amounts owed to Group undertakings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised 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.

## Notes to the financial statements

For the year ended 31 December 2018

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

#### 2.5 Significant Accounting Policies (continued)

##### *Financial assets and financial liabilities (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;
- The Company 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 Company 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 statement of financial position 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.

##### *Share-based payments*

Employees (including directors) of the Company receive remuneration in the form of share-based payment, whereby employees render services in exchange for shares or rights over shares ('equity settled transactions').

##### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the cost of sales line item in the income statement, together with a corresponding increase in other reserves in the statement of financial position, over the period in which the relevant employees become entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at the end of the reporting period 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 charge or credit to the income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested, irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

## Notes to the financial statements

For the year ended 31 December 2018

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

#### 2.5 Significant Accounting Policies (continued)

##### **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 Statement of financial position date.

Deferred tax is recognised on all temporary differences at the Statement of financial position 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.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 Statement of financial position 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 statement of financial position 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 in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income statement on a straight-line basis over the period of the lease.

## Notes to the financial statements

For the year ended 31 December 2018

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

#### 2.5 Significant Accounting Policies (continued)

##### *Foreign currency translation*

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

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded in 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.

### 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
Rendering of services	55,758	49,695
Turnover from continuing operations	<u>55,758</u>	<u>49,695</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 and Middle East.

An analysis of turnover by geographical market is shown below:

	2018 £000	2017 £000
Middle East	25,075	19,617
UK	28,528	27,740
Europe	51	297
Asia	1,717	1,066
Africa	-	73
US	387	902
	<u>55,758</u>	<u>49,695</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 4. Operating profit

This is stated after charging /(crediting):

	2018 £000	2017 £000
Amortisation of intangible assets	1,131	986
Depreciation of owned fixed assets	2,110	2,170
Operating lease rentals		
- land and buildings	850	850
Exchange loss / (gain) on foreign currency translation	834	(750)

### 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	15	15

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 and directors' remuneration

#### (a) Staff costs

	2018 £000	2017 £000
Wages and salaries	20,507	25,280
Social security costs	2,365	2,326
Staff pension contributions (note 14)	430	506
	23,302	28,112

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

	2018 No.	2017 No.
Management and administration	100	104

Included in wages and salaries is a total expense of £2,170,000 for share-based payments (2017: £2,508,000), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

## Notes to the financial statements

For the year ended 31 December 2018

### 6. Staff costs and directors' remuneration (*continued*)

(b) Directors remuneration

	2018	2017
	£000	£000
Aggregate emoluments including benefits in kind	3,271	2,832
In respect of the highest paid director:	2018	2017
	£000	£000
Aggregate emoluments including benefits in kind	1,763	1,440

### 7. Interest payable and similar costs

	2018	2017
	£000	£000
Bank	5	18
Other Group undertakings	485	283
Total interest payable and similar costs	490	301

### 8. Taxation

(a) Tax charge in the income statement

	2018	2017
	£000	£000
<i>Current Income Tax:</i>		
Group relief payable	363	689
Amounts over provided in previous years	(49)	(203)
Total current income tax charge	314	486
<i>Deferred Tax:</i>		
Origination and reversal of temporary differences	292	129
Amounts under provided in previous years	-	185
Total deferred tax	292	314
Tax charge in the income statement	606	800

(b) There are no tax related items charged or credited to other comprehensive income.

## Notes to the financial statements

For the year ended 31 December 2018

### 8. 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 19.0% (2017: 19.25%) The differences are reconciled below:

	2018 £000	2017 £000
Profit before tax	628	2,965
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25 %)	119	571
Expenses not deductible for tax purposes	221	125
Share-based payments	405	135
Adjustments to tax charge in respect of previous periods	(49)	(18)
Change in tax laws and rate	(90)	(13)
Total tax charge reported in the income statement	606	800

#### (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.

#### (e) Deferred tax

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

	2018 £000	2017 £000
<i>Deferred tax asset</i>		
Decelerated capital allowances	159	136
Share-based payment	1,081	1,869
Other temporary differences	11	11
	1,251	2,016
<i>Disclosed on the statement of financial position</i>		
Deferred tax asset (note 11)	1,251	2,016
	1,251	2,016

Deferred tax was valued at 17% (2017: 17%).

## Notes to the financial statements

For the year ended 31 December 2018

### 9. Intangible assets

	<i>Software</i>
	<i>£000</i>
<i>Cost:</i>	
At 1 January 2018	6,234
Additions	5,776
At 31 December 2018	<u>12,010</u>
<i>Accumulated amortisation:</i>	
At 1 January 2018	1,780
Amortisation during the year	1,131
At 31 December 2018	<u>2,911</u>
<i>Carrying amount:</i>	
At 31 December 2018	<u>9,099</u>
At 1 January 2018	<u>4,454</u>

The intangible assets have been reclassified for the comparative period to correctly classify certain information technology assets to tangible fixed assets. This resulted in a reduction to cost balance at 1 January 2018 of £20,895,000 and a reduction to accumulated amortisation balance at 1 January 2018 of £15,804,000. The carrying amount at 1 January 2018 decreased by £5,091,000.



## Notes to the financial statements

For the year ended 31 December 2018

### 10. Tangible fixed assets

	<i>Plant and equipment</i>	<i>Leasehold Improvements</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Cost:</i>			
At 1 January 2018	22,187	1,115	23,302
Additions	2,130	-	2,130
At 31 December 2018	<u>24,317</u>	<u>1,115</u>	<u>25,432</u>
<i>Accumulated depreciation:</i>			
At 1 January 2018	17,065	964	18,029
Provided during the year	2,033	67	2,100
At 31 December 2018	<u>19,098</u>	<u>1,031</u>	<u>20,129</u>
<i>Carrying amount:</i>			
At 31 December 2018	<u>5,219</u>	<u>84</u>	<u>5,303</u>
At 1 January 2018	<u>5,122</u>	<u>151</u>	<u>5,273</u>

The tangible fixed assets have been reclassified for the comparative period to correctly classify certain information technology assets from intangible assets. This resulted in an increase to cost balance at 1 January 2018 of £20,895,000 and an increase to accumulated amortisation balance at 1 January 2018 of £15,804,000. The carrying amount at 1 January 2018 increased by £5,091,000.

### 11. Deferred tax assets

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Deferred taxation (note 8(e))	<u>1,251</u>	<u>2,016</u>

The deferred tax asset, which was classed as an amount fully receivable within one year, has been presented as an amount fully receivable after one year.

## Notes to the financial statements

For the year ended 31 December 2018

### 12. Trade and Other Receivables

	2018	2017
	£000	£000
Amounts owed by Group undertakings	63,949	45,849
Other taxes and social security costs	1,416	2,563
Other debtors	7,407	4,529
Prepayments and accrued income	699	600
	<u>73,471</u>	<u>53,541</u>

Amounts owed by Group undertakings are unsecured, interest free and are repayable on demand.

The deferred tax asset, which was presented as an amount fully receivable within one year, has been reclassified as an amount fully receivable after one year.

### 13. Trade and Other Payables

	2018	2017
	£000	£000
Trade creditors	2,681	2,834
Amounts owed to Group undertakings	48,133	31,794
Other taxes and social security costs	605	873
Other creditors	12	71
Accruals	13,163	8,401
Group relief payable	1,488	1,002
Bank overdraft	1,787	-
	<u>67,869</u>	<u>44,975</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, £1,787,000 of funds were drawn on the overdraft as at 31 December 2018 (2017: nil).

### 14. 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 £63,000 (2017: £61,000) were payable to the scheme at the year-end and were included within accruals.

# Notes to the financial statements

For the year ended 31 December 2018

## 15. Obligations under operating leases

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

	<i>Land and Buildings</i>	
	<i>2018</i>	<i>2017</i>
Not later than one year	850	-
After one year but not more than five years	212	2,556
After five years	-	-
	<u>1,062</u>	<u>2,556</u>

## 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 70% 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 2.1.

### Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Petrofac Limited shares ('Invested Award'). Following such an award, Petrofac Limited 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 vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

At the year end, the values of the bonuses settled by shares cannot be determined until the Petrofac Limited 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 2.1

### 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. Awards are also made for retention reasons. 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 2.1

## Notes to the financial statements

For the year ended 31 December 2018

### 17. Called up share capital

	2018 No.	2017 No.	2018 £	2017 £
Allotted, called up and fully paid ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

### 18. Ultimate Group undertaking

The Company is an immediate subsidiary undertaking of Petrofac Limited, a company incorporated in Jersey, which is 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, or can be downloaded at [www.petrofac.com](http://www.petrofac.com).